

Appellee's Brief

IN BANC SUPPLEMENTAL BRIEF FOR R.L. CHAIDES CONSTRUCTION COMPANY

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UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

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THE FEDERAL CIRCUIT

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90-1137

FRANCIS X. GINDHART
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A.C. AUKERMAN COMPANY,

Plaintiff - Appellant,

v.

R. L. CHAIDES CONSTRUCTION COMPANY

Defendant - Appellee.

APPEAL FROM A DECISION OF THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
JUDGE SPENCER WILLIAMS

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I. THE CERTIFICATE OF INTEREST

The undersigned counsel of record for Defendant-Appellee, R.L. Chaides Construction Co., Chaides Equipment Company and R.L. Chaides, furnishes the following in compliance with Rule 47.4.

(1) The full name of every party and amicus represented by the attorney in the case. **R.L. Chaides Construction Co., Chaides Equipment Company and R.L. Chaides.**

(2) The name of the real party in interest if the party named in the caption is not the real party in interest. **Not applicable.**

(3) Any publicly held affiliates if a party or amicus curiae is a corporation. **None.**

(4) The names of all law firms whose partners or associates have appeared for the party in the lower tribunal or are expected to appear for the party in this Court. **Law Offices of Thomas E. Schatzel.**

II. STATEMENT OF PRIOR AND RELATED PROCEEDINGS

1. There have been no other appeals in or from this civil action in the district court.

2. There is no other case known to Chaides that would directly affect or be directly affected by this court's decision in the pending appeal.

III. STATEMENT OF ISSUES

The Court in banc requests additional briefing on the following questions:

1. In a patent infringement suit, should a presumption of undue delay or a presumption of material prejudice or both arise in connection with a laches defense where the delay in filing suit exceeds six (6) years? See, e.g., Jamesbury Corp. v. Litton Industrial Products, Inc., 839 F.2d 1544 (Fed. Cir. 1988), cert. denied, 488 U.S. 828 (1988).

2. If the answer to question 1 is inconsistent with the rule in other fields of law, see Cornetta v. United States, 851 F.2d 1372 (Fed. Cir. 1988), what justification is there for having a different rule?

3. In a patent infringement suit, what should be the elements of an estoppel defense?

IV. STATEMENT OF THE CASE

The Court advises that the original briefs will be considered by the in banc Court. Thus, Chaides will rely upon its original filed brief, page 1-5, for its statement of the case.

V. SUMMARY OF ARGUMENT

As to Question 1, the presumption of both undue delay and material prejudice should both arise in connection with a laches defense when the delay in filing suit exceeds six years. This

(a) has uniformly been the law in patent cases for many decades; (b) is consistent with public policy against aiding those who sleep on their rights; (c) is consistent with public policy favoring removal of invalid patents from the rolls of enforceable patents; and (d) is consistent with the purpose of U.S. Constit. Art. 1, Sec. 8, Cl. 8 of promotion of the progress of science through the use of patents.

As to Question 2, the presumption of undue delay and prejudice in patent cases is consistent with other fields of law and is not inconsistent with this Court's in banc decision in Cornetta v. U.S. Where the Cornetta decision can be viewed as establishing a different rule, the decision should be limited to the unique and distinguishing facts of military pay cases.

As to Question 3, equitable estoppel need not be time related. The two key elements should be (a) was the patent owner's action or inaction such that an alleged infringer could reasonably infer that the patent owner abandoned his claim; and (b) did the alleged infringer rely on it to his detriment.

VI. ARGUMENT

1. The Current Law of Laches and Estoppel in Patent Cases

A patentee may sue for infringement (35 USC §281,154) and recover for acts of infringement occurring within six years of filing of the action. (35 USC §286). There is no statute of limitations. The only bar to such an action is laches or estoppel. The courts have uniformly applied the six-year damage limitation

period by analogy to determine if the patentee has been guilty of laches. A plaintiff's claim for pre-filing damages is barred by laches if (a) he has delayed enforcing his rights for an unreasonable and inexcusable period of time and (b) the defendant has been materially prejudiced by the delay. If an infringement action is filed more than six years after the alleged infringement, the alleged infringer is presumed prejudiced by the delay and the delay is presumed unreasonable. The burden then shifts to the plaintiff to prove the existence and reasonableness of an excuse for the delay, as well as to show the lack of prejudice to the infringer. If the action is brought within six years of the alleged acts of infringement, then the alleged infringer has the burden of proof as to both elements. The time from which the delay is measured is the time from which the patent owner knew, or by exercising reasonable diligence should have known, of the alleged defendant's activities to the time of filing.

Laches does not bar relief for infringement occurring after the lawsuit was filed. To bar prospective relief, the defendant must show that the plaintiff is estopped from asserting his claim. To establish estoppel pursuant to Jamesbury v. Litton, *supra*, the defendant, in addition to showing elements (a) and (b) for laches, must show (c) representations or conduct by the patentee inducing the belief that it abandoned its claims against the alleged infringer and (d) detrimental reliance by the alleged infringer. For silence to work an estoppel, it must be sufficiently misleading to amount to an estoppel.

Laches and estoppel defenses are personal to the defendant, are based on all the circumstances in the case, are matters within the trial court's discretion and will not be set aside unless abuse of discretion has been shown.

2. Current Laches Law Regarding Patent Cases Including Six-Year Presumption Has Been Uniform For Many Decades

The courts and statutes have long recognized that equity applies to patent cases. Title 35 of the United States Code provides for applying rules of equity on behalf of both patent owners and accused infringers. For example, on behalf of patent owners, 35 USC §283 specifically provides:

The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violations of any rights secured by patent, on such terms as the court deemed reasonable. (emphasis added)

35 USC §282 provides that the defenses include "unenforceability" which in turn includes laches, unclean hands and estoppel. See J.P. Stevens & Co., Inc. v. Lex Tex Ltd., Inc. 747 F.2d 1553, 1561 (Fed. Cir. 1984); and Standard Oil v. Nippon Shokabai Kagaku Kogyo Co. 754 F.2d 345, 348 (Fed. Cir. 1985).

The Supreme Court, in Lane & Bodley Co. v. Locke, 150 U.S. 193 (1893) ruled nearly one hundred years ago that laches apply in patent cases. The Court in refusing to enforce the plaintiff's patent rights stated: "Courts in equity...will not assist one who has slept upon his rights, and shows no excuse for his laches in

asserting them." Id. at p. 201, and neither the courts nor Congress has seen fit to alter this principle.

As reflected by Appendix A, the current law regarding laches for patent cases, including the six-year presumption has been uniformly applied for several decades. It was uniformly applied by the various circuit courts of appeals prior to the formation of the Court of Appeals for the Federal Circuit. Moreover, the presumption was also uniformly applied by every panel of this Court, both before and after Cornetta, except for the now vacated panel decision in this case. Chaides is not aware of a single case wherein the six-year presumption was rejected.¹ Furthermore, to date neither Aukerman or any amicus curiae have presented any sound reason to discard the well-settled law. As stated in Henry v. U.S. 46 F.2d 640, 642 (3d Cir. 1931):

Whatever one's sympathy may be, well-established rules of law and equity found by long experience to be wise and in the end best for all the people as a whole may not be discarded and set aside, in the absence of special circumstances and sound reason therefor. p.642

¹ In Minnesota Mining & Mfg. Co. v. Berwick Industries, Inc. 532 F.2d 330, 334 (3d Cir. 1976), the burden of proof of laches was placed on defendant even though the delay exceeded six years. However, 35 USC §286 was not discussed, there was no indication that either party raised the six-year presumption for consideration, and in RCA Corp. v. Applied Digital Data Systems, et al. 558 F.Supp. 937, (D.Del. 1983), rev'd on other grounds 730 F.2d 1440 (Fed. Cir. 1984) the court opined that the Third Circuit would follow the presumption when provided the proper opportunity.

3. Current Laches Law Regarding Patent Cases Including the Six-Year Presumption Aids in Preserving Public Policy Against Plaintiff's Sleeping On Their Rights

The equitable power of a court is invoked upon the basis of conscience, good faith, and reasonable diligence. A court should not aid a litigant who has intentionally or negligently slept on his rights and allowed his demand to become stale, particularly where injustice will be done to a defendant by granting the requested relief. The doctrine of laches has been based on the injustice that might result from the enforcement of a long-neglected right, and the difficulty, and sometimes impossibility of ascertaining the truth of matters in controversy. United States v. Beebe, 127 U.S. 338, 347-8 (1888). There is also the potential for economic prejudice. Potash Company of America v. International Minerals and Chemicals Corporation 213 F.2d 153, 156 (10th Cir. 1954), in affirming the defense of laches stated:

In patent cases it is inequitable for an infringer to deprive the owner of a patent of royalties and other rights which the patent affords. It is equally inequitable for the patent owner to sleep on his rights and lead an infringer to make large investments in the belief that he is not infringing or that the patent's rights are not to be pressed.

The Courts have conscientiously considered the equity of shifting the burden of proof after long time delays. Baker Manufacturing Company v. White Water Manufacturing, 430 F.2d 1008, 1011-12 (7th Cir. 1970), quoting from Window Glass Machine Co. v. Pittsburg Plate Glass Co., 284 F. 645 (3d Cir. 1922):

When delay in prosecuting a claim is so unusual

as to carry with it the appearance of being unreasonable, ...there devolves upon a plaintiff the burden of disclosing the impediments of an earlier action; of showing, if ignorant of his rights, how he had remained in ignorance so long; and of revealing how and when he first came to a knowledge of the matters on which he relies in his bill for relief.

... No case is an exact precedent for another because the facts in no two cases are exactly alike, but a uniform principle runs through all the cases. They proceed on the theory that the plaintiff knows his rights and has had ample opportunity to establish them in the proper forum; that, because of delay, the defendant has had good reason to think that the plaintiff believes his asserted rights to be worthless or that he has abandoned them.

... The question of laches then assumes the aspect of the plaintiff having stood by and having done nothing to protect its rights for seven years while the defendant was building up a business, which it thought was legitimate, and spending money in constructing a large plant.

Each year as it passes inevitably builds up a belief, if nothing has been done, that the patentee does not suppose his rights invaded.

Laches in patent cases is not imputed to plaintiffs who are justifiably ignorant of the facts which create the right of action. However, a patent owner must be diligent and make such inquiry and investigation that the circumstances reasonably suggest. Studiengesellschaft Kohle v. Eastman Kodak Co., 616 F.2d 1315 (5th Cir. 1980).

Courts use the six-year statutory period regarding damages as a frame of reference in considering laches. After such period of delay in bringing suit, laches is presumed and the plaintiff assumes the burden of overcoming the presumption.

A six year period is an appropriate term for initiating the presumption. As stated in Henry v. United States, 46 F.2d, 640, 642 (3d Cir. 1931):

While there is no statute of limitations in equity, yet it generally in this respect follows the law, and will, in the absence of special extenuating circumstances, not here present, regard the delay as inexcusable and refuse relief after the time of the statute of limitations in that particular locality has expired. ... This would ordinarily bar the relief sought, if there were no other insurmountable obstacles standing in the way.

Likewise, General Electric Co. v. Schiaky Brothers, Inc., 304 F.2d 724 (6th Cir. 1964) states:

[W]here the unexplained delay exceeded the applicable period of statute of limitations, injury to the defendant is presumed. In a patent infringement action equitable principles are applied. Equity will not aid those who have slept on their rights. The failure of General Electric to take action over the many years constituted laches (case citations, including Gillons v. Shell, supra). Gillons v. Shell Co. of California, 96 F.2d 600 (9th Cir. 1936)

The length of delay for presumed laches does not mandate the outcome. It merely relates to liability for acts predating the filing of the complaint and only impacts the burden of proof of the laches defense. Thus, if a plaintiff sleeps on the alleged rights for more than six years, the plaintiff must establish that the delay was excusable and not prejudicial to the defendant if plaintiff desires to recover for damages for the six years prior to filing. However, if the plaintiff does so, then the matter proceeds as to acts preceding and subsequent to filing. This is fair. First, if the plaintiff created the delay, it should be required to justify delays of six years before receiving the

benefits of the courts for acts occurring during the delay. Secondly, the plaintiff controls the length of sleep on the alleged rights. Therefore, to avoid triggering the presumption, the plaintiff can "set the alarm clock for an earlier wakeup".

4. Delays Prejudice Accused Patent Infringers in Two Forms: Economic Prejudice and Defense Prejudice

One form of potential economic prejudice to a party evolves when such party invests in establishing or expanding a business to manufacture and/or market a product and continues to do so with the belief that it can proceed unmolested by claims of patent infringement. Since a patent potentially affords its owner monetary and injunctive rights, against an infringer, the patent is potentially a very potent weapon to stifle or eliminate an infringer's business. Thus, a prudent business person needs timely knowledge of any assertions of patent infringement. With such knowledge, the business person has an appropriate opportunity to decide to (a) not to pursue the product or expansion until the matter is resolved; (b) seek a license and price the product to encompass the royalty costs; (c) actively defend against the assertions; (d) take a risk that the patent owner will not, in fact, pursue the claim or prevail; (e) proceed with the product until and unless enjoined by a court, but encompass a reasonable royalty in the product price and then deposit that royalty in escrow as insurance for payment of any damages, if necessary; (f) file a declaratory relief action challenging the patent validity and/or alleged infringement; etc.

All of these options relate to economics. Business persons timely aware of patent infringement allegations, have a fair opportunity to intelligently address them and select an option. However, absent an assertion, the business person must proceed without awareness and therefore perilously.

Likewise, absent assertion of patent infringement for six years or more regarding a product, business people should have a legal ground for assuming that such product is free from patent infringement claims. Though 35 USC §286 protects against damages for acts preceding such six year period, it is no protection for the immediate past six years or future. Fairness dictates that business persons should be able, after six years, to reasonably assume freedom to expand business; or make price adjustments without consideration for potential royalties and to otherwise operate the business free of the fear of patent infringement claims of any patent owner for prior acts.

Potential economic prejudice also exists in buying and selling a business encompassing advancing technology. After some reasonable time, as a matter of public policy, both the buyer and seller should be able to presume that the business is free of patent infringement claims for past acts. Otherwise, the freedom of buying and selling businesses is impeded. The six-year presumption provides some relief from this potential prejudice.

Defense prejudice occurs and expands with the passage of time merely as a matter of human nature. As time passes people die, memories fade, and documents are destroyed and lost. Defendants

rely upon people, memories, documents or other tangible items for establishing their defense. Thus, their burden automatically increases merely as a result of the passage of time. In patent matters, this disadvantage may be even greater than in other areas because the success of patent invalidity defenses rests heavily on the existence of proper documents and credible memories.

35 USC §284 gives patent infringement defendants the right to all the defenses set forth in Title 35. This includes defenses (a) under 35 USC §102 relating to lack of novelty in view of prior art, invalidity due to statutory bar periods of on sale, public use or publication, invalidity for failure to name the correct inventors; (b) under 35 USC §103 providing for invalidity due to obviousness; (c) under 35 USC §112 providing for invalidity for failure to meet the the required standards such as disclosing the inventor's best mode; and the like. Establishing these defenses requires (a) facts within the personal knowledge and memories of the named patentees and their colleagues; (b) documents existing at the time of the invention; (c) documents, personal knowledge and tangible items existing at the time the products were first publicly sold or put in public use; (d) knowledge and documents within the possession of the assignee of the patent; (e) knowledge of the state of the art and of the ordinary level of skill of individuals at the time that the patentee allegedly came up with the invention; etc.

Obviously, as time passes, such people die, relocate, and/or their memories fade; and pertinent documents and items are destroyed and/or lost. Thus, with the passage of time, defendants

chances of establishing these defenses deteriorates. Using common sense alone, one recognizes that delays exceeding six years, place the defendant at a complete disadvantage. By that time, all of the pertinent evidence has aged a minimum of eight years because it takes years, at least approximately two, for a patent to be prosecuted through the Patent Office examination proceeding. Then, if the filing of suit is delayed six years, a very minimum of eight to ten years has passed since the critical events. Even this assumes that the patent application was filed immediately upon conception, and that the patent owner was aware of the defendant's alleged infringement when the patent issued.

As a practical matter, with a six-year delay, the critical evidence for establishing the invalidity defenses will typically age 10-15 years. In fact, in the current case, the events regarding the Aukerman patents at issue, occurred 17-19 years before the suit was filed. Now, the whereabouts of the inventor and persons involved with the initial manufacture and marketing is unknown, and documents have been lost and/or destroyed.

Common sense alone recognizes that after six years, a defendant accused of patent infringement will be prejudiced both economically and defensively. It will be a very rare situation where this is not the case. However, if such rarity occurs, under the current law of laches, the patent owner retains the opportunity to show such. Thus, the six-year presumption is more than fair to patent owners while providing some potential defendants some timing guidelines regarding conduct of their business and freeing them

somewhat from fears of liability for stale patent claims. If this presumption were to be removed, then it would behoove patent owners to delay the filing of suits because continuing delay, (a) continuously weakens defenses, and (b) enlarges the potential economic rewards if the infringer's business continues and/or increases and fails to invalidate the patent.

5. The Six-Year Presumption is Consistent with Public Policy of Removing Invalid Patents from the Rolls of Enforceable Patents

Public policy favors fair competition in the market place with high quality products at the most economical prices. By definition, patents provide their owner with the right to exclude others from making, using or selling products covered thereby. Therefore, patents may be used to eliminate competition in the patented subject matter. If the patents are in fact valid and meet all of the mandated standards, they are sanctioned by the United States Constitution. However, if an existing patent is not valid, or is misused against others producing products which may not be infringing, then such patents unfairly stifle competition and defeat the constitutional purpose of patents.² Thus, for the patent system and the free enterprise system to coexist in harmony, it is essential that patent owners be required to act diligently

² "It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly..." Pope Manufacturing Co. v. Gormully, 144 U.S. 224 234 (1892)", Lear v. Adkins, 395 U.S. 653, 663, 664 (1969)

in pursuing and enforcing any alleged patent infringement claims. As previously discussed, this gives accused infringers the opportunity to make prudent business decisions, one of which is to challenge the validity of the patent.

However, patent litigation is difficult, complex, and very costly in time and money. This alone, causes any prudent business person, even one having a legitimate belief that a known patent is invalid or unenforceable, to consider minimizing or avoiding the threat of patent litigation by not expanding a market or leaving the market. Without the six-year presumption of laches, such threat would be viable for twenty-three years³ and such prudent business person, would need continue the low profile until the threatening patent expires, notwithstanding a conviction that it is invalid. Thus, the public would be deprived of choices of legitimate competing products. Obviously, if the patent were in fact a valid patent, then this may be proper. However, if the patent were in fact invalid, then it is not proper.

It is understandable that some invalid patents issue. In deciding to allow issuance of patents, patent examiners must base the decision on a very limited amount of knowledge when compared to the categories of information which effect patent validity. The only information available to a patent examiner is (a) his or her personal knowledge, (b) information available and retrieved from the Patent Office files, and (c) information provided by the patent applicant. On the other hand, the issue of patent validity

³ Seventeen per 35 USC §154, plus six per 35 USC §286.

encompasses much more information. First, it involves all prior art, (see 35 USC §102(a)) which basically includes all information that is publicly available in the United States or published in any language anywhere in the world preceding the date of invention. Obviously, no patent examiner has all of that information available to him or her. Secondly, under 35 USC §102(b), patent validity is subject to publications, uses and sale of the invention preceding the filing date of the application. The examiner has no independent means of collecting all such material. Thirdly, under 35 USC §103, patent validity is based upon the ordinary level of skill of persons in the art at the time of the invention. Obviously, an examiner may not have a complete understanding of what that level is. Only people actually working in the field itself, at the time the invention was made and who have made a specific study of such would have such an understanding. Fourth, the patent laws require that patents be issued only to the true inventors. See 35 USC §§102(f); 111; 115; 116; 117; 118. Thus, was the named patentee in fact the true inventor? The examiner has no independent means of determining this and the examiner's decision is based solely on the information and declaration provided by the applicant. Fifth, patent validity is subject to the content of the specification under 35 USC §112. For example, the patent should describe the inventor's best mode. However, the examiner does not have any opportunity to make an independent investigation regarding this requirement. Sixth, the applicant is required to make full disclosure of all relevant information to the patent examiner.

Again, there is no opportunity for the examiner to make an independent investigation to determine if the applicant complied.

Thus, in view of the limited resources available and the fact that the patent prosecution procedure is an ex parte proceeding, the examiner's decision to allow a patent may be based on less than all of the relevant information. In short, though patent examiners do the best that they can with what they have, the decision to allow issuance of a patent is generally based upon only one person's analysis in view of the knowledge and objectivity of that particular person.⁴ Consequently, invalid patents may issue.

The Patent Act recognizes the situation, and under 35 USC §282, provides that a patent is only presumed to be valid. Thus, the patent does not provide an absolute property right -- it is only a presumed property right. However, in providing the presumption it requires that a challenger overcome the presumption of validity by clear and convincing evidence.

Therefore, parties are encouraged to make good faith challenges to patents that they believe to be invalid. Such persons, when successful, perform a valuable public service including a correction for mistakes made by U.S. Government officials, namely the U.S. Patent Office and its examiners in inadvertently allowing invalid patents. However, the obstacles facing the challengers are already great. The litigation (1) will be complex, difficult, time

⁴ "A patent, in the last analysis, simply represents a legal conclusion reached by the Patent Office. Moreover, the legal conclusion is predicated on factors as to which reasonable men can differ widely. Yet, the Patent Office is often obliged to reach its decision in an ex parte proceeding, without the aid of the arguments which could be advanced by parties interested in proving patent invalidity." Lear, Inc. v. Adkins, supra at 670

consuming and very costly; and (2) must overcome presumptions of validity and enforceability by clear and convincing evidence.

Obviously, in order to resolve the validity issue, the challenger needs to be able to gain timely access to all the pertinent information necessary for presentation to the court so that the court can determine patent validity in view of the statutory standards. Thus, in mounting the challenge, the challenger requires the availability of patentees, associates of the patentees, persons skilled in the field, persons involved with marketing of product with the invention, etc.; fresh memories of such witnesses; timely documents and other tangible items. Unfortunately, and as previously discussed, with passage of time, the availability of each deteriorates and the difficulty of proving invalidity increases. Thus, the potential challenger's enthusiasm for challenging the patent also deteriorates. Even a six-year delay is extensive under such standards. However, the six-year delay presumption forces patent holders to recognize that if they fail to file their charges within such time, they will have the burden of proving the absence of laches. Thus, there is an incentive to file the suit within six years.

Without the six-year presumption, the patent owner's best course would be to delay as long as possible, especially if validity of the patent is suspect. In continuing the delay, the only negative concern of the patent owner is that delays exceeding six years sacrifice some potential monetary return if the patent were to be determined valid and infringed since damages are limited to six years preceding filing of the complaint. However, if the

patent is invalid, he has been able to unfairly stifle competition for seventeen years.

6. Current Law of Laches with Six-Year Presumption
is Consistent with Public Policy of Free and
Unrestrained Competition in the Marketplace

The United States Supreme Court in Precision Instrument Mfg.
Co. v. Automotive Maintenance Machinery Co., 324 U.S. 806 (1945)

states:

A patent by its very nature is affected with a public interest. As recognized by the Constitution, it is a special privilege designed to serve the public purpose of promoting the 'Progress of Science and Useful Arts'. At the same time, a patent is an exception to the general rule against monopolies and to the right to access to a free and open market. The far reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope. p. 816.

Patents are special privileges, and as hereinbefore mentioned, may be used as a tool to restrain competition. This may be legitimate or illegitimate. In either event, to business persons faced with potential patent infringement claims, this is an additional risk and obstacles in competing in the marketplace. However, with timely knowledge of the risk and/or obstacles, decisions can be made. But, without such knowledge, business decisions are not possible. This provides the patent owner an opportunity to wait until after success is realized, or within view, and then "swoop down" and attempt to "carry off the business jewels" by means of filing the long delayed patent infringement

suit. Obviously, such conduct does not provide for free and open markets.

Though, even under existing law, a patent owner has this opportunity to impede competition, the six-year presumption of laches provides a "somewhat" outside limit to which a patent owner dares to play this unfair game. Without such outside limit, the patent owner could play the game for up to seventeen years, and anyone marketing a new product would have to be concerned with such risk for the seventeen years. This does not favor beneficial social and economic consequences and it was not the intention of Article 1, Section 8, Clause 8, of the United States Constitution or of Title 35. The purpose of patents is to promote the progress of science and not to unfairly impede free and open competition. The six-year presumption is consistent with such purpose.

7. The Six-Year Laches Presumption Rule is Not
Prejudicial to the Patent Owners

Patent owners are advised by statute, that the validity of any resultant patent is subject to court review. Thus, they know this at the outset of filing for or buying a patent. To illustrate, 35 USC §282 provides that a patent is merely a presumed right. However, they are further advised that if it satisfies the statutory and constitutional standards, they are entitled to the very powerful exclusive rights of being able to exclude anyone from practicing that invention for seventeen years within the United States. 35 USC §§154, 271. Patent applicants are also advised

that once the patent issues, if they want to enforce those rights, they may do so by filing a civil action (35 USC §281) and then the defendant may contest validity and enforceability of the patent. 35 USC §282. Case law has also advised patent owners that they can easily avoid a laches defense merely by filing their complaint within six years. If that is done and if the defendant alleges laches, then the defendant must prove them without the benefit of a presumption.

Thus, at the outset, patent applicants or purchasers are fully advised of their rights and responsibilities. If they do not want to accept the responsibilities then they should not be provided the right, but if they accept the patent, then they should comply with the responsibilities. Consequently, there is no justification for patent owners to contend that the six-year presumption of laches is prejudicial because they accept that responsibility as one of the conditions of receiving and enforcing the government granted privilege of the patent. In fact, rather than being prejudiced, the patent owner is the advantaged party. The patent owner can proceed unimpeded. It is the alleged infringer who must await action by the patentee for at least six years.

8. Six-Year Presumption of Laches in Patent Cases
is Consistent With Other Areas of Law

Chaides, in conducting research for this brief, readily determined that a time-related presumption of laches exists in many fields of law and that the time-period triggering the presumption relates to the statute of limitations corresponding to or analogous to the subject matter in that jurisdiction. For example, Appendix B lists various cases in which the presumption has been recognized. These include cases involving copyright; trademarks; antitrust; Federal Arbitration Act; Military Selective Service Act; condemnation of lands; admiralty law; longshoreman claims; contracts regarding conveyance of real estate; claims by civilian employees against the United States Government regarding termination of employment; and voters rights.

Thus, time-related laches presumption is common in both patent and non-patent cases and its application in patent cases is consistent with the general rule. The Cornetta case, not a patent case, is, if anything, an aberration. Furthermore, the fact that patent validity has an impact on a much larger public segment than merely individual claims of private litigants, the application of the presumption in the patent field is even more important than in other fields.

9. The Current Laches Law With Six-Year Presumption
is Not Inconsistent with Cornetta v. U.S.

Cornetta v. U.S., supra. was an appeal from a summary judgment in favor of the government, based on laches, and dismissing a claim by a former Marine for \$10,000 for alleged wrongful termination. The delay, from the termination to the filing, was about seven years (May 31, 1979 - May 20, 1986). The applicable statute of limitations was six years. However, the statute was tolled for three years as a result of Mr. Cornetta's intervening service with the Coast Guard Reserve (851 F.2d at 1375) and thus, had not run. The Government conceded that there was no defense prejudice (851 F.2d at 1378) and Cornetta's claim represented Cornetta's pay for only three months and one week. (851 F.2d at 1382). Furthermore, the Government failed to produce documents requested by Cornetta in discovery "which purportedly would show that his delay in filing suit was 'neither unjustified nor unreasonable' and that the government would suffer no prejudice if the suit were to proceed." 851 F.2d at 1375. The Court also expressly acknowledged that the Government was, by far, the stronger party. 851 F.2d at 1377.

The Court distinguished Supreme Court precedent upholding a presumption of laches in favor of the government against claims by former civilian employees stressing that a military pay case was factually distinct from a civilian pay cases. In military pay cases, the "second-man" theory is inapplicable because military personnel are part of a pool, whereas civilian employees are not.

It further stressed that the relative strengths of the parties made it unfair to apply the presumption in a military pay case.

Presumptions depend on considerations of fairness and public policy. (case cited). In the military pay arena, however, those considerations militate against a presumption of prejudice. In the usual case, the government is both the stronger party and the party best able to set out facts relevant to the prejudice inquiry. The claimant is at a decided disadvantage. It is simply inequitable, and it is equity we are talking about, to force the military claimant before even reaching the merits of the case, to rebut the presumption and then disprove actual prejudice, when the government holds the evidence. (emphasis added) Cornetta v. U.S., supra, at 1370.

Thus, the six-year presumption in patent cases is consistent with the holdings in other fields of law and is not inconsistent with Cornetta. Cornetta is a unique area with unique facts. Cornetta, a military pay case, should be limited to cases where the defendant is the stronger party, where the defendant admits that there is no defense prejudice; where the maximum economic liability of the defendant is negligible; and the corresponding or analogous statute of limitations has not run.

10. The Elements of The Estoppel Defense Need

Not Be Time-Based

Equitable estoppel, in patent infringement suits need not be primarily time-based. Equitable estoppel involves misleading conduct (action or inaction) and detrimental reliance. Though the timing relationship between such conduct and detrimental reliance may be very close and even soon after the patent owner learned of the alleged infringer, it should not necessarily preclude equitable estoppel. For example, assume that a patent owner receives a

patent on day one; then on day two tells Mr. X that he has the patent and knows of Mr. X's infringing activity but will not enforce this patent against Mr. X; Mr. X immediately spends millions of dollars on a new plant and expands marketing of the alleged infringing product in reliance on the representation; and four months later, the patent owner sues. Obviously, equitable estoppel may apply notwithstanding the absence of delay. However, in other circumstances, delay may be a very relevant factor. Thus, as the general rule, time delay is not an essential element, but may be a factor depending on the circumstances.

Conduct and detrimental reliance are the key factors. Silence may work as such conduct if it is sufficient to reasonably induce an alleged infringer to infer that the patent owner abandoned any patent claims against the alleged infringer. See Hottel Corp. v. Seaman Corp. 833 F.2d 1570, 1572 (Fed. Cir. 1987). For example, if a patent owner expressly threatens to sue an alleged infringer, but fails to do so and merely remains silent, after a prolonged period of time, the alleged infringer should be legally entitled to assume the threat will not be carried out and thereafter, in reliance on such presumption, safely make large investments and conduct his business free of such threat. How long is a prolonged period reasonable? It will depend on the circumstances.

Thus, equitable estoppel is essentially a two-element defense, neither of which is primarily time-based. However, depending on the facts and circumstances constituting the "misleading conduct"

and "detrimental reliance", the time delay may be a secondary factor.

11. Aukerman's Supplemental Brief Contentions
are Unsupportable

A. Aukerman Erroneously Contends That Laches Does Not
Apply to Patent Cases

Many of the points in Aukerman's Supplemental Brief have already been indirectly addressed herein. For example, as previously set forth herein, Title 35, and specifically 35 USC §282, provides that laches and estoppel are defenses in patent infringement suits. Yet Aukerman contends that laches should not be a defense to an action for patent infringement. This is error for various reasons. First, laches is a defense to liability and is not concerned with the form of relief. Secondly, laches has been uniformly applied for more than a century as a bar to monetary recovery for patent infringement preceding the filing of the complaint. (See cases of Appendix A). Thus, Aukerman's contention that laches cannot bar monetary claims for pre-filing infringement is in direct conflict with long standing precedent. Essentially, patent cases are a mixture of law and equity. For example, as previously discussed, Title 35 provides for equitable and monetary recoveries (35 USC §283, 284) and defenses framed in law and in equity (35 USC §282). Likewise, the United States Supreme Court has treated patent laws as such a mixture. For example, in establishing the doctrine of equivalents and doctrine

of reverse equivalents, the court recognized that patents and their enforcement require a mixture of law and equity. Graver Tank & Mfg. Co. v. Linde Air Products, 338 U.S. 605 (1950).

B. Aukerman Erroneously Contends that the Six-Year Presumption Conflicts with Other Fields of Related Law

Contrary to Aukerman's contention, as illustrated by the cases of Appendix B, time-related presumptions of laches exist in various areas of the law. In the most part, the designated time corresponds to relevant statutes of limitations. Frequently the time is less than the six years applicable to patent cases.

Aukerman cites and relies on Czaplicki v. The Hoegh Silvercloud, 351 U.S. 525 (1956) and Gardner v. Parama R. Co., 342 U.S. 29 (1951). These two cases do not support Aukerman's contention. They are libel actions filed after expiration of an apparent relevant statute of limitations. Neither case considered the issue of a time-related presumption. They merely hold that the root application of a statute of limitations should not be applied to bar an equitable claim in admiralty. They are not inconsistent with the current laches law and six-year presumption in patent cases.

Holmberg v. Ambrecht, 327 U.S. 392 (1946), is also cited by Aukerman. However, it merely held that it would be inequitable to apply a statute of limitations to prevent a plaintiff from bringing suit where the defendant had fraudulently concealed his ownership interest in certain bank shares. The Court noted:

If want of due diligence by the plaintiff may make it unfair to pursue the defendant, fraudulent conduct on the part of the defendant may have prevented the plaintiff from being diligent and may make it unfair to bar appeal to equity because of the mere lapse of time. Id. at 396

Holmberg does not, as suggested by Aukerman, state that it would be improper for a presumption of laches to attach. The Court merely stated that it would not apply a mechanical statute of limitations rule.

Costello v. U.S., 365 U.S. 265 (1961), relates to a denaturalization proceeding. The Court stated that such proceeding is unique and refused to apply laches, holding:

It has consistently been held in the lower courts that delay which might support a defense of laches in ordinary equitable proceedings between private litigants will not bar a denaturalization proceeding by the Government. Id. at 265

Costello did not address the issue of whether a presumption of a lack of due diligence or a presumption of prejudice due to passage of time should apply. In fact, the Court implied that the Government overcame any presumption that might otherwise exist in stating on p. 282:

Insofar as these factors inherent in the lapse of time were operative in the present case, they seem plainly to have worked to the petitioner's benefit, not to his detriment.

Thus, these cases cited by Aukerman are not at odds with the current application of laches to patent cases and the six-year presumption. The current law does not mechanically apply a statute of limitations time period to conclusively establish laches. Instead, it is merely a rebuttable presumption created after the

passage of certain time, which time was based on a statutory period for a somewhat analogous matter. Such presumption, and the manner of determining the base time has been a uniform practice by courts in patent cases for decades.

VI. CONCLUSION

The current law of laches is well-established and has been uniformly applied for many decades. It is consistent with the public policy of promoting the prompt adjudication of claims, of promoting free and open business competition, and of having invalid patents removed from the rolls of enforceable patents. At the same time, it poses no threat to diligent patent owners. It allows such patent owners up to six-years of conscious inactivity before a presumption arises, and even then, the presumption is rebuttable. As the trial court found in this case, Aukerman delayed for more than nine years in filing suit, during which time Chaides made economic decisions of capital investments of expansion, priced contracts without any consideration for any potential royalties and forewent exercising the rights provided by the bankruptcy law. Likewise, valuable defense evidence has disappeared. The inventor's whereabouts is unknown. Documents have been lost and/or destroyed. Critical witnesses and documents relative to evidence regarding statutory bars are now non-existent and memories have faded seriously. For example, Mr. Aukerman, himself, who was the principal person on behalf of A.C. Aukerman, Inc. throughout the past twenty-five years, repeatedly testified

under oath that he could not recall critical events pertinent to Chaides' defenses. Aukerman's only excuse is that they did not know the magnitude of Chaides' business. As previously pointed out, the courts have ruled that that is not an acceptable excuse. Furthermore, as Judge Williams' ruling states, Chaides' activities were of public record and readily available merely by asking.

Likewise, equitable estoppel fully applies, as found by the trial court. Though Aukerman contended that it would sue Chaides by June 1, 1979, and Chaides encouraged Aukerman to do so, Aukerman did not and just went silent. Years passed without Aukerman ever communicating with Chaides. Thus, Chaides rightfully assumed that Aukerman abandoned the claim and conducted the business accordingly. Then not until more than eight years after the threatened "sue date" of June 1, 1979, did Aukerman even communicate with Chaides. Aukerman's conduct caused Chaides to act to its detriment. This is the classic case of laches and estoppel and the trial court's dismissal of the complaint should be affirmed.

Respectfully submitted,

LAW OFFICES OF THOMAS E. SCHATZEL
A Professional Corporation

Date:

8/16/91

by


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R.L. Chaides Construction
Company, Inc.

APPENDIX A

SAMPLE CASES APPLYING LACHES AND ESTOPPEL IN PATENT CASES

<u>COURT</u>	<u>CASE</u>	<u>LACHES</u>	<u>SIX-YEAR PRESUMPTION</u>	<u>ESTOPPEL</u>
U.S. Supreme Court	Lane & Bodley Co. v. Locke 150 U.S. 193 (1893)	X		
<u>CIRCUIT</u>				
1				
2	Dwight v. Lloyd Sintering Co. 27 F.2d 823 (2d. Cir. 1928)	X	X	
3				
4	Potter Instrument Co. v. Storage Technology Corp. 641 F.2d 190, 191 (4th Cir. 1981)	X	X	
	Olympia Werte Aktien- gesellschaft v. General Electric 712 F.2d 74 (4th Cir. 1983)	X	X	X
5	Studiengesell- schaft Kohle v. Eastman Kodak Co. 616 F.2d 1315 (5th Cir. 1980)	X	X	X
6	TWM Mfg. Co. v. Dura Corp. 592 F.2d 346 (6th Cir. 1979)	X	X	

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<u>CIRCUIT</u>	<u>CASE</u>	<u>LACHES</u>	<u>SIX-YEAR PRESUMPTION</u>	<u>ESTOPPEL</u>
6	General Electric Co. v. Sciaky Bros., Inc. 304 F.2d 724 (6th Cir. 1964)	X	X	
7	Naxon Telesin Corp. v. Bunker Ramo Corp. 686 F.2d 1258 (7th Cir. 1982)	X	X	X
	A.C. Aukerman Co. v. Miller Formless Co., Inc. 693 F.2d 697, 699 (7th Cir. 1982)	X	X	X
	Baker Mfg. Co. v. White Water Mfg. 430 F.2d 1008 (7th Cir. 1970)	X	X	
8	United Drug Co. v. Ireland Candy Co. 51 F.2d 226, 232 (8th Cir. 1931)	X	X	
9	Jensen v. Western Irrigation & Manufac- turing, Inc. (650 F.2d 165, 169; 207 USPQ 817 (9th Cir. 1980)	X	X	X
	Whitman v. Walt Disney 263 F.2d 229 (9th Cir. 1958)	X	X	
10	Maloney-Crawford Tank Corp. v. Rocky Mountain Natural Gas 494 F.2d 401; 181 USPQ 617 10th Cir. 1974)	X	X	

APPENDIX A

<u>CIRCUIT</u>	<u>CASE</u>	<u>LACHES</u>	<u>SIX-YEAR PRESUMPTION</u>	<u>ESTOPPEL</u>
District of Columbia	Van't Veld v. Honeywell 440 F.Supp 1020 (DC DC 1970)	X	X	X
	Chubb Integrated Systems, Inc. v. Nat'l Bank of Washington 658 F.Supp 1043 (1967)	X	X	X
Federal Circuit	Leinoff v. Louis Milona & Sons, Inc. 726 F.2d 734 (Fed. Cir. 1984)	X	X	
	Jamesbury Corp. v. Litton Industrial Products, Inc. 839 F.2d 1544 (Fed. Cir. 1988)	X	X	X
	Adelberg Labs. v. Miles, Inc. 921 F.2d 1267, 1270 (Fed. Cir. 1990)	X	X	X
	Meyers v. Brooks Shoes, Inc. 912 F.2d 1459, 1461 (Fed. Cir. 1990)	X	X	X
	Sun Studs, Inc. v. ATA Equip. Leasing, Inc. 872 F.2d 978 (Fed. Cir. 1989)	X	X	
	Hottel Corp. v. Seaman Corp. 833 F.2d 1570, 1572 (Fed. Cir. 1987)	X	X	X
	Bott v. Four Star Corp. 807 F.2d 1567, 1575 (Fed. Cir. 1986)	X	X	
	Mainland Industries, Inc. v. Standal's Patents Ltd. 799 F.2d 746, 748 (Fed. Cir. 1985)	X	X	

APPENDIX B
Illustrative Cases Applying Time-Related Laches
Presumption in Non-Patent Cases

<u>Case</u>	<u>Subject Matter</u>	<u>Time Delay to Trigger Presumption</u>
White v. Daniel 909 F.2d. 99, 102 (4th Cir. 1990)	Voter's Rights Acts	Applicable Statute of Limitations
Tandy Corp. v. Malone & Hyde Inc. 769 F.2d 362, 365 (6th Cir. 1985) cert. denied 106 S.Ct. 2277 (1986)	Trademark Infringement	Applicable Statute of Limitations
Int'l Tel. & Tel. Co. v. Gen. Tel. & Elec. Corp. 518 F.2d 913, 926-8 (9th Cir. 1975)	Antitrust Action Under Clayton Act	Corresponding Statute of Limitations
Ramos v. Continental Ins. Co. 493 F.2d 329, 332 (1st Cir. 1974)	Admiralty Laws	Analogous Local Statute of Limitations
D.O. Hayes & Co. v. Druggists Circular 32 F.2d 215, 217 (2nd Cir. 1919)	Copyright (Delay in prosecution of proceedings)	Correspond to Statute of Limitations
Reconstruction Finance Corp. v. Harrisons & Crossfield Ltd. 204 F.2d 366, 370 (2nd Cir. 1953)	Federal Arbitration Act	Correspond to Statute of Limitations
Gruca v. U.S. Steel Corp. 495 F.2d 1252, 1259 (3rd Cir. 1974)	Action for restoration of seniority and back pay under Military Selective Service Act	Correspond to State Six Year Statute of Limitations

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<u>Case</u>	<u>Subject Matter</u>	<u>Time Delay to Trigger Presumption</u>
Henry v. U.S. 46 F.2d 640, 642 (3rd Cir. 1931)	Land Condemnation	Correspond to State Six-Year Statute of Limitations
McGrath v. Panama R. Co. 298 F. 303, 304 (5th Cir. 1924)	Action for injuries by passenger on steamship	Correspond to Statute of Limitations in Common Law Action
Morales v. Moore-McCormack Lines, Inc. 208 F.2d 218, 220 (5th Cir. 1953)	Claim by longshoreman for injuries against steamship	Correspond to Statute of Limitations in Common Law Action
Pepper et al. v. Truitt 158 F.2d 246, 251 (10th Cir. 1946)	Contract regarding real estate conveyance	Correspond to Statute of Limitations for Analogous Matters
Grisham v. U.S. 392 F.2d 980, 982 (Ct. Cls. 1968)	Former Civilian employee claim against U.S. Army	Not precise. However, implies that it is analogous to Statute of Limitations
Gersten v. U.S. 364 F.2d 850, 852 (Ct. Cls. 1966)	Claim for back pay allegedly due civilian employee discharged from federal employment	Not precise. However, implies that it is analogous to Statute of Limitations
Kelley v. Boettcher 85 F. 55, 62 (8th Cir. 1898)	Sale of mining claim	Correspond to Statute of Limitations for Analogous Actions

PROOF OF SERVICE

I, Debra L. Czapenski, certify as follows:

I am a citizen of the United States and am employed in the County of Santa Clara, State of California; I am over the age of eighteen years and not a party to the within action; my business address is 3211 Scott Boulevard, Suite 201, Santa Clara, California 95054, in said County and State; and on the 15th day of August, 1991, I served the attached:

IN BANC SUPPLEMENTAL BRIEF FOR R.L. CHAIDES CONSTRUCTIONS COMPANY
(CORRECTED-2)

on the interested parties in this action by:

- (1) Deposit in U.S. mail in a sealed envelope with the postage thereon fully prepaid.
- (2) Hand delivery.

Addressed as follows:

Gerald P. Dodson, Esq.
TOWNSEND and TOWNSEND
Steuart Street Tower, 20th Flr.
One Market Plaza
San Francisco, CA 94105

I declare under penalty of perjury that the foregoing is true and correct.

Executed on August 16, 1991, at Santa Clara, California.


