

2013-1564

**United States Court of Appeals
for the Federal Circuit**

SCA HYGIENE PRODUCTS AKTIEBOLAG
and SCA PERSONAL CARE, INC.,

Plaintiffs-Appellants,

v.

FIRST QUALITY BABY PRODUCTS, LLC,
FIRST QUALITY HYGIENIC, INC., FIRST QUALITY PRODUCTS, INC.,
and FIRST QUALITY RETAIL SERVICES, LLC,

Defendants-Appellees.

*Appeal from the United States District Court for the Western District of
Kentucky in Case No. 10-CV-0122, Chief Judge Joseph H. McKinley, Jr.*

**EN BANC REPLY BRIEF OF PLAINTIFFS-APPELLANTS SCA HYGIENE
PRODUCTS AKTIEBOLAG AND SCA PERSONAL CARE, INC.**

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CERTIFICATE OF INTEREST

Counsel for the appellants, SCA Hygiene Products Aktiebolag and SCA Personal Care, Inc., certifies the following:

1. The full name of every party or amicus represented by me is:

SCA Hygiene Products Aktiebolag and SCA Personal Care, Inc.

2. The name of the real party in interest (if the real party named in the caption is not the real party in interest) represented by me is:

N/A.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

SCA Hygiene Products Aktiebolag is a wholly-owned subsidiary of Svenska Cellulosa Aktiebolaget SCA (publ.), which is traded on the Swedish stock exchange. No other publicly traded company owns 10% or more of the stock of SCA Hygiene Products Aktiebolag or SCA Personal Care, Inc.

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the District Court or agency or are expected to appear in this court are:

In the Western District of Kentucky, SCA Hygiene Products Aktiebolag and SCA Personal Care, Inc. were represented by Martin J. Black, Kevin M. Flannery, Sharon K. Gagliardi, and Teri-Lynn A. Evans of Dechert LLP, and E. Kenly Ames and Michael A. Owsley of English, Lucas, Priest & Owsley, LLP.

On appeal before this Court, SCA Hygiene Products Aktiebolag and SCA Personal Care, Inc. are represented by Martin J. Black, Kevin M. Flannery, Teri-Lynn A. Evans, and Sharon K. Gagliardi of Dechert LLP.

Date: May 15, 2015

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I. INTRODUCTION

While curiously avoiding any reference to the concept of a look-back window, which was so central to *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014), First Quality tries to distinguish the decision on the semantic ground that 35 U.S.C. § 286 is not a statute of limitations. *See* En Banc Brief of Defendants-Appellees, ECF No. 149 (“FQ Br.”) at 21–29.¹ Of course, Congress, the courts and commentators have all referred to the provision as a statute of limitations, and more importantly, the argument does nothing to undercut the holding of *Petrella* that when Congress enacts a look-back window to govern the timeliness of infringement claims, that period is binding on the courts. Just as in copyright law, there is simply no room left for judicial discretion to close that window to patentees.

Next, First Quality argues that the history of the Patent Act and 35 U.S.C. § 282 render *Petrella* irrelevant to patent cases. *See* FQ Br. at 34–41. First Quality and many of the *amici* confuse the historical backdrop of the law/equity dichotomy and its implications for the continued viability of *A.C. Aukerman Co. v. R.L. Chaides Const. Co.*, 960 F.2d 1020 (Fed. Cir. 1992). Both in copyright and patent law, the rights holder had the option to sue either (1) in equity for injunctive relief, an accounting and ancillary damages or (2) at law for legal

¹ All pincites to ECF documents refer to ECF pagination.

damages. Laches was only a defense at equity, not at law. Neither the merger of law and equity, nor Section 282, changed that basic rule.

The proper mode of analysis, as set out in *Petrella*, is to first determine whether a particular form of relief is equitable or legal in nature. 134 S. Ct. at 1967. Laches does not apply to legal relief where Congress has legislated a limitations period, but might, in the proper case, limit equitable relief. *Id.* The Supreme Court held that copyright damages claims are legal in nature, that the Copyright Act has a limitations period in the form of a look-back window, and that laches does not apply to copyright damages. *Id.* There is no principled distinction between patent and copyright damages, both of which are legal forms of relief governed by look-back window limitations statutes.

Finally, First Quality argues that laches should bar all claims, past and future. FQ Br. at 50–61. Even *Aukerman* viewed this position as inconsistent with settled law. *Aukerman*, 960 F.2d at 1041. *Lane & Bodley Co. v. Locke*, 150 U.S. 193 (1893), a case in the equity courts and sounding in estoppel, is hardly to the contrary. There is no suggestion in *Lane* that laches can be employed to bar any damages, much less post-suit damages.

II. ARGUMENT

A. *Petrella* Applies Equally To Patent And Copyright Law

1. The Plain Language Of Section 286 Demonstrates That It Is A Look-Back Window

Instead of applying the reasoning of *Petrella*, First Quality makes the conclusory statement that “*Petrella* simply does not affect the laches defense in patent law because 35 U.S.C. § 286 is not a statute of limitations.” FQ Br. at 22. This crucial premise underlying First Quality’s argument is simply incorrect. While this case does not turn on whether the provision is or is not a “statute of limitations,” both Houses of Congress called it just that. H.R. REP. NO. 54-940, at 2 (1896); H.R. REP. NO. 82-1923, at 10 (1952); S. REP. NO. 82-1979, at 9 (1952). One of the commentators to Section 286 likewise refers to it as “the statute of limitation on damages.” CHARLES ZINN, *Commentary on New Title 35 U.S. Code “Patents,” in 2 UNITED STATES CODE CONGRESSIONAL AND ADMINISTRATIVE NEWS*, 82nd Cong., 2d Sess. 2507, 2523 (1952). The leading patent treatise of the time, Walker on Patents, specifically states: “a national statute of limitation for patent suits has been in existence and enforced since the beginning of 1898.” 3 WALKER ON PATENTS § 689, 2000 (Deller ed. 1937) (hereinafter “Deller’s Walker”). Many other courts have referred to Section 286 as a statute of limitations. *See, e.g., Peter Letterese & Assocs., Inc. v. World Inst. of Scientology Enters., Int’l*, 533 F.3d 1287, 1321 n.40 (11th Cir. 2008); *United States Air*

Conditioning Corp. v. Governair Corp., 216 F.2d 430, 433 (10th Cir. 1954);
Higgins, Inc. v. Kiekhaefer Corp., 246 F. Supp. 610, 610–11 (E.D. Wis. 1965).²

Moreover, the Supreme Court’s analysis in *Petrella* was not based on any label, but rather on the practical fact that Section 507(b) of the Copyright Act operates as a look-back limitations period from the date of suit. 134 S. Ct. at 1968 (“Congress addressed the matter and filled the hole; it prescribed a three-year ***look-back limitations period*** for all civil claims arising under the Copyright Act.” (emphasis added)). The need for such a window is peculiar to causes of action like infringement, where the wrongful conduct can reoccur over a lengthy period of time. Section 286 of the Patent Act operates in the same manner as Section 507(b) of the Copyright Act, prohibiting recovery of damages outside the statutory period—in this case, six years. First Quality and its supporting *amici* do not dispute this functional identity of Sections 286 and 507(b). *See* FQ Br. at 26–28.

² There is some debate as to whether Section 286 is a statute of limitations or a statute of repose, an even stronger timeliness bar that admits of no exceptions. *See* MOY’S WALKER ON PATENTS § 21:16 (4th ed. 2010). As Moy’s notes, the “statute of limitations” camp has the far better of the argument. *Id.* (discussing ABA committee report, House report and debate, all referring to the provision as a statute of limitations). The debate is academic for the purposes of this case, as there is no doubt that Congress intended to legislate the timeliness of infringement claims. Whatever the proper label, the “effect is to create a ‘rolling’ six-year window for available recovery, which re-sets as the claim for infringement is postponed, day by day.” *Id.* § 21:17.

Under copyright law, “Congress provided two controlling time prescriptions: the copyright term, which endures for decades, and may pass from one generation to another; and § 507(b)’s limitations period, which allows plaintiffs during that lengthy term to gain retrospective relief running only three years back from the date the complaint was filed.” *Petrella*, 134 S. Ct. at 1970. Thus, the look-back window functions as “a rolling limitations period, which restarts upon each ‘separate accrual’ of a claim.” *Id.* at 1979. The same is true for patent infringement. If anything, the language of Section 286 more clearly expresses the look-back window concept, stating: “no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action.” Thus, just as with the Copyright Act, Congress provided two controlling time prescriptions in the Patent Act: the patent term and Section 286’s limitations period. There is no basis for distinguishing patent from copyright law.³

³ First Quality also argues from this Court’s precedent that Section 286 is not a statute of limitations because it does not bar “an untimely cause of action,” that the provision is merely a “limitation on damages” and does not have to be pled as a defense. FQ Br. at 25–27. However, the statute plainly bars some causes of action, namely, those accruing outside the six-year window. The various Federal Circuit cases discussed by First Quality at pages 24–27 of its brief either reference dicta, fail to take into account the fact that each act of infringement is a separately accruing wrong, and/or were based on the now overruled reasoning of *Aukerman*.

First Quality and all of its supporting *amici* ignore that Section 286 and Section 507(b) create look-back windows governing the timeliness of suit for acts of infringement. Instead, First Quality makes the circular argument that a six-year laches limitations period should be used as a gap filler to create an “analogous timeframe to a statute of limitations.” FQ Br. at 28–29 n.1. Why derive an analogous statute of limitations when one already exists in the Patent Act? Indeed, this argument sums up everything that is wrong with the *Aukerman* approach. By ignoring the six-year bright line rule set up by Congress, appropriating the same period for a discretionary laches analysis, and then barring *all* infringement claims before suit, the effect is to turn an easily administered bright line into a quagmire of shifting burdens and uncertainty. Laches is not being used as a “gap filler” but as a means to justify judicial encroachment on the will of Congress. This argument demonstrates a fundamental flaw in the analysis of *Aukerman* and is deeply at odds with *Petrella*.

2. The Policy Distinctions First Quality Tries To Draw Between Copyright And Patent Law Are Irrelevant And Do Not Support The Maintenance Of *Aukerman* Or Its Shifting Presumptions

In *Petrella*, the Supreme Court ruled that Congress had exercised its authority to create a three-year look-back window for infringement, and that determination is binding on the courts. 134 S. Ct. at 1973. As a matter of thoroughness, the Supreme Court addressed various policy arguments made by

proponents of laches and found that because of the nature of the Copyright Act these concerns were mitigated. *Id.* at 1976–77. First Quality contends that such concerns are of greater importance in patent law (FQ Br. at 30–33), but the argument is doubly flawed because it is not up to the courts to weigh policy here, and, in any case, there is no substantive difference between copyright and patent law.

First Quality first notes that copyrights can have 100-year terms, and claims can be brought long after the author has passed away. FQ Br. at 30. While the patent term has varied, the utility patent term today is 20 years from filing of the initial application. 35 U.S.C. § 154(a)(2). Accordingly, there is less potential for evidence to become stale in patent cases than copyright cases.

First Quality claims, nevertheless, that the need for “extrinsic evidence” demonstrates a heightened need for laches to mitigate potential loss of evidence, citing to the claim construction process under *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996), among other things. FQ Br. at 31–32. Of course, claim construction rulings are based primarily on the intrinsic record (*Phillips v. AWH Corp.*, 415 F.3d 1303, 1316–17 (Fed. Cir. 2005)), which is retained by the U.S. Patent and Trademark Office and (almost) never lost, and there is no reason to believe that there is some special difficulty in patent cases. First Quality’s contention that the loss of evidence might harm the infringer’s non-infringement

position makes little sense. It is the patent holder who has to prove infringement and would be harmed by the loss of evidence of infringement. The contention that evidentiary and economic prejudice is greater in patent than copyright claims with their potential 100-year life is simply unsupported. FQ Br. at 30. But more importantly, Congress balanced these policy questions and legislated a look-back window for each statute that it felt was appropriate. There is no cause for courts to second guess that policy decision.

3. The Historical Context

First Quality and various *amici* argue that there was a settled rule allowing the use of laches to bar “damages” claims and that practice was brought forward into the Patent Act in 1952 and then ratified *sub silentio* in later decades. *See, e.g.*, FQ Br. at 37–41. In this respect, they assert that patent law supposedly differs from copyright law and is outside the reasoning of *Petrella*. The argument “careens away from understandings, past and present, of the essentially gap-filling, not legislation-overriding, office of laches.” *Petrella*, 134 S. Ct. at 1965.

Today, the division of law and equity is largely a historical artifact.⁴ To those writing and practicing the law in 1952, however, it was a fact of life in many state courts, and the federal merger of law and equity was a recent event.

⁴ The division persists in this country in several states that still have separate courts of law and equity, most famously the Delaware Chancery Court.

According to the traditional rule, claims at law were not subject to the equitable defense of laches; rather, laches could only be applied to claims at equity. *See, e.g., Cnty. of Oneida v. Oneida Indian Nation of N.Y.*, 470 U.S. 226, 244 n.16 (1985) (“[A]pplication of the equitable defense of laches in an action at law would be novel indeed.”); RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 70 (2011) (explaining that any “action for restitution may be barred by lapse of time under an applicable statute of limitations” but expressly restricting the defense of laches to “an action for restitution [that] asserts a claim or seeks a remedy originating in equity”); 1 DOBBS LAW OF REMEDIES § 2.4(4), 105 (2d ed. 1993) (hereinafter “Dobbs”) (“Courts have routinely referred to laches as an equitable defense, that is, a defense to equitable remedies but not a defense to bar a claim of legal relief.”).

Patent and copyright law conformed to these norms. In the 19th and early 20th Centuries, a patentee had the right to sue for patent infringement either in law or equity. *Tilghman v. Proctor*, 125 U.S. 136, 143–44 (1888) *superseded by statute*, Patent Act of 1946, ch. 726, § 1, 60 Stat. 778. In the law courts, the plaintiff could sue only for damages and was entitled to a jury trial. *Id.*; *see also* 1 Dobbs § 2.6(1, 2). In the equity courts, the plaintiff could waive its right to a jury trial and seek the infringer’s profits and injunctive relief. *Id.* In 1870, the equity courts’ jurisdiction was enlarged to include the ancillary power to award damages

once equity jurisdiction had attached. Patent Act of 1870, ch. 230, § 55, 16 Stat. 198–217, 206. This ancillary power was not a feature unique to patent law and was available as a general matter in equity courts to avoid the inefficiency of starting a second action at law. *See Tilghman*, 125 U.S. at 148–49; *Whitlock v. Hause*, 694 F.2d 861, 863–64 (1st Cir. 1982) (equity courts permitted to award damages incidental to equitable relief).

Copyright law took the same path. Originally, equity courts adjudicating copyright claims had the power to conduct an accounting, but there was much debate about whether damages could also be awarded in such an action. *Chappell & Co. v. Palermo Cafe, Inc.*, 146 F. Supp. 867, 868 (D. Mass. 1956) *aff'd in part, appeal dismissed in part sub nom.*, 249 F.2d 77 (1st Cir. 1957) (noting disagreement before 1909 Copyright Act). In 1909, Congress settled the issue by adding to the Copyright Act the ancillary power to award damages to courts sitting in equity. *Douglas v. Cunningham*, 294 U.S. 207, 210 (1935) (noting in an equity action that “the purpose of the [1909 Copyright] act is not doubtful. The trial judge may allow such damages as he deems to be just . . .”).

The plaintiff choosing the path of equity had to contend with all the defenses at law in addition to specific equitable defenses such as laches. As the 1937 edition of Walker on Patents states: “Laches is a defense which is peculiar to courts of equity.” 3 Deller’s Walker § 575 at 1877. In delineating the defenses to

patent infringement claims, Walker specifically stated: “The twenty-eight defenses which may be made to actions at law for infringement of patents [Section 656 of this book], may all be made in suits in equity based on such causes, and the latter suits are also liable to two other defenses. These are non-jurisdiction of equity and laches.” *Id.* § 570 at 1870.⁵ Thus, it is plain that laches was a defense available only on the equity side of the court and not as a defense to actions at law.

The merger of law and equity a year later in 1938 did not abrogate the traditional rule that laches is applicable only to equitable relief. *See Petrella*, 134 S. Ct. at 1973–74 (“Both before and after the merger of law and equity in 1938, this Court has cautioned against invoking laches to bar legal relief.”). The Federal Rules of Civil Procedure merely merged the *procedures* of the legal and equitable Federal courts, but did not change the substantive differences between legal and equitable remedies. *See Grupo Mexicano de Desarrollo S.A. v. Alliance Bond Fund, Inc.*, 527 U.S. 308, 318–19 (1999); *Stainback v. Mo Hock Ke Lok Po*, 336 U.S. 368, 382 n.26 (1949); 4 CHARLES ALAN WRIGHT & ARTHUR R. MILLER,

⁵ *Aukerman* cited only to Section 880B of Deller’s Walker, which appears under the title “Pleading, Practice and Forms.” 960 F.2d at 1029 n.6 (citing 4 Deller’s Walker § 880B at 2658). As indicated elsewhere in the treatise under the discussion of the substantive law, a plaintiff is only chargeable with laches in an action in equity, not at law. 3 Deller’s Walker § 575 at 1877. Section 880B of Walker does not support the proposition that an action for infringement damages at law can be barred by the doctrine of laches but merely sets out the procedure and elements of the defense where it is available, *i.e.*, in equity. 4 Deller’s Walker § 880B at 2658.

FEDERAL PRACTICE AND PROCEDURE § 1043 (3d ed. 2002) (“[T]he substantive and remedial principles that applied prior to the advent of the federal rules are not changed.”); *see generally* Corrected Brief of *Amici Curiae* Law Professors in Support of Plaintiffs-Appellants, ECF No. 112 (“Law Professors Br.”) at 13–14.

Congress eventually abolished the accounting remedy in patent cases amid great criticism as to the cost, complexity and amount of time consumed by an accounting. *Aro Mfg. Co., Inc. v. Convertible Top Replacement Co., Inc.*, 377 U.S. 476, 505–06 (1964). That left the remedies of injunction, an equitable remedy tried to the court, and damages, a legal remedy tried to a jury. A similar procedural framework applied to copyright cases, in which a plaintiff could pursue the equitable remedies of injunctive relief and disgorgement of profits (which was never abolished), or a damage claim at law tried to a jury. *See Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340, 342 (1998).

In modern practice, the legal and equitable dichotomy still has relevance in determining whether a plaintiff has a right to jury trial and whether equitable principles apply to limit a remedy. As a leading treatise on remedies states:

Although the distinction between law and equity has been abolished in most judicial systems and in most ways, the classification as a remedy as legal or equitable remains important for at least two reasons of general significance First, jury trial is still, in many courts, granted or refused according to whether the remedy sought is legal or equitable. . . . A second reason for the

classification of remedy as legal or equitable lies in the tradition that equitable relief is discretionary.

1 Dobbs § 1.2 at 11–12.

Thus, in *Petrella*, the first step the Court took was to evaluate whether the specific remedies requested by the plaintiff were legal or equitable. 134 S. Ct. at 1967 n.1. After concluding that injunctions and an accounting of profits were equitable in nature, but that copyright damages were legal, the Court permitted the application of laches to injunctions and an accounting, but not to damages. *Id.* at 1978–79. The same analysis applies to patent damages, which constitute legal relief triable to a jury.

4. The Argument That Congress “Repeatedly Ratified” The Application Of Laches *Sub Silentio* In The 1952 Act And Later Amendments Is Wrong

First Quality (FQ Br. at 37–41) and supporting *amici* muddle the historical facts relating to law and equity and ignore the critical question, which is focusing on the nature of the specific remedy at issue. Instead, they argue that there was a widespread practice in patent law of using laches to bar claims for “damages” and that Congress intended *sub silentio* to continue this supposed practice in connection with damages claims brought under the Patent Act as it stands today. In doing so, they fail to address the critical fact that today’s patent damages are a legal remedy, not an equitable one, and that there was no well-established practice

of employing laches to bar legal claims for relief. Indeed, such a result would have been bizarre to the legislators of the time.

Tellingly, the vast majority of the cases cited by First Quality and its supporting *amici* support only the broad and unremarkable proposition that courts of *equity* had long applied laches in patent cases. Indeed, the Supreme Court decision in *Lane*, was just such a decision. *Petrella* holds that, when a federal limitations period applies, courts may not bar *legal relief* based on laches, which is an entirely different question. 134 S. Ct. at 1967–68.⁶ As detailed in an *amicus* brief filed by several law professors, the use of laches was certainly not “well-established” as a defense to claims for legal relief before the 1952 enactment of the Patent Act. *See* Law Professors Br. at 23–28. Indeed, as noted above, the 1937 edition of Walker on Patents stated that laches was peculiar to equity courts, such that it did not constitute a defense to a legal claim for damages at law. 3 Deller’s

⁶ There appears to be only one case where a law court applied laches to bar damages: *Banker v. Ford Motor Co.*, 3 F. Supp. 737, 742 (W.D. Pa. 1933) *aff’d sub nom.*, 69 F.2d 665 (3d Cir. 1934). *Banker* is of limited support because the Third Circuit reexamined the case a month later in *Enelow v. New York Life Ins. Co.*, holding that the merger of law and equity through 28 U.S.C. § 398 did not affect or change substantive law. 70 F.2d 728 (3d Cir. 1934), *rev’d on other grounds*, 293 U.S. 379, 382 (1935), *overruled on other grounds* by *Gulfstream Aerospace Corp. v. Mayacamas Corp.*, 485 U.S. 271 (1988). Moreover, *Petrella* expressly rejected the argument that the merger effected by the Rules permits laches to be applied to legal relief within a limitations period. *See* 134 S. Ct. at 1973.

Walker § 575 at 1877. In a decision decided the same year as the Patent Act, the Eighth Circuit stated:

[U]nder the statute, recovery of compensatory damages for infringement of a patent is not a matter of judicial grace but of legal right . . . [P]ersistence in the unauthorized use of a patented invention is a continuing trespass, and mere delay in seeking redress cannot destroy the right of the patentee to compensatory damages.

Middleton v. Wiley, 195 F.2d 844, 847 (8th Cir. 1952); *see also Thorpe v. William Filene's Sons Co.*, 40 F.2d 269, 269 (D. Mass. 1930) (“Strictly speaking, laches is recognized only in suits in equity It has no application to actions at law.”).

There simply was no well-established practice for Congress to approve, *sub silentio* or otherwise, in 1952. Indeed, the interrelationship and applicability of legal and equitable principles in post-merger civil actions was an important issue that the courts had to decide, and continued to decide, after 1952. *See, e.g., Dairy Queen, Inc. v. Wood*, 369 U.S. 469 (1962). *Petrella* is the latest such development.

Most importantly, the arguments of First Quality and *amici* ignore Supreme Court precedent that, as *Petrella* held, consistently “cautioned against invoking laches to bar legal relief.” 134 S. Ct. at 1973 (citing *Holmberg v. Armbrecht*, 327 U.S. 392, 395, 396 (1946); *Merck & Co. v. Reynolds*, 559 U.S. 633, 652 (2010)). In *United States v. Mack*, 295 U.S. 480, 489 (1935), the Supreme Court flatly

stated: “Laches within the term of the statute of limitations is no defense at law.”

That was, and still is, the law.

First Quality argues that the conditions necessary to assume Congressional ratification of a court ruling have been met but utterly fails to meet the requirements of that narrow doctrine. While Congress is presumed to know of decisions interpreting specific statutory provisions, there was no such decision here. *Shapiro v. United States*, 335 U.S. 1, 16 (1948). Moreover, for the presumption to apply there must be a uniformity of decisions in the lower courts or a Supreme Court decision interpreting a statute. *Metro. Stevedore Co. v. Rambo*, 515 U.S. 291, 299 (1995). The Supreme Court certainly does not think the applicability of laches to patent damages has been settled: “We have not had occasion to review the Federal Circuit’s position.” *Petrella*, 134 S. Ct. at 1974 n.15. Thus, Congress’s subsequent reenactment of Section 286 “tells us nothing about Congress’ view” as to the application of laches to claims for legal damages. *See Dep’t of Transp. v. Pub. Citizen*, 541 U.S. 752, 770 n.4 (2004); *see also* Law Professors Br. at 15–17.

5. First Quality’s New Argument That Laches Is A Species Of Unenforceability Is Misguided

First Quality also makes the new argument that reference to “unenforceability” as a defense to patent infringement in Section 282⁷ indicates a legislative intent to adopt the use of laches in damage actions at law. FQ Br. at 34–40. There are numerous flaws with this argument.

First, statutes should be given their plain meaning. *Lamie v. U.S. Trustee*, 540 U.S. 526, 534–36 (2004). Section 282 does not use the word “laches,” and reading “laches” into the word “unenforceability” is unjustified. “Laches” and “unenforceability” are distinct concepts and should not be conflated. When Congress intended to make laches available as a defense, it used the word “laches.” The Federal Rules at the time listed laches as an enumerated affirmative defense (*see* FED. R. CIV. P. 8(c)(1)), and the failure to use that word in Section 282 is telling. The Lanham Act also lists laches as a defense. *See* 15 U.S.C. § 1115(b)(9). Had Congress intended to include laches within the ambit of Section

⁷ First Quality also argues that the word “any” in Section 282 somehow indicates that all defenses are applicable to all cases, regardless of the nature of the case or the underlying facts. FQ Br. at 47. As discussed in Section A(3) above, whether an equitable defense is applicable depends on the nature of the action and whether the remedy sought is legal or equitable. There is no basis for believing that Congress intended to effect a substantive merger of law and equity simply because it used the word “any” in Section 282.

282, it would have done so using the word “laches” and not left the issue to speculation.⁸

The statutory history on the addition of the word “unenforceability” to the statute is scant. The Senate Committee report adding the term is silent. *See* S. REP. NO. 82-1979 (1952). One Senator described the amendment “as plac[ing] in the code this word which has been used in numerous court decisions under the section in question.” 98 CONG. REC. 9323 (1952) (statement of Sen. McCarran). It hardly seems likely that Senator McCarran, much less Congress as a whole, was referring to laches. Certainly, First Quality has not identified the supposed “numerous court decisions” in which “this word,” *i.e.* “unenforceability” was used.

A survey of cases from the time shows that the most prevalent use of “unenforceable” was in the context of patent misuse. *See, e.g., Glen Raven Knitting Mills v. Sanson Hosiery Mills*, 189 F.2d 845, 853 (4th Cir. 1951); *Stewart-Warner Corp. v. Lone Star Gas Co.*, 195 F.2d 645, 647 (5th Cir. 1952). Cases at the time also allege patents to be unenforceable due to general invalidity. *See, e.g., Bulldog Elec. Prods. Co. v. Cole Elec. Prods. Co.*, 148 F.2d 792, 795 (2d Cir. 1945); *Lane-Wells Co. v. M. O. Johnston Oil Field Serv. Corp.*, 181 F.2d 707, 710 (9th Cir. 1950).

⁸ Laches and other equitable doctrines apply to equitable relief being sought in patent cases by virtue of Section 283, which states that courts “may grant injunctions in accordance with the principles of equity.” 35 U.S.C. § 283.

First Quality boldly asserts that “[c]ourts have long recognized that ‘unenforceability defenses include the equitable defense of laches’” (FQ Br. at 34), but marshals only two cases in support. The sole Supreme Court case it cites, *United States v. New Orleans R. Co.*, 248 U.S. 507 (1919), is actually about *land patents*, which, of course, has nothing to do with this case. First Quality cites only a single district court decision using the words “unenforceable” and “laches” in the same sentence: *Banker v. Ford Motor Co.*, 3 F. Supp. 737, 742 (W.D. Pa. 1933) *aff’d sub nom.*, 69 F.2d 665 (3d Cir. 1934). These decisions, and other cited by *amici*, hardly show long recognition that “unenforceability” connoted “laches.”

First Quality and *Aukerman* also draw sustenance from the comment of Mr. Federico two years after the passage of the act in which he described in general terms the intent behind Section 282. *See, e.g.*, FQ Br. at 35. All agree that the provision was designed to codify existing law, not create new defenses, and Mr. Federico simply notes his view that Section 282 “would include the defenses such as . . . *equitable defenses* such as laches, estoppel and unclean hands.” P.J. Federico, *Commentary on the New Patent Act, in* Title 35, UNITED STATES CODE ANNOTATED (West 1954), *reprinted in* 75 J. PAT. & TRADEMARK OFF. SOC’Y 161, 215 (1993) (emphasis added). As discussed in SCA’s opening brief, Mr. Federico’s views are not the sort of legislative history which is accepted by the Supreme Court today as a tool of construction. *Bruesewitz v. Wyeth LLC*, 131 S.

Ct. 1068, 1081–82 (2011); *see also Heino v. Shinseki*, 683 F.3d 1372, 1379 n.7 (Fed. Cir. 2012).

Moreover, Mr. Federico’s comment is entirely consistent with SCA’s position. The continued viability of the *equitable defenses* to defeat claims for equitable relief is not in doubt. The question here is whether this snippet from Mr. Federico’s commentary supports a radical departure from the law/equity tradition of the time and the engrafting of a laches overlay on top of Section 286, the statute of limitations which had been in place for over 50 years. No such change was intended. The legislative history makes clear that the change in language in Section 282 did “not materially change[] the substance.” H.R. REP. NO. 82-1923, at 10 (1952). A far more compelling record would be necessary to upset the general rule stated by the Supreme Court in *Petrella* that laches is inapplicable when Congress has provided a limitations period.

6. A Reasonable Royalty Is Not Equitable Relief

In an effort to distinguish patent damages from copyright damages, First Quality contends that a reasonable royalty in patent cases is an equitable remedy, implying that if the remedy is equitable, then laches can be used to bar the remedy. FQ Br. at 47–50. This is plainly incorrect. A patentee in an action at law is entitled to collect its damages, *i.e.*, injury to itself. 35 U.S.C. § 284. That compensation can be no less than a reasonable royalty (*id.*)—what the parties

would have negotiated in an arms-length transaction had the infringement not occurred. *See Versata Software, Inc. v. SAP Am., Inc.*, 717 F.3d 1255, 1267 (Fed. Cir. 2013) *cert. denied*, 134 S. Ct. 1013 (2014). A reasonable royalty is not an equitable remedy but a measure of damages. *See, e.g., Aro*, 377 U.S. at 505 (“[Section 284] allows the award of a reasonable royalty, or of any other recovery, only if such amount constitutes ‘damages’ for the infringement.”). Indeed, the reasonable royalty cannot be equitable because it is presented as a question for the jury, not the court, to determine.⁹

First Quality tries to leave the impression that reasonable royalty damages first appeared as an equitable remedy in 1915 in *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915), and was later codified only into the equity damages statute (R.S. § 4921) in the 1940s. FQ Br. at 46–50. However, use of a royalty as a measure of damages at law, and specifically a reasonable royalty, dates back to the late 1800s. In *Tilghman*, 125 U.S. at 143, the Court made it clear that a royalty was the common measure of actual damages for infringement of a patent in an action at law:

In an action at law for the infringement of a patent, the plaintiff can recover a verdict for only the actual damages

⁹ The principle that damages are legal in nature has been applied even to statutory damages, which are granted in lieu of actual damages. *Feltner*, 523 U.S. at 346–47. Here, the Patent Act simply provides a rule of decision as to how to calculate damages.

which he has sustained; and the amount of such royalties or license fees as he has been accustomed to receive from third persons for the use of the invention . . . is generally, though not always, taken as the measure of his damages.

Tilghman addressed what today would be called an established royalty. The concept was then generalized into a “reasonable royalty” in a pair of Ninth Circuit cases which held that, in the absence of an established royalty (and in the absence of the patentee’s lost profits), a proper “measure of damages was such sum as, under all the circumstances, would have been a reasonable royalty for the defendant to have paid. This amount it was the province of the jury to determine.” *Hunt Bros. Fruit-Packing Co. v. Cassidy*, 64 F. 585, 587 (9th Cir. 1894). In the follow-on case, Circuit Judge McKenna conducted a detailed survey of the law on damages and concluded that “to make [a reasonable royalty] the measure of plaintiff’s loss is as consistent as to make an established royalty a measure of loss.” *Cassidy v. Hunt*, 75 F. 1012, 1017 (N.D. Ca. 1896). In *Dowagiac*, which First Quality cited but effectively ignored for this point, the Court commented favorably on the court’s analysis in the companion *Hunt* cases and concluded that “[a]nd in many cases in the order Federal courts the damages have been assessed upon proof of a reasonable royalty.” 235 U.S. at 649. First Quality neglects to mention that the eight cases *Dowagiac* cites to say “it was permissible to show the value by proving what would have been a reasonable royalty” were all cases that approved

of using a reasonable royalty as a measure of *legal* damages. *Id.* at 648–50.¹⁰ It is plain a reasonable royalty constitutes legal relief within the meaning of *Petrella*.

B. There Is No Basis For Applying Laches To Bar An Entire Infringement Suit For Damages Or SCA’s Damages Claim

Under *Petrella*, there is no basis for applying laches to bar patent infringement damages because the Patent Act has its own limitations period. With respect to equitable relief, *Petrella* also controls, and a court may consider delay in its analysis of the appropriate remedy at the remedial stage. 134 S. Ct. at 1978–79. *Petrella* admonished the lower courts to focus carefully on whether delay has truly prejudiced the infringer, and the *Aukerman* shifting presumptions, which were used in this case to bar all relief at the summary judgment stage, are inconsistent with that flexible approach. With respect to the request by First Quality and various *amici* to extend laches to bar all post-suit relief (*see, e.g.*, FQ Br. at 50–61), there is simply no support in *Petrella* or elsewhere for expanding the laches doctrine.

1. Post-Suit Damages Are Not Barred By Laches

Even when laches is an available defense, the bar applies only to pre-suit damages. The Supreme Court previously affirmed the distinction between laches and equitable estoppel with respect to trademark infringement, holding that while

¹⁰ *See, e.g., Suffolk Co. v. Hayden*, 70 U.S. 315, 320 (1865) (approving of a reasonable royalty—“the loss to the patentee or owner, by the piracy, instead of the purchase of the use of the invention”—as a measure of damages in an action at law).

estoppel may bar an entire suit, laches is available to bar only pre-suit damages. *See Menendez v. Holt*, 128 U.S. 514, 523–24 (1888); *see also McLean v. Fleming*, 96 U.S. 245, 257 (1877). *Aukerman* took the same approach, holding that “laches bars relief on a patentee’s claim only with respect to damages accrued prior to suit.” 960 F.2d at 1040–41 (citing *Leinoff v. Louis Milona & Sons, Inc.*, 726 F.2d 734, 741 (Fed. Cir. 1984) *overruled by Aukerman*, 960 F.2d at 1038–39).

The primary case cited by First Quality and *amici* as supporting an entire bar to infringement suits—*Lane & Bodley Co. v. Locke*, 150 U.S. 193 (1893)—does not justify such a departure.¹¹ *Lane* was actually a suit in equity and turned on equitable estoppel, not laches. *Id.* at 201. The decision did not address the availability of post-suit damages. There was no suggestion in *Lane* that the plaintiff would be barred from obtaining pre-suit damages at law, let alone post-suit damages. In fact, the lower court decision in *Lane* discusses the defendants’ request to dismiss the complaint and relegate the plaintiff to its remedies at law, which would have included the recovery of even pre-suit damages. *Locke v. Lane & Bodley Co.*, 35 F. 289, 294 (C.C.S.D. Ohio 1888) *rev’d sub nom. Lane & Bodley Co. v. Locke*, 150 U.S. 193 (1893). Even if *Lane* were seen as a laches case—and

¹¹ First Quality’s discussion of pre-1952 cases in equity (FQ Br. at 54–55) is irrelevant for the reasons discussed in Section A herein. And, *Petrella* shows that First Quality’s reliance on trademark actions and the Title VII action in *Nat’l Railroad Passenger Corp. v. Morgan*, 536 U.S. 101 (2002) (FQ Br. at 55–56) again misses the mark. 134 S. Ct. at 1970 n.7.

it really sounds in estoppel—that case would provide no support for the proposition that laches bars patent damages claims, before or after suit.

2. The District Court Erred In Granting Summary Judgment Against SCA

One of the lessons of *Petrella* is that when equity is at stake, the court should carefully consider reliance and whether relief should be limited, rather than barred. 134 S. Ct. at 1973. The *Aukerman* presumptions are not so nuanced. In an effort to replace the bright line rule of Section 286, this Court’s jurisprudence has set up other bright line rules in the form of presumptions that do not serve equity and are inconsistent with the flexible *Petrella* approach.

Here, SCA’s conduct was laudable, yet it stands out of court, impaled on the *Aukerman* presumptions and the refusal to balance SCA’s good faith in taking its own patent into reexamination against the questionable claim of First Quality’s reliance. SCA did not sit idly by and wait for First Quality’s damages to accrue so that it could recover the largest award possible. Instead, when presented with First Quality’s challenge to the validity of SCA’s patent (A1156; A1158–A1160), SCA took the reasonable and prudent action of filing a request for reexamination of the patent in view of the art raised by First Quality. A1174–A1175. After undergoing almost three years of reexamination, the PTO issued a reexamination certificate confirming all original claims of SCA’s patent and granting new claims. A1174–A1175. SCA then conducted a thorough examination of First Quality’s products to

determine whether it could bring a claim against First Quality, which it did two years and four months after conclusion of the reexamination proceedings. A0041 at ECF No. 1. At the time that First Quality filed for summary judgment, SCA had claims for infringement pending with respect to both original patent claims and new claims granted on reexamination. *See* A0346, A0382, and A0411.

SCA was entitled at the summary judgment stage to the inference that First Quality would simply have continued infringing due to its belief in invalidity and that its actions were part of its effort to become the market leader in private label adult incontinence products. *Wanlass v. Fedders Corp.*, 145 F.3d 1461, 1463 (Fed. Cir. 1998) (citing *SRI Int'l v. Matsushita Elec. Corp.*, 775 F.2d 1107, 1116 (Fed. Cir. 1985) (in banc)). Indeed, a First Quality witness testified that he simply “never thought of [SCA’s patent] again” after First Quality sent the letter charging invalidity. A1171:19–A1172:7 (deposition of Babak Damaghi, co-owner of First Quality). Instead, on the strength of the *Aukerman* presumptions, the district court held as a matter of law that First Quality was prejudiced. A0021. The result was a complete bar to pre-suit damages, a result which *Petrella* would not countenance. In *Petrella*, even the accounting was subject to adjustment after trial. 134 S. Ct. at 1978–79. *Aukerman* and its shifting presumptions are inconsistent with fairness and *Petrella*.

SCA's delay in filing suit resulted in SCA losing the valuable right to sue for damages prior to the six-year period. That is the legal penalty prescribed by Congress, and it is enough. No further penalty should be assessed in the name of equity, let alone before SCA has had its day in court.

III. CONCLUSION

For the foregoing reasons, SCA respectfully requests that the Court overrule *Aukerman* and reverse the district court's grant of summary judgment of laches and equitable estoppel.

Respectfully submitted,

Date: May 15, 2015

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**United States Court of Appeals
for the Federal Circuit**

SCA Hygiene Products v. First Quality Baby Products, No. 2013-1564

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May 15, 2015

/s/ Elissa Matias
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