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PATENTS

Equitable Estoppel: What You Need to Know to Protect Yourself

BY ANDREW D. SKALE, ERIC J. EASTHAM, AND
RICHARD MAIDMAN

The Supreme Court held earlier this year in *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*, 137 S. Ct. 954, 121 U.S.P.Q.2d 1873 (2017), that a defendant accused of patent infringement cannot invoke the equitable defense of laches to bar recovery of damages when the alleged infringement occurred within the six-year statute of limitations applicable to patent damages actions. While the *SCA Hygiene* decision took away a potentially case-dispositive defense from alleged patent infringers, it did not address the less-frequently-used, but even more powerful defense of equitable estoppel. *Id.* at 959 n.2 (“Nor do we address

the Federal Circuit’s reversal of the District Court’s equitable estoppel holding.”).

This article discusses what patentees and accused infringers need to know about this important defense, and strategies that can help prevent a successful equitable estoppel defense (for patentees) or preserve and substantiate the defense (for accused infringers). Failure to consider the defense can be crippling to a business—a patentee could be shut out from stopping an infringer, and an accused party can be subject to a patent infringement claim it otherwise could avoid.

For those unfamiliar with the equitable defense of laches, an alleged infringer could previously assert it as a defense, alleging, in essence, that the patent holder unreasonably delayed bringing suit. The equitable estoppel defense, on the other hand, is rooted in “misleading conduct” by the patentee. The basic test for equitable estoppel comes from the seminal Federal Circuit case *A.C. Aukerman Co. v. R.L. Chaides Construction Co.*, 960 F.2d 1020, 22 U.S.P.Q.2d 1321 (Fed. Cir. 1992), and requires that the defendant prove three elements: “(1) the patentee, through misleading conduct, led the alleged infringer to reasonably believe that the patentee did not intend to enforce its patent against the infringer; (2) the alleged infringer relied on that conduct; and (3) due to its reliance, the alleged infringer would be materially prejudiced if the patentee were permitted to proceed with its charge of infringement. Misleading ‘conduct’ may include specific statements, action, inaction, or silence when there was an obligation to speak.”

*Andrew D. Skale is a member in Mintz Levin’s San Diego office. He was lead counsel in the seminal Federal Circuit case of *Aspex Eyewear v. Clariti Eyewear*, securing a dismissal based on equitable estoppel.*

Eric J. Eastham is an associate in the San Diego office. He has extensive experience in complex commercial litigation and intellectual-property litigation.

Richard Maidman is an associate in the Boston office. He has significant experience with patent infringement litigation matters.

Aspex Eyewear, Inc. v. Clariti Eyewear, Inc., 605 F.3d 1305, 1310, 94 U.S.P.Q.2d 1856 (Fed. Cir. 2010) (internal citations omitted) (citing *Aukerman*, 960 F.2d at 1028) (author Andrew Skale was lead counsel for Clariti). If these three elements are met, the court considering the equitable estoppel defense must take into account any other evidence or facts bearing on the equities. *Aspex Eyewear*, 605 F.3d at 1313 (citing *Aukerman*, 960 F.2d at 1043).

Demand Letter Correspondence Can Bear Strongly on an Equitable Estoppel Defense

A common precursor to a patent infringement suit is a demand letter sent by the patentee to an accused infringer. The patentee should be attuned to equitable estoppel considerations when drafting the demand letter and subsequent correspondence. Alleged infringers should also keep this defense in mind when responding to demand letters.

In *Aspex Eyewear*, the Federal Circuit provided guidance on drafting a demand letter and engaging in subsequent correspondence in a manner aimed to avoid equitable estoppel. The patentee, Aspex, accused the defendant, Clariti, of infringing numerous patents in initial demand letters. In the letters, Aspex made demands on Clariti for information including the source of the allegedly infringing goods and sales figures. *Id.* at 1308-09. Clariti responded by asking for materials, including file histories, to assist in evaluating Aspex's infringement allegations. *Id.* at 1309. Aspex responded with some of the requested information, and reiterated its request for source and sales data; however, the response only mentioned certain of the patents specified in the demand letters—it did not mention U.S. Patent No. 6,109,747, which was identified in Aspex's original demand correspondence and would be the patent Aspex eventually sued Clariti for infringing, years later. *Id.* Clariti then responded stating it did not believe any of its products infringed the referenced patents. *Id.* This correspondence occurred over the span of three months.

Following that exchange, Aspex remained silent for three years, having no contact with Clariti, until Aspex sent another demand letter alleging infringement of the '747 patent. *Id.* The parties exchanged additional letters, and Aspex finally filed suit seven months after sending the new demand letter. *Id.* The district court granted summary judgment for Clariti, dismissing the case on equitable estoppel grounds. *Id.* at 1309. Clariti established the elements of equitable estoppel, and Aspex failed to show that other factors that may impact the equities, such as willful infringement by the accused party, prevented application of the defense. *Id.* at 1313-14. The Federal Circuit affirmed the district court's grant of summary judgment for Clariti, holding that Aspex was equitably estopped from suing for infringement of the '747 patent. *Id.* at 1316.

Lessons for Patentees and Accused Infringers

Both patentees and accused infringers should heed the guidance of *Aspex Eyewear* when crafting a litigation strategy, as the equitable estoppel defense has gained more prominence following *SCA Hygiene*.

Patentees

Patentees should be cognizant of the equitable estoppel defense, and make sure to avoid allowing it to at-

tach. That is because if equitable estoppel applies, it is a complete defense—the patent claim is dismissed in its entirety, with prejudice, which may leave the accused infringer with an implied license to practice the patent. (“An implied license may arise by equitable estoppel, acquiescence, conduct, or legal estoppel.” See *Winbond Elecs. Corp. v. ITC*, 262 F.3d 1363, 1374, 60 U.S.P.Q.2d 1029 (Fed. Cir. 2001) (citing *Wang Labs., Inc. v. Mitsubishi Elecs. Am., Inc.*, 103 F.3d 1571, 1580, 41 U.S.P.Q.2d 1263 (Fed. Cir. 1997)), *opinion corrected*, 275 F.3d 1344 (Fed. Cir. 2001)). The accused infringer is thus free to make, use, sell, offer to sell, and/or import its infringing product without restriction and without having to pay a royalty. Accordingly, failure to consider the defense of equitable estoppel can be crippling to a business.

When sending a demand letter, patentees need to carefully consider and decide if the infringement is presently worth suing over, or whether they are better off waiting until the economics better justify the cost of litigation. Having an advance strategy can help patentees better insulate themselves from the beginnings of an equitable estoppel defense during the exchange of demand letters.

For example, when a patentee makes a demand upon an accused infringer that does not produce a resolution or result in a lawsuit being filed, the patentee should be careful about remaining silent after the accused infringer responds by denying the allegations. If the patentee simply sets the file aside, remaining silent in the face of the accused's denial, equitable estoppel becomes a concern. Instead, it is better for the patentee to respond by noting that it disagrees with the denial and that the accused infringer continues to infringe, but the patentee needs more information to better assess whether it is economically feasible to sue at this juncture. *Id.* at 1312 (citing *Aukerman*, 960 F.2d at 1044) (differentiating *Aukerman*, where the accused admitted that a patent infringement suit would be worth “at most \$200 to \$300 a year,” from the present case, where neither party argued that low sales volume played a factor in Aspex dropping the '747 patent from its early correspondence). For instance, the patentee can request detailed sales or revenue figures concerning the accused product. If the accused infringer does not respond or fails to provide the requested information, the patentee is in a much better position, as it leaves the accused with the sense that the patentee still believes the accused infringes its patent. Sending such a letter helps prevent the accused from claiming that the patentee acquiesced to the infringement, and, instead, conveys that the patentee remains concerned about the infringement and is just waiting for the right time to sue. For the patentee, make sure that its silence and/or conduct does not leave the impression that a claim of infringement has been dropped or abandoned.

In addition to silence or affirmative statements, patentees also should be aware that certain factual circumstances, such as the below, may militate in favor of an equitable estoppel finding. These include:

- Suing certain alleged infringers but not others;
- Bringing a lawsuit alleging other claims against an accused, such as trade dress infringement or dilution, but not patent infringement. This could lead to the appearance that the patent claims have been abandoned; and

- Ignoring a settlement offer concerning non-patent litigation over a potentially-infringing product and bringing a patent infringement suit for significant damages years later.

Deckers Outdoor Corp. v. Romeo & Juliette, Inc., No. 2:15-cv-02812-ODW (PLAx), slip op. at 5-7, 2017 BL 202836 (C.D. Cal. June 13, 2017).

Accordingly, patentees that are unwilling or unable to file a lawsuit after a demand has been ignored or not complied with should take precautions to help ensure that the accused cannot reasonably claim that the patentee's conduct showed that it was unwilling to enforce its patent.

Accused Infringers

Conversely, equitable estoppel can be an extremely powerful defense for accused infringers. It is a complete defense—if the defense prevails, the patent claim is dismissed with prejudice.

When an accused infringer receives a demand letter, it should immediately write a memorandum to its files describing receipt of the letter. Whether or not the accused infringer sends a response, if a significant period of time passes with no contact from the patentee, the accused infringer should write another memorandum to its file stating the amount of time that passed and describing its reasonable belief that the patentee did not intend to enforce its patent. The memorandum should also mention that the accused infringer was relying on that belief to make economic investments or changes. Keeping good records is paramount and can prove invaluable if a lawsuit is filed years later. Contemporaneous records stating the accused infringer's beliefs are much more credible and persuasive than statements given years later, after a lawsuit has been filed.

It can also be helpful for the accused infringer to have the last word following receipt of a demand letter. If the accused infringer sends a letter maintaining its position

of non-infringement, and the patentee never responds, it can create the appearance that the patentee has acquiesced to the alleged infringer's position. Again, adding a simple memorandum to the file, as outlined above, could prove invaluable when trying to present an equitable estoppel defense.

In addition, the more the accused can do to show material prejudice if the patentee later files a lawsuit helps. For example, tying the patentee's inaction to a change in the accused's economic position, or to significant investments made by the accused that would not have happened without the patentee's inaction, is strong evidence of prejudice.

If the patentee maintains that filing a lawsuit is not economically feasible, the accused can respond, again reiterating that the accused product does not infringe. The accused should also do what it can to demonstrate its belief that the patentee's inaction/conduct shows that the patentee is not willing to enforce its patent; that the accused is relying on that inaction/conduct; and that the accused will be engaging in actions that would materially prejudice it if the patentee sues some time later. Creating a strong, contemporaneous record will help demonstrate to a future court that if there is a subsequent suit, equitable estoppel should apply.

Conclusion

Patentees and accused infringers should be attuned to how their actions, or inactions, can affect an equitable estoppel defense. Because this defense can eliminate a claim of patent infringement altogether, it is important for both patentees and the accused to be cognizant of equitable estoppel when sending and responding to demand letters. Keeping this defense in mind can help a patentee avoid its case from being dismissed, or give an accused a better chance of the defense applying.