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'Aspex Eyewear': Warning on Dismissal Of Patent Cases on Estoppel Grounds

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In May, the U.S. Court of Appeals for the Federal Circuit decided *Aspex Eyewear Inc. v. Clariti Eyewear Inc*.[1] The decision serves as a warning to patent and other intellectual property owners and their counsel that once one contacts a putative infringer, there must be follow-through in some fashion or the IP owner risks losing all rights with respect to that infringer. The *Aspex Eyewear* decision affirmed (over the dissent of one circuit judge) the dismissal on summary judgment of a patent infringement case by then-District Judge Denny Chin of the Southern District of New York based on the affirmative defense of equitable estoppel.

The estoppel was based on the patent owner corresponding with the defendant and claiming infringement, and then delaying suit for over three years. Although the original demand letter was not as assertive as is often sent in such cases, and although the prejudice was relatively light, there was enough to sustain an estoppel defense, which completely barred the patent claims.

Equitable Estoppel

The three elements of equitable estoppel were set forth by the Federal Circuit in the seminal case of *A.C. Auckerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1028 (Fed. Cir. 1992) as follows:

a. The patentee, through misleading conduct, leads the alleged infringer to reasonably infer that the patentee does not intend to enforce its patent against the alleged infringer. "Conduct" may include specific statements, action, inaction, or silence where there was an obligation to speak.

b. The alleged infringer relies on that conduct.

c. Due to its reliance, the alleged infringer will be materially prejudiced if the patentee is allowed to proceed with its claim.

Estoppel is often raised together with the defense of laches, but there are important differences between them. Laches merely requires showing unreasonable delay and prejudice. Laches looks to the applicable statute of limitation (in patent cases, six years) as a guide. Until that time, there is a rebuttable presumption of no unreasonable delay or prejudice, afterward there is a rebuttable presumption that the defense of laches has been made out.

Equitable estoppel is harder to prove, requiring proof of the three above elements. Unlike laches, there is no presumption raised by passage of less or more time than the statute of limitations. (The time lag in *Aspex Eyewear* was only a little longer than three years.) Most significantly, estoppel is a more powerful defense than laches. Laches only precludes damages from pre-suit infringements; an injunction and damages which have accrued post-filing may still be had by the patent owner. Equitable estoppel, on the other hand, completely relieves the defendant of liability, barring prospective as well as retrospective relief.

> The obvious lesson from 'Aspex Eyewear' is a perennial one: don't threaten suit or accuse infringement unless you are willing to follow through, and do so diligently.

The classic example of equitable estoppel is where a patent owner asserts that there is infringement and threatens to bring suit, but then sits on its rights for an extended period of time. Its silence is construed as a signal that the patent owner is not interested in pursuing a lawsuit. In this broad sense, *Aspex Eyewear* is typical of estoppel cases. However, an examination of the facts shows that the Federal Circuit has expanded the boundaries of that doctrine and courts will now more likely find estoppel. The point is best appreciated when one reads the dissent, which charges that the majority opinion "expands the doctrine of equitable estoppel beyond its own precedent." 605 F.3d at 1316 (dissent). Of particular note is the fact that the opinion affirmed a dismissal on equitable estoppel grounds at the summary judgment stage—where all reasonable inferences are to be drawn against the moving party.

Misleading Silence

The facts leading up to the estoppel in *Aspex Eyewear* are fairly standard. The patents at issue related to magnetically attachable auxiliary eyeglass lenses—such as sunshades. The parties were not strangers—Aspex had previously sued Clariti in 1999, and that case was settled by entry of a consent permanent injunction that same year.

Four years later, in 2003, Clariti reintroduced a line of magnetic sunglasses. Aspex's counsel wrote to Clariti identifying four patents, including one of the two patents in suit. A few days later, the same counsel sent a second, almost identical letter which identified a fifth patent, which was to become the second patent-in-suit. Thus while a total of five patents had been identified in the letters, only two were ultimately sued upon.

The letters stated that "some" of Clariti's products "may be covered" by the claims of the identified patents; requested confirmation that Clariti would cease selling any items in violation of Aspex's patent rights; and requested information as to source and quantity sold. The letter added, "[i]t has been our policy and continues to be our intention to fully and vigorously enforce our rights under the exclusive license to these magnetic frame attachments." It closed by asserting, "[w]e look forward to your immediate reply to this very urgent and serious matter."

About a week later, Clariti responded requesting specific information and documents to help it understand Aspex's rights, and further requested that Aspex specify which of the many claims in the patents asserted in its letters it believed had been infringed. Two months later Aspex responded by providing various

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documents and identifying a number of patent claims it maintained had been infringed—but, notably, made no mention of either of the two patents on which it ultimately sued. A month later, Clariti responded that it had reviewed the matter and did not believe it infringed. That was in June 2003.

For over three years nothing happened, until August 2006, when Aspex again wrote to Clariti and identified one of the patents in suit. After several additional exchanges of letters, Aspex filed suit in March 2007.

Clariti moved to dismiss the claims on grounds of equitable estoppel. It claimed that the response from Aspex to its request for further information (which omitted any mention of the two patents later sued upon) was an implicit message that these patents would not be asserted. The motion was granted by Judge Chin, then U.S. District Judge.

In sustaining Judge Chin's ruling, the Federal Circuit rejected various arguments by Aspex as to why its letter exchange was not an estoppel:

- Although the letters did not identify specific products sold by Clariti—they merely mentioned "some of the products sold by you"—given the prior history and context of the relationship that was enough. "[F]ailure to specify products is [not] a critical condition, when the accused infringer is apprised of the patentee's concern."
- The chain of correspondence should be "viewed…as a whole." In that light, it was reasonably viewed by Clariti as a threat of an infringement suit, not mitigated by the words "may" and "some."
- It was not required that Clariti supply Aspex with an alternative design it considered non-infringing, as had been the case in a prior decision (relied upon by Judge Chin).
- Aspex argued that many cease-and-desist letters include a "drop-dead" deadline after which suit will be brought, but its letter lacked such a deadline date. The Federal Circuit ruled that a deadline is not a requirement. Each case is judged on its own, and while a deadline might weigh in favor of finding estoppel, it is not required.

The Federal Circuit was quite deferential to Judge Chin in his finding of estoppel. Indeed, it noted that such rulings are reviewed for an abuse of discretion. Since "equitable relief is not a matter of precise formula," Judge Chin's weighing of the equities was left undisturbed.

The dissent complained about this very point. It noted that in *Auckerman*, the Federal Circuit had ruled that the full summary judgment standard applies—not only must the non-moving party get all benefit of the doubt as to dispute facts, but all inferences from undisputed facts must be in favor of the non-moving party. In *Aspex Eyewear*, there was no dispute about the correspondence timeline between the parties. But Aspex's letters, while clearly threatening, were not as stark and demanding as those in other cases. "In this case, one could find that the letters from Aspex were simply requests for more information to facilitate an informed decision amongst the options of licensing, litigation, or abandonment of the infringement claim." 605 F.3d at 1317.

Although the majority did not address this point directly, it seems that they would argue that this is not a matter of inference—which usually means deducing one fact from another. Rather, this is a matter of characterizing the undisputed exchange of correspondence. "The district court viewed the correspondence as a whole, and concluded that it was reasonably viewed by Clariti as a threat of an infringement suit…" Id. at 1311.

Reasonable Reliance

The Federal Circuit also rejected Aspex's argument that Clariti did not reasonably rely upon its silence because the level of its sales of the infringing product was relatively small at the time (around $45,000 in 2003) which only greatly increased later (to about $500,000 per year in 2006). The Federal Circuit had sustained a similar argument in *A.C. Auckerman*, where the accused infringer's sales were de minimis and hence not worth a lawsuit. But here there was no evidence that the lower level of sales had anything to do with the correspondence trail—including, significantly, the omission of the two sued-upon patents from the continuing correspondence. In fact, Aspex continued for a time to make assertions about other patents, even when it had been apprised about the low level of sales. There was thus no reason for Clariti to believe that Aspex was withholding suit merely based on the low-level of sales.

Economic Prejudice

"Prejudice may be shown by a change of economic position flowing from actions taken or not taken by the patentee." As noted, Clariti greatly expanded its sales during the three years of silence by Aspex, growing from $45,000 to $500,000 of yearly sales of the accused product. Clariti's president submitted a declaration in which she stated that she had understood that Aspex was dropping claims of infringement of certain patents, and that, had Aspex filed suit in 2003, Clariti would likely simply have dropped those products from its line, since they were then new, as indeed Clariti had agreed to a permanent injunction in 1999. Instead, Clariti continued and expanded its sale of these items. That was sufficient to constitute prejudice.

In dissent, Judge Randall Rader noted that Clariti is merely a marketing company, not a manufacturer. As such, its investment in any one product line is minimal—it did not need to invest in, say, a new factory to produce particular products. Judge Rader's argument had been pressed below before Judge Chin. In rejecting it, he noted that "Clariti has presented evidence showing that it invested monies in marketing AirMag and obtaining trademark protection. It increased its sales force and devoted a substantial percentage of its promotional resources to the products" Dist. Ct. Opinion, 2008 US Dist. LEXIS 99433, 20 (S.D.N.Y. 2008). Without going into this level of detail, the Federal Circuit majority opinion agreed: even a relatively minor investment of an expanded marketing effort and expanded sales will constitute prejudice sufficient to evoke the doctrine of equitable estoppel.

Lessons to Be Learned

There are at least three lessons we believe practitioners should take away from this case:

Don't Be a Paper (or a Slow) Tiger! The obvious lesson to be learned from the *Aspex Eyewear* case is a perennial one: don't threaten suit or accuse infringement unless you are willing to follow through, and do so diligently. It is not clear why Aspex waited over three years to restart its correspondence about the alleged infringements. Whatever the reason, that lack of diligence proved fatal to its claim.

Don't Send Mixed Messages. Aspex tried hard and failed to convince two courts that its letters in 2003 were "mere invitations for a prompt and reasonable resolution," akin to a request to license. While parts of the correspondence indeed seem to set a soft tone, other parts were harsh and demanding. While ambiguity about intentions can be a useful tool, there is a danger that when a court "views the correspondence as a whole," it will view it in a different light than intended.

Communicate Reasons for Delays. The law does recognize legitimate reasons for not suing an infringer right away. One example discussed above is where sales are currently minimal. Another is where the patent owner is too heavily involved with and burdened by other pending infringement suits. But while these may be legitimate reasons for delaying suit, an accused infringer may be ignorant of these facts.

If a patent owner intends to rely on them, they should be communicated explicitly to the infringer. "We believe your product is infringing, but in view of the very low level of sales, we do not believe it economically worthwhile to pursue the expense of litigation at this time. We will continue to monitor your activities, and reserve the right to bring suit in the future should the situation change." Such a communication would make it much harder for an infringer to claim "reasonable reliance" when it raises the issue of estoppel.

Conclusion

IP owners often seek to enforce their rights through letter-writing—which can be far more cost-effective than litigation. But IP owners and their counsel should realize that once enforcement efforts have commenced, they cannot simply be shelved for an extended period, only to be revisited when the IP owner seeks further enforcement. As the old maxim states, equity aids the diligent, not those who sleep on their rights.

1. 605 F.3d 1305 (Fed. Cir. 2010).