



PART IV: GENERAL

# Laches and Statutes of Limitation in Trade Secret and Trademark Cases

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## Laches and Statutes of Limitation in Trade Secret and Trademark Cases

### Trade Secrets

Both statute of limitations and laches apply in trade secret cases and provide a defendant opportunities to get cases dismissed, or at least to limit damages. The law varies widely depending upon the jurisdiction in which the action is pending. As discussed below, whether a state has adopted the UTSA will control the limitations period in which to bring an action for breach of trade secrets.

#### *Statute of Limitations*

The RESTATEMENT provided no independent statute of limitation provision for trade secret claims. Hence, States have applied their own statute of limitation provisions. *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288, 292 (9th Cir. 1969). Today, every state with a civil trade secrets act includes a statute of limitations. Unif. Trade Secrets Act 1-12, 14 U.L.A. 433-67 (1990). Only six deviate from the three year allowance in the UTSA. (ALA. CODE 8-27-5 (1993) (allowing two years); *Brown v. CitiCorp*, 1998 U.S. Dist. LEXIS 9273 (E. D. Ill. 1998); 756 ILL. COMP. STAT. 1065/7 (West 1993) (allowing five years); ME. REV. STAT. ANN. tit. 10, 1547 (allowing four years); MO. ANN. STAT. 417.461 (West 1999) (allowing five years); NEB. REV. STAT. 87-506 (1994) (allowing four years); OHIO REV. CODE ANN. 1333.66 (1998 Supp.) (allowing four years)). Seven states, Massachusetts, Michigan, New Jersey, Pennsylvania, Tennessee, Texas, and Wyoming do not have a civil trade secrets act and have only criminal statutes defining trade secrets. *Computer Associates Int'l, Inc. v. ALTAI, Inc.*, 832 F. Supp. 50 (E.D.N.Y. 1993); *Coastal Distrib. Co. v. NGK Spark Plug Co.*, 779 F.2d 1033 (5th Cir. 1986). The other states address trade secrets in civil statutes. 77 N.C.L. REV. 2149, *Is the North Carolina Trade Secrets Protection Act Itself a Secret, and is the Act Worth Protecting*, (1999), fn. 15.

While the issue of when a statute of limitations accrues may be a question of fact for the jury, it is also clear that, where the relevant facts

are undisputed, courts are not hesitant to grant summary judgment as a matter of law. *Adcor Indus., Inc. v. BEVCORP, LLC*, 411 F. Supp. 2d 778 (E.D. Ohio 2005). But, a valid statute of limitations defense can evaporate if not timely asserted. *Atkinson v. General Research of Electronics, Inc.*, 24 F. Supp. 2d 894, 895 (N.D. Ill. 1999) (failure to properly assert statute of limitations defenses constitutes waiver).

### The UTSA Rule

In states that have adopted the UTSA, Section 6 provides, “an action for misappropriation must be brought within *three* years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this section, “a continuing misappropriation constitutes a single claim.” Unif. Trade Secrets Act, §6, 14 U.L.A. 462 cmt. (1990). *In accord*, DEL. CODE ANN. tit. 6 §2006 (2004); TEX. REV. STAT. ANN. art. 5526, precursor to TEX. CIV. PRAC. & REM. CODE §16.003; KAN. STAT. ANN. §60-3325; COLO. REV. STAT. §7-74-107 (1998).

In New York, which has not adopted the UTSA, and where there is no statutory provision which specifically sets forth the statute of limitations for a cause of action alleging misappropriation of a trade secret, courts look to analogous statutory causes of action to find an appropriate limitations period. 10 ALB. L.J. SCI. & TECH. 1 *The Case For Adoption Of A Uniform Trade Secrets Act In New York*, 1999. The two most appropriate limitation periods are set forth in N.Y. C.P.L.R. 214(4), which provides that an action to recover damages for an “injury to property” be commenced within three years, and N.Y. C.P.L.R. 213(2), which provides that an action “upon a contractual obligation or liability, express or implied” must be commenced within six years. *Lemelson v. Carolina Enters.*, 541 F. Supp. 645 (S.D.N.Y. 1982); *Wilson v. Bristol-Myers Co.*, 61 A.D.2d 965 (1st Dep’t 1978).

### The UTSA’s Discovery Provision

Under the UTSA, the limitations period begins when plaintiff has actual or constructive notice of the facts giving rise to the claim. *See* CAL. CIV. CODE §3426 *et seq.*; MINN. STAT. §325C.06. If a person becomes aware of facts which would make a reasonably prudent person suspicious, he

or she has a duty to investigate further and is charged with knowledge of matters which would have been revealed by such an investigation. Thus, when there is reason to suspect that a trade secret has been misappropriated, and a reasonable investigation would produce facts sufficient to confirm this suspicion and justify bringing suit, the limitations period begins, even though plaintiff has not conducted such an investigation. *Read & Lundy, Inc. v. Wash. Trust Co.*, 840 A.2d 1099 (R.I. Super. 2004); OHIO REV. CODE ANN. §1333.66. On the other hand, if certain facts necessary to the claim are unavailable even to a reasonably diligent plaintiff, the limitations period is tolled until the facts do become available. There is constructive notice when a reasonably diligent plaintiff would have discovered the facts. *Hoffman-LaRoche v. Yoder*, 950 F. Supp. 1348 (S.D. Ohio 1997).

Once a plaintiff learns facts causing the statute of limitations to begin running with respect to one trade secret claim, it begins to run on all trade secret claims related to the same subject matter and arising from the same set of facts. *Intermedics, Inc. v. Ventritex, Inc.*, 822 F. Supp. 634, 657 (N.D. Cal. 1993); *Pilkington Bros., P.L.C. v. Guardian Indus. Corp.*, 230 U.S.P.Q. (BNA) 300 (E.D. Mich. 1986). Fraudulent concealment of the facts giving rise to a cause of action will toll the limitations period. *Alamar Biosciences, Inc. v. DIFCO Labs., Inc.*, 40 U.S.P.Q. (BNA) 1437 (1995); *Medtronic Vascular, Inc. v. Advanced Cardiovascular Systems, Inc.*, (D. Del. 2005). When a claim for trade secret misappropriation is plead as a counterclaim and arises out of the same facts as a plaintiff's claim, the statute of limitations is a bar to the defendant's affirmative claim only if the period has already run when the complaint is filed. The filing of the complaint suspends the statute during the pendency of the action, and the defendant may set up his counterclaim by appropriate pleading at any time. *B. Braun Medical, Inc. v. Rogers*, 163 Fed. Appx. 500 (9th Cir. Cal. 2006).

### **The Property View's Discovery Provision**

Other jurisdictions that have not adopted the UTSA apply a property view of trade secrets to determine the limitations period. Under the property view, each unauthorized use of a trade secret by the misappropriator is a separate claim, representing the continuing tort of misappropriating

the intellectual property of another, and the statute of limitations runs on each new act of misuse anew. *Underwater Storage*, 371 F.2d 950, 955 (D.C. Cir. 1966); *Harry Miller Corporation v. Mancuso Chemicals Limited*, 468 F. Supp. 2d 708 (E.D. Pa. 2006). Thus, each act of misappropriation gives rise to a *new* claim with its own statutory period. 19 BERKELEY TECH. L.J. 289, Intellectual Property: Trade Secret: Note: *Cadence v. Avant!*: the UTSA and California Trade Secret Law; *Underwater Storage*, 371 F.2d at 953. Unif. Trade Secrets Act §6 (amended 1985), 14 U.L.A. 437 (1990).

### *Laches*

Laches is an equitable doctrine applied to “prevent one who has not been diligent in asserting a known right from recovering at the expense of one who has been prejudiced by the delay.” *Winters v. Kiffmeyer*, 650 N.W.2d 167, 169 (Minn. 2002); *Wyeth v. National Biologics, Inc.*, 395 F.3d 827 (8th Cir. 2005). Application of the laches defense is left to the sound discretion of the court. *Adcor Indus.*, 411 F. Supp. 2d 778; *Philadelphia Extracting Co. v. Keystone Extracting Co.*, 176 Fed. 830, 831 (E.D. Pa. 1910); *Anaconda Co. v. Metric Tool & Die Co.*, 485 F. Supp. 410, 425–431 (E.D. Pa. 1980); *Sokol Crystal Prods., Inc. v. DSC Commc’ns Corp.*, 15 F.3d 1427, 1430 (7th Cir. 1994) (“the laches doctrine essentially requires that the plaintiff mitigate damages”).

Although “evidence of prejudice is not always essential to the application of laches, it is a circumstance of importance in determining whether a plaintiff’s delay was reasonable.” *Klapmeier v. Town of Center of Crow Wing County*, 346 N.W. 2d 133 (Minn. 1884). The prejudice must result from delay and if the party asserting laches would not have acted differently with earlier notice, laches does not apply. *Gasser Chair Co. v. Infanti Chair Mfg. Corp.*, 60 F.3d 770, 775 (Fed. Cir. 1995). Moreover, a defendant “whose prejudice is largely self-imposed may not prevail on the affirmative defense of laches.” *Hurst v. United States Postal Serv.*, 586 F.2d 1197, 1200 (8th Cir. 1978); *Thomas v. Echostar Satellite L.L.C.*, 2006 U.S. Dist. LEXIS 91748 (W.D.N.C. 2006) (granting defendant’s motion for summary judgment on the issue of laches where plaintiff failed both to identify any circumstance or excuse that would counter the presumption that his delays of more than eight years were unreasonably long, or to offer proof that puts the presumed facts of economic or evidentiary prejudice in issue).

Laches would also occur if the plaintiff knew of the wrongful use of the trade secrets and acquiesced in such use. *Davies v. Krasna*, 35 Cal. App. 3d 662 (1975), *Stutz Motorcar of Am., Inc. v. Reebok Int'l, Ltd.*, 909 F. Supp. 1353, 1360–1362 (C.D. Cal. 1995) (determining that the statute of limitations ran by reason of the defendant's widespread publicity for its "air pump" sneaker even though the defendant was no longer headquartered in areas where the extensive advertising was done).

## Trademark Claims

Trademark cases, including cases brought under the Lanham Act, have no statutory statute of limitations. Instead, the Courts generally apply the equitable affirmative defense of laches, looking to the most analogous state law statute of limitations to apply. There can be a large difference in how different Circuits have treated the laches defense, including what is the most analogous state law, what is the applicable statute of limitations and what are the applicable legal standards for applying laches.

Different circuits have reached different conclusions on what is the correct analogous state law. Generally, the Court must look at the length of delay, whether the defendant was prejudiced by the delay, and whether the period of delay was excusable for some reason. *Conopco, Inc. v. Campbell's Soup Co.*, 95 F.3d 187, 191 (2d Cir. 1996). Obviously, the question of timeliness in seeking relief is even more crucial when the plaintiff is seeking a preliminary injunction, although that is outside the scope of this discussion.

In *Wilson v. Garcia*, 471 U.S. 261, 266–7, 105 S. Ct. 1938, 85 L. Ed. 2d 254 (1985), the Supreme Court held: "When Congress has not established a time limitation for a federal cause of action, the settled practice has been to adopt a local time limitation as federal law if it is not inconsistent with federal law or policy to do so." The federal courts followed that policy of adopting state statute of limitations for federal claims that are analogous to or similar to or identical with state law claims. This is the approach taken in applying laches in trademark infringement cases.

Some Circuits have used the analogous limitations period as a justification for shifting the burden of proof for the defense of laches. In other words, if a case was filed *after* the limitations period on the analogous claim had expired, the burden is on the plaintiff to show why it would

not be equitable to apply laches. Contrarily, if the case was filed within the statute of limitations for analogous claims, the defendant would have the burden to show that laches applies to bar the claims. *University of Pittsburgh v. Champion Products, Inc.*, 686 F.2d 1040, 1045 (3d Cir. 1982). However, in *Tandy Corp v. Malone & Hyde*, 769 F.2d 362, 365 (6th Cir. 1985), the Sixth Circuit held that the statute of limitations presumption should be “strong and uneroded and should not merely serve as a basis for shifting the burden of proof.”

The basic rule in the Sixth Circuit is that absent some unusual circumstances, a complaint will not be dismissed for laches if filed before the limitations period has run and will be dismissed if filed after the limitations period has run. *Id.* There is a “strong presumption” that if a plaintiff’s complaint is filed within the analogous limitations period that the delay was reasonable. *Elvis Presley Entertainment, Inc. v. Elvisly Yours*, 936 F.2d 889, 894 (6th Cir. 1991). If the plaintiff has filed within the analogous state limitations period, the burden essentially shifts to the defendant to give “compelling reasons” to support its claim of laches. *Id.* You can almost conclude that the Sixth Circuit simply applies the analogous statute of limitations while calling it laches.

The Seventh Circuit has a slightly different rule. It looks to factors other than simply whether the statute of limitations has expired. *Hot Wax, Inc. v. Turtle Wax, Inc.*, 191 F.3d 813, 821 (7th Cir. 1999). These factors include both an unreasonable lack of diligence by the party against whom laches is being asserted, and prejudice arising from that same lack of diligence. The Ninth Circuit follows a similar rule, stating that, “[t]he presumption of laches is triggered if any part of a claim for wrongful conduct occurred beyond the limitations period.” *Jarrow Formulas, Inc. v. Nutrition Now, Inc.*, 304 F.3d 829 (9th Cir. 2002). In other words, the calculation of timeliness runs from the first offending act, and not from the most recent in a continuing series.

The party asserting laches must also demonstrate that prejudice resulted from the plaintiff’s delay. If they cannot do so, the court will generally not find that the plaintiff’s Lanham Act claim was barred by laches. *Carell v. Shubert Organization, Inc.*, 104 F. Supp. 236 (S.D.N.Y. 2000). The Court’s inquiry is fact specific and looks to the specific circumstances of each case.

An issue that arises, however, is what is the most analogous state law statute of limitations for a question of federal law such as trademark infringement. Courts often do not agree on what is the most analogous state statute, so you should investigate what is the most recent applicable ruling. Most courts have found that the state law for statute of limitations for fraud claims is most closely analogous. That can lead to different results, of course. In the Ninth Circuit, the California statute of limitations for fraud is three years. *Jarrow Formulas*, 304 F.3d at 838. In the Second Circuit, the Court may apply a state six-year fraud statute of limitations. *Conopco, Inc. v. Campbell's Soup Co.*, 95 F.3d 187, 191 (2d Cir. 1996). A court applying Oregon law may find that there is a two-year statute of limitations under that state's fraud laws. *Johannsen v. Brown*, 797 F. Supp. 835 (D.O. 1992).

The Second Circuit justified applying the state fraud limitation statutes because, “[a]s the language of the Act makes clear, there is an intimate relationship between fraud and injury under the Lanham Act.” *Conopco, Inc.*, *supra*, 95 F.3d at 191. In the Eleventh Circuit, however, a court applied the Georgia Uniform Deceptive Trade Practices Act limitations of four years, finding that the statute which provides a cause of action for likelihood of confusion as to source was most similar to the Lanham Act. *Kaso Industries, Inc. v. Component Hardware Group, Inc.*, 120 F.3d 1199, 1204 (11th Cir. 1997). The Third Circuit has found that the most analogous state law claims for the purpose of applying a statute of limitations to laches, for Lanham Act claim for trademark infringement, is state law governing deceptive trade practices. *Santana Products, Inc. v. Bobrick Washroom Equipment, Inc.*, 401 F.3d 123, 135 (3d Cir. 2005) (applying Pennsylvania law); *Island Insteel Sys., Inc. v. Waters*, 296 F.3d 200 (3d Cir. 2002) (applying Virgin Islands law).

In short, there is a significant variety among the circuits in how they approach the issue of laches in trademark infringement cases. Essentially, laches has been held to track, with or without additional requirements of proof, the applicable state law statute of limitations for the most similar or most analogous state law claim. However, different circuits have found that for different states, different statutes of limitations apply, which makes this a subject that requires specific investigation and research to determine the applicable standards in your circuit and in your case.

