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IP Alert: Merck v. Gilead: Fruit of the Rotten Tree?

Merck v. Gilead: Fruit of the Rotten Tree?

By Sarah A. Kagan

The U.S. Court of Appeals for the Federal Circuit affirmed in April the holding of the U.S. District Court for the Northern District of California that a patentee's unclean hands barred recovery of the $200 million in infringement damages awarded by a jury. Gilead Sciences, Inc. v. Merck & Co., Inc. (2016-2302, 2016-2615). Not surprisingly, patentee Merck is not willing to walk away from the damages award. On September 21, 2018, Merck filed a petition for a writ of certiorari to the United States Supreme Court, raising a legal question not clearly argued in the proceedings below. Merck asks the Court to consider whether it is proper to apply the equitable doctrine of unclean hands to curtail a legal remedy.[1]

The facts of the case make for a more absorbing narrative than most patent cases. [2] The two corporate entities (Merck and Gilead[3]) entered into a preliminary relationship to explore whether their technologies would suitably mesh. During the preliminary relationship, Gilead showed Merck its lead compound for treating hepatitis C virus (HCV) under agreements (a) generally not to disclose the lead compound (the nondisclosure agreement) and (b) particularly not to disclose it to Merck personnel involved in Merck's own HCV program (fire-wall agreement).

After the jury determined an award of infringement damages, [4] the district court judge held a bench trial on the equitable defenses and found a host of behaviors that it deemed misconduct amounting to unclean hands. The behaviors included lying, misusing confidential information, breaching the nondisclosure and firewall agreements, and lying under oath at deposition and trial.

The Federal Circuit in its April 25 panel decision found a more limited set of misconduct than the district court. Specifically, it did not find a breach of the nondisclosure agreement. However, it nonetheless found two acts of pre-litigation business misconduct and two acts

of litigation misconduct. A Merck attorney prosecuting the application that matured into the first of the two involved patents participated in a teleconference in which Gilead named its lead compound, violating the firewall agreement, the Federal Circuit panel held. Further, Merck did not remove the attorney nor did he recuse himself from further involvement with the application, constituting a separate misdeed.

The litigation misconduct related to false testimony given in a deposition and at trial regarding (i) the same Merck attorney's participation in the disclosure telephone conference and (ii) the influence of Gilead's public disclosure on an amendment that Merck made to narrow its pending genus claims to a subgenus containing the Gilead lead compound. The Federal Circuit affirmed the judgment below, based on the more limited grounds, applying unclean hands to bar Merck from asserting the two asserted patents.[5]

Merck's petition to the Supreme Court raises the issue of the status of law and equity as distinct streams in current U.S. law, particularly in patent litigation. Historically suits for legal and equitable remedies were separate, but Congress authorized their merger in 1938, at least procedurally, with the adoption of the Federal Rules of Civil Procedure.

Merck's petition urges that the Supreme Court has been clear that the law and equity categories remain substantively distinct, but that the Federal Circuit has disregarded the Supreme Court's pronouncements regarding the distinction for decades. Indeed, Merck asserts that the Court of Customs and Patent Appeals (CCPA), a pre-1982 predecessor court to the Federal Circuit, also ignored the Supreme Court on this issue.

Merck argues additional issues not purely related to the law/equity divide. Merck notes that the jury refused to find that Merck derived its invention from Gilead and found that Merck's original specification adequately described its narrowed, subgeneric claims.[6]

> Here, for example, the district court's theory of business misconduct—that Merck stole the ideas in its patents from Pharmasset— was the same theory that Gilead presented to the jury to challenge patent validity. The jury rejected Gilead's story, finding that Merck was entitled to $200 million in damages for Gilead's infringement. But the district court decided the jury's verdict should not be honored based on its view of essentially the same evidence under a different doctrine.

Petition at page 16. This statement seems to confuse the facts with the legal theory. The district court holding of business misconduct included breaching the firewall contract. Breaching a firewall is not the same theory as an inadequate written description of a claim. In Merck's view, the district court and Federal Circuit's decisions regarding misconduct usurped Merck's Seventh Amendment right to a jury trial.

Merck's attempt to equate the jury verdict on adequate written description with business misconduct seems to depend on confusion of "the invention" and the identity of the compound Gilead disclosed to Merck. The Gilead compound fell within a large genus of compounds in Merck's claims. The jury finding of support for the claimed genus does not contradict an assertion that Merck obtained the identity of the compound from Gilead. Both assertions can be simultaneously true.

Interestingly, Merck asserts that the CCPA created the doctrine of inequitable conduct in 1970 as a patent-specific doctrine. Patent applicants have a "relationship of trust" with the U.S. Patent and Trademark Office during prosecution, the CCPA stated, and expanded

punishable offenses.[7] At least one commentator has pointed to an earlier origination at the Supreme Court.[8] Merck urges that the Supreme Court has applied the doctrine only to suits for equitable remedies and that the doctrine should remain so limited.

Merck also asserts that at least in this case, application of the doctrine leads to nullification of Merck's Seventh Amendment right to a jury because the judge's decision on unenforceability nullified the jury decision on damages.

Two amici filed briefs on October 24. Celgene Corporation's brief appears to follow closely the argument of Merck's petition. Celgene additionally argued that the Supreme Court has repeatedly rejected special judge-made rules targeting patent cases only.[9] It also urged that permitting unclean hands to bar patent damages increases uncertainty in patent valuation. Celgene argued that rendering patents unenforceable was improperly punitive and, even if properly punitive, the misconduct in one patent should not have infected the second, untainted patent. The Federal Circuit, however, found that pre-litigation and litigation misconduct tainted both patents. Celgene's argument seems, therefore, to challenge the fact-findings as well as the law. Celgene urged but did not explain that the application of unclean hands violates the patent owner's property right. Perhaps Celgene is suggesting a violation because the cancellation of so large a damages award must be a disproportionate punishment. Celgene cites a law review article by the second amicus, S.L. Bray, arguing that the equitable issues should not nullify the legal ones because that would violate the patentee's Seventh Amendment right to a jury trial.

Amicus S.L. Bray, like Merck and Celgene, pointed to SCA Hygiene[10] as directly controlling the outcome of the Merck case. Bray implies that the holding of SCA Hygiene turned on the law/equity distinction, barring the equitable defense of laches in a case for a legal remedy. Bray ignores the Court's holding that seemed to depend more on the conflict between a statute of limitation enacted by Congress and a judge-made doctrine, both of which related to timing of legal claims. The conflict between a statute and a judicial doctrine is not apparently present, however, when the judicial doctrine is unclean hands.

Bray, like Celgene, reminded the Court how often it has had to reverse the Federal Circuit. He portrays the Federal Circuit as recalcitrant to following clear Supreme court precedent. Bray characterizes the continuation of the law/equity substantive distinction after 1938 as settled.[11]

Bray acknowledges that some states have "gone further" in fusing law and equity, but characterizes these as "exceptional." Merck's petition acknowledges that the Fourth Circuit and the Seventh Circuit, like the Federal Circuit, have permitted unclean hands to bar claims for common law damages.[12] Thus it appears that the separation of law and equity is nowhere near as clear as Bray, an ardent supporter of the separation, would have us think.

Will the Supreme Court grant Merck's petition to consider the question of unclean hands and how broadly they sweep? When Gilead files its brief in opposition, expected by November 23, we may be in a better position to predict.

Click here to download the petition for a writ of certiorari in Merck & Co. Inc. v. Gilead Sciences Inc.

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[1] Dennis Crouch raised this issue on April 25, 2018, in his Patently-O blog: "I am hard pressed to understand how unclean hands now fits into the picture [a suit for a purely legal remedy] as a defense."

[2] Both the district court and the Federal Circuit give good narrative accounts. You may also refer to my account of the Federal Circuit oral arguments here.

[3] We refer to Gilead and its predecessor in interest, Pharmasett, throughout this alert as Gilead.

[4] Gilead had stipulated to infringement.

[5] The second patent (a continuation application of the first patent) was similarly held unenforceable because the same Merck attorney filed it and because of the same litigation misconduct.

[6] In fact, the jury did not consider derivation, because the jury instructions made consideration of derivation contingent on a finding of no adequate written description.

[7] Norton v. Curtiss, 433 F. 2d 779 (CCPA 1970).

[8] Earlier recognition of the doctrine in Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co., 324 U.S. 806 (1945); and Keystone Driller Co. v. Gen. Excavator Co., 290 U.S. 240 (1933), according to Goldman R., Harvard J. Law and Tech, 7:37 (1993)

[9] Celgene makes clear that it means special rules created by the Federal Circuit.

[10] SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC, 137 S. Ct. 954 (2017)

[11] Bray cites to no less than five of his own articles for support and disparages Zechariah Chafee, a Harvard law professor from 1916-1956, who advocated a contrary position, as "not reliable on this point." Bray characterizes Chafee's position as "typical Legal Realist disdain for the distinction between law and equity."

[12] Merck characterizes the Second and Third Circuits as taking the contrary position and other circuits as being in disarray.

Posted: October 31, 2018