No. 18-378

IN THE
Supreme Court of the United States

MERCK & CO., INC., MERCK SHARP & DOHME CORP., AND IONIS PHARMACEUTICALS, INC.,
Petitioners,

v.

GILEAD SCIENCES, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY FOR PETITIONERS

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REPLY FOR PETITIONER

Time and again—before and after the procedural merger of law and equity—this Court has recognized that, "in actions at law[,] * * * equitable defences are not permitted." *Lantry* v. *Wallace*, 182 U.S. 536, 549-550 (1901). The "application of [an] equitable defense * * * in an action at law," this Court has observed, "would be novel indeed." *County of Oneida* v. *Oneida Indian Nation of N.Y. State*, 470 U.S. 226, 244 n.16 (1985). Attempting to avoid review, Gilead dismisses the law-equity boundary as "harken[ing] back to arcane, idiosyncratic distinctions." Opp. 20. But that distinction (however "arcane" or "idiosyncratic") "harkens back" centuries and serves a fundamental role: It prevents courts from con-

verting legal rights into mere privileges that can be refused as a matter of judicial discretion, displacing liability determinations the Framers left to juries. The Federal Circuit—and other courts—have disregarded that centuries-old distinction, applying the equitable doctrine of unclean hands to deny legal relief. That has profound implications. Review is warranted.

Gilead cannot avoid review by claiming (Opp. 29) that this Court "has been blurr[y]" about respecting the line between law and equity. Gilead has no real answer to this Court's clear holding, in *Manufacturers' Finance Co.* v. *McKey*, 294 U.S. 442, 451 (1935), that unclean hands is "'inapplicable'" in damages actions. Pet. 17-18. Gilead points to other cases that, it claims, hold "that equitable defenses *do* apply against the legal remedy of damages." Opp. 25. But those cases do not concern historically equitable defenses. This Court has never invoked unclean hands to bar legal relief. And any "blurri[ness]" would underscore the need for review.

Gilead also argues that Congress obliterated any law-equity distinction for patent cases in § 282 of the Patent Act. According to Gilead, § 282 "codifie[d] the unclean-hands defense" by providing that "'*unenforceability*'" shall be a "'defense[] in *any action* involving the validity or infringement of a patent.'" Opp. 23-24 (quoting 35 U.S.C. § 282(b)). But that language hardly means that Congress eliminated all the requirements for unenforceability defenses, so as to make each available in every case, even when their traditional prerequisites are not met. This Court refused to read § 282 as making all equitable defenses—specifically, laches—applicable to "all patent infringement claims, including claims for damages." *SCA Hygiene Prods. Aktiebolag* v. *First Quality Baby Prods., LLC*, 137 S. Ct. 954, 962 (2017); see Pet. 27.

Gilead cannot explain why the result for unclean hands would be different. Moreover, Gilead nowhere disputes that, when the Patent Act was enacted, the courts limited unclean hands to equitable relief. Pet. 27. That was the backdrop against which the Patent Act was adopted—and the Federal Circuit has now overruled.

Gilead spends most of its brief avoiding the question presented. It devotes page upon page to its view of the facts, which are irrelevant to the legal question before the Court. See Opp. 1, 4-10.[1] Gilead also argues waiver. See Opp. 10-21. But Merck did raise the issue below, see pp. 10-11, *infra*, which was foreclosed by a wall of Federal Circuit precedent regardless. The petition should be granted.

I. THE QUESTION PRESENTED WARRANTS REVIEW

A. The Federal Circuit's Rule Conflicts with This Court's Precedent

The Federal Circuit's extension of unclean hands to deny legal relief conflicts with a long line of this Court's decisions. See Pet. 17-21. Both before and after the procedural merger of law and equity, this Court adhered to the rule that, "in actions at law[,] * * * equitable defences are not permitted," *Lantry*, 182 U.S. at 549-550, recognizing that imposing an "equitable defense * * * in an

[1] For clarity, Merck does *not* concede that it engaged in the "misconduct" underlying the district court's unclean-hands finding. Opp. 1. Nor did the Federal Circuit "reject[] all of Merck's arguments." Opp. 15. That court rejected many of the district court's findings, see Pet.App. 20a-21a nn.4-5, and declined to disturb others only due to the "deferential standard of review," Pet.App. 16a, 31a. Merck does not raise those issues here, Opp. 1, because factual questions—however important to Merck—are not a basis for this Court's review, see Sup. Ct. R. 10.

action at law would be novel indeed," *Oneida*, 470 U.S. at 244 n.16. In *Manufacturers' Finance*, 294 U.S. at 451, this Court specifically rejected the unclean-hands defense as "inapplicable" in damages actions. Pet. 17-18.

1. Gilead attempts to dismiss the Court's statements in *Manufacturers' Finance* as "dicta." Opp. 29. But the "rationale upon which the Court based the results" is not dictum. *Seminole Tribe of Fla.* v. *Florida*, 517 U.S. 44, 66-67 (1996). In *Manufacturers' Finance*, this Court rejected the lower court's judgment because it "rest[ed] wholly on the untenable assumption that petitioner's *rights* are subject to denial * * * in virtue of *equitable principles applicable only against one who affirmatively has sought equitable relief*; and here that was not the case." 294 U.S. at 453 (emphasis added). It makes no difference that the Court also "concluded that there was 'no unconscionable or inequitable conduct.'" Opp. 29. Even alternative rationales are holdings, not dictum. *United States* v. *Title Ins. & Tr. Co.*, 265 U.S. 472, 486 (1924).

2. Gilead accuses Merck of "ignoring the numerous circumstances in which this Court has held that equitable defenses *do* apply against the legal remedy of damages." Opp. 25. But Gilead "misreads the common-law backdrop and misinterprets this Court's opinions." *Ibid.* Indeed, it falters at the outset, invoking the *argument of counsel* as a ruling of this Court in a case involving neither law nor equity. See Opp. 29.[2]

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[2] Citing *The Anna Maria*, 15 U.S. (2 Wheat.) 327 (1817), Gilead declares (Opp. 29) that "this Court noted" that "claimants 'could not come *into a court of prize* * * * unless with clean hands, to claim restitution in *damages*.'" But Gilead quotes the summary of the appellants' arguments, not this Court's opinion. 15 U.S. (2 Wheat.)

Gilead likewise errs in urging (Opp. 26) that the "patent-misuse" doctrine is "an extension of the equitable doctrine of 'unclean hands' to the patent field." *U.S. Gypsum Co.* v. *Nat'l Gypsum Co.*, 352 U.S. 457, 465 (1957). Patent misuse does not derive from English equity jurisprudence. Its roots are "intertwined" with this Court's "antitrust jurisprudence." *Ill. Tool Works Inc.* v. *Indep. Ink, Inc.*, 547 U.S. 28, 40 (2006). It was not fully established until *Morton Salt Co.* v. *G.S. Suppiger Co.*, 314 U.S. 488 (1942), without regard to any law-equity distinction. See C. Bohannan, *IP Misuse as Foreclosure*, 96 Iowa L. Rev. 475, 485 (2011). That the *sui generis* patent-misuse doctrine applies to damages claims proves nothing about the scope of historically *equitable* defenses like unclean hands.

While Gilead invokes *in pari delicto* (Opp. 26), that doctrine "arose at English common law," *not* in equity. M. Handler, *Reforming the Antitrust Laws*, 82 Colum. L. Rev. 1287, 1359 (1982). It is "distinct from the equitable doctrine of 'unclean hands,'" which was "a defense in equity only." *Ibid.* Indeed, it is the "counterpart *legal* doctrine" of unclean hands. D. Dobbs, *Law of Remedies* § 2.4(2), at 68 n.103 (3d ed. 2018) (emphasis added). The application of that "legal counterpart" to defeat legal claims proves nothing.

Nor does equitable estoppel support Gilead's thesis. Opp. 27. Unlike unclean hands, equitable estoppel was never purely equitable. As this Court explained before the law-equity merger, "[e]stoppels of this character * * *

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at 330. Regardless, cases in prize—a "species" of admiralty, *The Betsey*, 3 U.S. (3 Dall.) 6, 12 (1794)—were bound by strictures of neither law nor equity, *The Hiram*, 14 U.S. (1 Wheat.) 440, 442 (1816).

are *called* equitable estoppels," but "[i]t is not meant thereby that they are cognizable only in courts of equity." *Drexel* v. *Berney*, 122 U.S. 241, 253 (1887) (emphasis added). Gilead's examples fail to suggest that, in dismantling the law-equity distinction, the Federal Circuit was merely following this Court's example.

3. The Federal Circuit has invoked a trio of cases to support the use of equitable defenses to bar legal relief in the patent context. Pet. 28-29. Gilead concedes that two—*Keystone Driller Co.* v. *General Excavator Co.*, 290 U.S. 240 (1933), and *Precision Instrument Manufacturing Co.* v. *Automotive Maintenance Machinery Co.*, 324 U.S. 806 (1945)—"did not concern legal relief." Opp. 28. But Gilead insists that this Court "applied" unclean hands to bar legal relief in *Hazel-Atlas Glass Co.* v. *Hartford-Empire Co.*, 322 U.S. 238 (1944). Opp. 28.

Not so. Gilead claims the remedies sought included "'an accounting for profits *and damages*.'" Opp. 28 (emphasis Gilead's) (quoting *Hazel-Atlas*, 322 U.S. at 241). But the Court did not say plaintiff was seeking (1) "an accounting for profits and" (2) "damages." It explained that the plaintiff "pray[ed]" "[1] for an injunction against further infringement and [2] for an accounting for profits and damages." *Hazel-Atlas*, 322 U.S. at 241 (bracketed numbers added). The plaintiff thus did not seek the equitable remedy of an accounting for profits, and separately demand the legal remedy of damages. It sought an injunction and the equitable remedy of "an accounting for profits and damages." The lower court's decision confirms that. See *Hartford-Empire Co.* v. *Hazel-Atlas Glass Co.*, 39 F.2d 111, 111 (W.D. Pa. 1930) (plaintiff "prays that defendant be enjoined from further infringement, and that an accounting of profits and damages be ordered"). Gilead's contrary reading would rewrite the

description, changing the prayer for "an injunction against further infringement *and* for an accounting for profits and damages" into a prayer "for an injunction against further infringement[,] for an accounting for profits[,] and [for] damages." That is not what this Court wrote.

Besides, the case was brought in "a court of equity." Opp. 28-29. "The equitable remedy of an accounting * * * was not the same as damages," *SCA Hygiene*, 137 S. Ct. at 964; and a claim for damages was not available in the equity court, see *Birdsall* v. *Coolidge*, 93 U.S. 64, 68-69 (1876). Gilead's reading of *Hazel-Atlas* is thus legally impossible. Its re-interpretation of *Hazel-Atlas*, like its other efforts to find support for converting unclean hands into a legal defense, implodes.

B. Section 282 of the Patent Act Does Not Support Gilead's Position

Gilead urges (Opp. 24) that Congress's adoption of § 282 of the Patent Act of 1952 "definitive[ly]" resolved "how to treat unclean hands." Section 282 states that "unenforceability" "shall be [a] defense[ ] in any action involving the validity or infringement of a patent." 35 U.S.C. § 282(b)(1). Gilead claims that "codifie[d] the unclean-hands defense." Opp. 23-24. But that begs the question of the *scope* of the defense § 282 codified.

Where § 282 states that "the following shall be defenses in any action," 35 U.S.C. § 282(b), it merely provides that the listed defenses, including "unenforceability," shall be available "in any action" *according to their terms*. If, for example, a defendant did not otherwise have a "[n]oninfringement" or "[i]nvalidity" defense under the then-governing law, *id.* § 282(b)(1), (2), § 282 did not change the substantive principles of those defenses to make them available. Even if § 282 codified the unclean-

hands defense for assertion "in any action" where it properly applies, there is no evidence Congress intended to expand unclean hands beyond its traditional boundaries.

Gilead urges that Congress "went out of its way to specify that the defense is available 'in any action,'" not "'in any action seeking equitable relief.'" Opp. 24. But Congress's failure to draw that distinction is unremarkable. Since 1938, "there has been * * * only 'one form of action—the civil action.'" *Petrella* v. *Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962, 1974 (2014). But "'the substantive and remedial principles'" applicable in the separate courts of law and equity "'prior to the advent of the federal rules [have] not changed.'" *Ibid.* (brackets in original). Besides, this Court has already rejected the notion that §282 makes *all* equitable defenses available against legal relief, holding that the equitable defense of *laches* is not available to defeat a legal claim for damages. *SCA Hygiene*, 137 S. Ct. at 962-963. That defies Gilead's view that §282 makes *all* equitable defenses applicable against all legal relief, traditional boundaries notwithstanding.

To the extent that "analysis must start with the Patent Act," Opp. 23, the question becomes *what* Congress was codifying by its reference to "unenforceability." Gilead does not dispute that, before the Patent Act's enactment in 1952, federal courts applied unclean hands to bar only equitable relief. See Pet. 27. Where a "'principle is well established, * * * courts may take it as given that Congress has legislated with an expectation that the principle will apply except when a statutory purpose to the contrary is evident.'" *Impression Prods., Inc.* v. *Lexmark Int'l, Inc.*, 137 S. Ct. 1523, 1536 (2017). There is no indication that Congress intended to override centuries of tradition in §282.

C. The Issue Is Important and Recurring

Gilead's arguments confirm, rather than refute, the issue's importance.

1. Seeking to diminish the importance of "the broader common-law question" at issue, Gilead argues that "three regional circuits" have "held that unclean hands can be a defense to a claim for damages." Opp. 22. But those cases cannot be reconciled with this Court's holding that unclean hands is "inapplicable" in damages actions. *Mfrs.' Fin.*, 294 U.S. at 451. The courts of appeals are in direct conflict with this Court.

2. Gilead's assertion that unclean hands "is infrequently applied," Opp. 21 n.3, fares no better. That the defense is rarely "*applied*" does not mean it is rarely *alleged*—and it is now a regular part of patent cases. Allegations under the Federal Circuit's related doctrine of inequitable conduct "'bec[a]me an absolute plague'"—raised in nearly "eighty percent of patent infringement cases"—until that court responded by heightening materiality requirements in *Therasense, Inc.* v. *Becton, Dickinson & Co.*, 649 F.3d 1276, 1289 (Fed. Cir. 2011) (en banc). The effect was highly corrosive, compelling "'[r]eputable lawyers * * * to make the charge against other reputable lawyers.'" *Ibid.* Unclean hands—unbounded by even a materiality requirement, see Pet.App. 14a-15a—is the new "plague."

3. Nor do Gilead's efforts to deny Seventh Amendment implications, Pet. 30-34, hold water. Gilead acknowledges that the Seventh Amendment prohibits a judge from re-examining facts tried to a jury. Opp. 33. It then states that "a judge may resolve equitable issues without offending the Seventh Amendment, provided the judge does not override a determination of facts that the jury necessarily decided." *Ibid.* The key qualification

there is Gilead's "provided" clause: There may be some circumstances in which a judicial finding of unclean hands will not implicate Seventh Amendment concerns, but that would be rare.

This case proves the point. The district court's unclean-hands decision invoked the theory that Merck improperly stole Gilead's PSI-6130 compound. See Pet. 32. But in rejecting Gilead's written-description defense, the jury necessarily decided that Merck did not derive its invention from Gilead. See *ibid.* Gilead disputes that conclusion (Opp. 35), but the record speaks for itself. See Pet. 31-34.

Gilead's assertion that Merck "waived any * * * Seventh Amendment objection," Opp. 34, misses the point. Merck is not asking this Court to find a Seventh Amendment violation. The point is that the Federal Circuit's unwarranted expansion of unclean hands risks intrusion into the jury's province. That, too, supports review.

II. THIS CASE IS AN APPROPRIATE VEHICLE

Gilead urges that this Court should deny review because Merck "never raised" whether unclean hands could bar legal relief in this case, Opp. 10, and the "Federal Circuit has never addressed the question presented in any opinion," Opp. 15. But the issue was raised below, and it is ripe for this Court's review.

1. In district court, Merck emphasized that the jury verdict "foreclosed" "Gilead's equitable defense of unclean hands." Dist. Ct. Dkt. 370 at 1-3; see Dist. Ct. Dkt. 407 at 4; Dist. Ct. Dkt. 409 at 5. And while Gilead claims Merck "[n]owhere * * * argued that the Patent Act makes unclean hands categorically inapplicable against damages," Opp. 12, Merck's brief in the court of appeals plainly states:

- Unclean hands "is rarely applied to defeat claims for equitable relief, much less 'damages and other legal remedies.' 1 Dobbs, *Law of Remedies* §2.4(2) (2d ed. 1993)." Merck C.A. Br. 37-38.
- "[U]nclean hands 'does not grant courts free-floating authority to deny' legal rights as punishment." *Id.* at 38.
- The doctrine "is particularly inappropriate where unclean hands—an equitable doctrine—is applied to bar a *legal* claim for damages." *Id.* at 45.

Finally, Merck urged: "Invoking unclean hands to refuse 'damages and other legal remedies' raises the prospect that 'citizens would not have rights only privileges.' 1 Dobbs, *supra*, §2.4(2). *That 'goes too far.'*" Merck C.A. Br. 45-46 (emphasis added). The issue was squarely presented below.

2. Gilead acknowledges (Opp. 15) that even "failure to raise an issue may be excusable" where raising it would be futile given binding precedent. That was true here. A wall of Federal Circuit en banc precedent foreclosed any argument that the equitable defense of unclean hands could not preclude legal relief.

In *A.C. Aukerman Co.* v. *R.L. Chaides Construction Co.*, 960 F.2d 1020, 1031 (Fed. Cir. 1992), the en banc Federal Circuit adopted the view that "parties have generally been allowed to plead equitable defenses" in legal actions, and that they are thus "available to bar legal relief, including patent damage actions." Gilead is correct that *SCA Hygiene* abrogated *Aukerman*'s specific holding that laches can apply "'[i]n the face of a statute of limitations enacted by Congress.'" 137 S. Ct.

at 959 (brackets in original). If *SCA Hygiene* (which issued after Merck filed its principal brief in the Federal Circuit) casts doubt on *Aukerman*'s broader conclusions, see Pet. 27, it did not address or refute them.

In any event, the Federal Circuit's en banc decision in *Therasense* squarely held that "[i]nequitable conduct is an equitable defense" that "bars enforcement of a patent"—for damages or equitable relief. 649 F.3d at 1285. Gilead insists (Opp. 17) that inequitable conduct is "different" and has no bearing on unclean hands. But inequitable conduct "evolved from" the Federal Circuit's view of this Court's "unclean hands cases." *Therasense*, 649 F.3d at 1287. *Therasense*'s conclusion that such an equitable defense is available to bar legal relief is binding precedent that the panel could not overturn. *Moore McCormack Res., Inc.* v. *United States*, 224 Ct. Cl. 672, 674 (1980) (per curiam) ("panel cannot overrule a case which was decided *en banc*"). The Federal Circuit has decided the issue. Review is warranted now.

CONCLUSION

The petition should be granted.

Respectfully submitted.

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