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IN THE SUPREME COURT OF THE STATE OF DELAWARE

GLAXO GROUP LIMITED and HUMAN GENOME SCIENCES, INC.,	)	
Defendants Below, Appellants/Cross-Appellees,	)	No. 25, 2020
v.	)	
DRIT LP,	)	Case Below: Superior Court of the State of Delaware C.A. No. N16C-07-218 WCC CCLD
Plaintiff Below, Appellee/Cross-Appellant.	)	

APPELLEE'S ANSWERING BRIEF ON APPEAL AND CROSS-APPELLANT'S OPENING BRIEF ON CROSS-APPEAL

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NATURE OF PROCEEDINGS

This appeal is from a civil jury verdict in favor of Plaintiff DRIT LP ("DRIT") against Defendants Glaxo Group Limited and Human Genome Sciences, Inc. (collectively, "GSK"). Following a six-day trial, the jury found that GSK breached the implied covenant of good faith and fair dealing by statutorily disclaiming—effectively killing—U.S. Patent No. 8,071,092 (the "'092 Patent") to avoid paying future royalties to DRIT on sales of GSK's lupus drug, Benlysta. The jury's verdict—rendered after 45 minutes of deliberation—was grounded on ample evidence from fact witnesses, documents and experts. Ignoring this substantial evidence, and barely acknowledging the jury's role, GSK asks this Court to take the extraordinary step of overturning the verdict and granting it judgment as a matter of law or, alternatively, to order a new trial. Both efforts fail.

GSK is not entitled to judgment as a matter of law. In a straightforward application of established Delaware law, the Superior Court correctly instructed the jury—with no objection from GSK—that the implied covenant required GSK to exercise any discretion it had to disclaim the '092 Patent reasonably and in good faith. The jury properly found that GSK did not act in good faith in disclaiming the '092 Patent, and GSK does not come close to meeting its burden of proving that there is *no* competent evidence to support the jury's verdict. Indeed, the overwhelming evidence at trial established that GSK violated

the implied covenant by engaging in "arbitrary or unreasonable conduct" that had "the effect of preventing [DRIT] from receiving the fruits of the bargain". *E.g.*, *Dunlap v. State Farm Fire & Cas. Co.*, 878 A.2d 434, 442 (Del. 2005).

The evidence showed that the parties to the underlying Patent License and Settlement Agreement (the "Agreement") reasonably expected that GSK would not manufacture a basis to end royalty payments, which was the bulk of the consideration GSK was expected to pay. But that is exactly what GSK did by taking the extraordinary step of disclaiming its own patent solely to avoid paying royalties. GSK's lead patent lawyer candidly admitted that "the purpose of the disclaimer was to stop paying royalties to DRIT." (B1645-46.) GSK then engaged in a cover-up by instructing its outside counsel to create an unprecedented written opinion that GSK's patent was invalid and to ignore standard ways to preserve the patent. Indeed, as the evidence showed and GSK now concedes on appeal, the '092 Patent remained valuable to GSK. Ample evidence supports the jury's finding that GSK disclaimed the patent in bad faith to deprive DRIT of royalties.

Nor is GSK entitled to another trial. GSK cannot show any legal error, much less one grave enough to justify a new trial. The only legal error GSK asserts is the Superior Court's decision to permit testimony from DRIT expert, Philip Johnson, about industry norms regarding patent disclaimers. That testimony was proper: industry norms are relevant to evaluating whether a party has

complied with the implied covenant, and Mr. Johnson grounded his testimony in the specific evidence in this case, *including* the Agreement. GSK had a full and fair opportunity to cross-examine Mr. Johnson—and did, aggressively. Indeed, nearly all of the testimony about which GSK now complains was elicited through GSK's *own questioning* of Mr. Johnson. GSK also presented its own expert to testify about GSK's purported compliance with industry norms. In any event, Mr. Johnson's testimony was not prejudicial. Contrary to GSK's claim that DRIT "relied heavily" on Mr. Johnson as its "star expert witness", Mr. Johnson's direct testimony occupied less than an hour out of a six-day trial, and another expert witness (not challenged by GSK) gave testimony supporting these same points.

The Superior Court was well within its discretion in determining DRIT's damages. *First*, GSK is estopped from asserting that royalty payments should have ended in October 2016 because it represented before the trial that if found in breach, it would pay royalties "up to the date of trial" and "for all future sales" under the Agreement. (B1191.) DRIT relied on GSK's assurances by relinquishing its request for damages discovery, not offering damages expert testimony at trial and agreeing to allow the court (not jury) determine damages. Upsetting the Superior Court's damages award would severely prejudice DRIT. *Second*, the Superior Court properly exercised its discretion to determine that, in accordance with the parties' reasonable expectations, GSK must pay royalties until

the natural expiration of the ’092 Patent in August 2022. The Superior Court was entitled to reject GSK’s self-serving assertion that it would have filed a different kind of disclaimer (terminal disclaimer) had it not filed a statutory disclaimer.

Alternatively, this Court may also uphold the judgment below on the basis that GSK breached the Agreement by ceasing royalty payments. The Superior Court dismissed DRIT’s breach of contract claim at the pleading stage, but the plain language of the Agreement does not excuse GSK from making royalty payments to DRIT even after a voluntary disclaimer of the ’092 Patent.

SUMMARY OF ARGUMENT

1. Denied. The Superior Court properly held that GSK is not entitled to judgment as a matter of law on DRIT's claim that GSK breached the implied covenant of good faith and fair dealing. In urging this Court to reverse that ruling, GSK mischaracterizes the Agreement and the settled law of this State, ignores the extensive evidence supporting the jury's verdict, and disregards the highly deferential standard of review applicable to civil jury verdicts.

2. Denied. The Superior Court properly exercised its discretion in denying GSK's motion for a new trial based on Mr. Johnson's testimony. Industry norms are relevant to assessing whether a party has complied with the implied covenant, and the Superior Court was well within its discretion in concluding that Mr. Johnson's testimony was not misleading. Even if allowing Mr. Johnson's testimony was somehow error, it was not prejudicial.

3. Denied. The Superior Court properly exercised its discretion in determining DRIT's damages. GSK is estopped from asserting that royalty payments should have ended in October 2016 because it previously represented that it would continue paying royalties under the Agreement if it lost at trial, a representation that DRIT relied upon in foregoing damages discovery and proof. Even if GSK were not estopped, the Superior Court was well within its discretion in concluding that the parties reasonably expected royalties to continue until

August 2022, and rejecting GSK's conclusory assertion that it would have terminally disclaimed the '092 Patent had it not filed a statutory disclaimer.

4. This Court may also uphold the judgment below on the alternative ground that GSK breached the Agreement by ceasing royalty payments after statutorily disclaiming the '092 Patent.

STATEMENT OF FACTS

DRIT brought this lawsuit as the assignee of rights (previously held by Biogen Idec MA Inc. ("Biogen")) under a patent settlement agreement for royalty payments from GSK on its U.S. sales of the lupus drug Benlysta. On April 27, 2015, with no notice to DRIT, GSK filed a "statutory disclaimer" of the '092 Patent, the U.S. royalty-bearing patent, and ceased paying royalties. (B1047.) After a six-day trial in which DRIT presented extensive evidence of GSK's bad faith conduct, the jury found that GSK breached the implied covenant of good faith and fair dealing by disclaiming the '092 Patent.

As described fully below, ample evidence supports the jury's verdict, including:

- Biogen, and subsequently DRIT, reasonably expected that GSK could not escape its royalty obligations by voluntarily disclaiming the '092 Patent.
- GSK disclaimed the '092 Patent for the sole purpose of depriving DRIT of future royalties.
- GSK's lawyers, not its business executives, decided to disclaim, and then engaged in a cover-up. This included GSK having outside patent counsel author a *written* opinion that the '092 Patent was invalid—something no patent holder would ever have a legitimate interest in doing.
- GSK's purported reasons for the disclaimer—the potential invalidity of the '092 Patent and the exit of a competitor from the market—were pretextual.
- GSK concealed the disclaimer from DRIT and gave it the run-around, in violation of GSK's own internal patent guidelines.

A. Biogen and GSK's Patent Dispute.

In 2007, Biogen and GSK each claimed patent rights to a lupus treatment, eventually commercialized as Benlysta. (B1459-64; B1345.) Biogen held an issued U.S. patent covering the treatment, while GSK held a patent application seeking a patent on substantially the same subject matter. (*See* B1459-64; B1778; B1703.) In light of this conflict, the U.S. Patent and Trademark Office ("PTO") declared an "interference", a formal proceeding to determine the rightful inventor. (B1459-64.) Only the party prevailing in the interference would retain patent rights. (B1469-70; B1778-79.)

Settling the interference was very important to GSK. GSK needed rights under the invention to commercialize Benlysta, already in development. (B1781-85.) GSK understood that if Biogen won the interference, it could use its existing patent to block GSK from selling Benlysta in the United States. (B1782-85.) Biogen did not run the same risk because it did not have a product in development. (B1465-66.) Instead, Biogen's incentive was to secure royalties on sales of Benlysta by licensing its patent rights to GSK. (B1466-69.)

Although GSK was originally designated the "senior party" in the interference, the PTO declared Biogen the "senior party" on August 31, 2007. (B0001; B1721-23; B1779.) The senior party is more likely to prevail in an

interference. (B1711.) Biogen maintained senior-party status until the parties settled. (B0517; B1721-23.)

B. The Settlement Agreement.

On March 3, 2008, Biogen and GSK executed a *binding* term sheet to resolve the interference (B0007; A711-13), and then negotiated the terms of the Agreement. (B1402, B1433-34.) During negotiations, the parties agreed that Biogen would give up its issued patent in exchange for royalties from GSK's substantially similar pending patent (which issued as the '092 Patent), which GSK would keep. (B1481-83, B1487-88.)

Under the Agreement, Biogen received an upfront payment, milestone payments, and ongoing royalties on sales of Benlysta through the expiration of certain patent rights, including the '092 Patent. (A084-86; A724-76; B1476.) By resolving the interference, Biogen secured a long-term royalty stream on a late-stage product (Benlysta) once it was approved for sale; in return, GSK secured certainty—forever—that Biogen could not use its patent rights to block sales of Benlysta. (*See* B1780-81.) Biogen expected that the royalty payments would be the most substantial source of value in connection with the rights granted under the Agreement. (B1487-88, B1508-09.) GSK agreed that Benlysta had "blockbuster potential" at the time of the settlement. (B1707-08.) Indeed, had GSK not disclaimed the '092 Patent, royalties on U.S. sales would have totaled over $47

million by late 2018, with many tens of millions of dollars by the '092 Patent's expiration in 2022. (B1365; B2007; Opening Br. 3; A453, A480, A489-90.) By contrast, the other payments Biogen received totaled $6.5 million. (B1881.)

The Agreement gave Biogen the right to receive royalties "until expiration of the last Valid Claim" of any patent covering the product. (A085.) Section 1.49 of the "Definitions" portion of the Agreement states:

> "Valid Claim" means a claim of an issued, unexpired patent within the Patent Rights that has not expired, lapsed, or been cancelled or abandoned, and that has not been dedicated to the public, disclaimed, or held unenforceable, invalid, or cancelled by a court or administrative agency of competent jurisdiction in an order or decision from which no appeal can be taken or was timely taken, including through opposition, re-examination, reissue or disclaimer.

(A083.)

As GSK's corporate representative admitted, nothing in the Agreement (including Section 1.49) expressly permits GSK to unilaterally disclaim patents to stop paying royalties. (B1784-88.) To the contrary, the Agreement provides that even if GSK terminates the Agreement because of a material breach *by Biogen*, GSK's obligation to make royalty payments "shall survive". (A094.) That is, Biogen was careful to seek—and GSK was willing to provide—protection of its right to receive royalty payments even if GSK had cause to terminate the Agreement. (B1499-502, B1508.) Biogen reasonably expected that it would

receive royalty payments through the natural expiration of the royalty-bearing patents, and that GSK could not voluntarily disclaim its patents to prematurely cease royalties. (B1488-91.) Had Biogen thought that GSK could end royalty payment through voluntary disclaimer, Biogen would never have settled and conceded the interference. (B1484.)

C. GSK Sells Benlysta; Biogen Assigns Its Rights to DRIT.

Having eliminated the risk that Biogen could block sales, GSK began selling Benlysta. Once the '092 Patent issued on December 6, 2011 (B0876), GSK began paying royalties on U.S. sales to Biogen in accordance with the Agreement. In 2012, DRIT, with GSK's consent, acquired Biogen's royalty rights for $86 million. (B0877-991; B0993-1004; B1355, B1358-59, B1365.) GSK then paid royalties to DRIT until April 2015, when GSK statutorily disclaimed the '092 Patent. (B1359-60.) Before the disclaimer, GSK had paid DRIT only $15 million. (B1365.)

D. GSK Statutorily Disclaims the '092 Patent to Avoid Paying Royalties to DRIT.

In late 2013, GSK learned from its competitor, Eli Lilly, that the '092 Patent might be invalid, leading GSK's in-house lawyers to seek an oral opinion from outside counsel at Fish & Richardson ("F&R"). (A684-86, A688-90.) On May 1, 2014, F&R delivered an oral opinion that *four* of GSK's patents covering Benlysta—not just the '092 Patent—had defects that *might* make them invalid.

(B1403-04.) F&R did not, however, recommend statutorily disclaiming any of those patents, including the '092 Patent. (B1405.)

In late 2014, after Eli Lilly announced a setback in clinical trials for its competing product, GSK's in-house patent lawyers decided to statutorily disclaim the '092 Patent in order to end the royalty stream to DRIT. (B1803-04; B1645-46.) In a "highly irregular" move, GSK's lawyers asked F&R to draft a *written* opinion of *invalidity* of its *own patent*, but only for *one* of the four patents that F&R had previously identified as potentially invalid—the royalty-bearing '092 Patent. (B1410-11; A439.) GSK then instructed F&R to omit any discussion of a terminal disclaimer, a mechanism that would have remedied the '092 Patent's purported invalidity issue.[1] (B1019; B1413; A465.) Another of GSK's in-house lawyers, Lucy Hitchcock, made an "unusual" information request to GSK's finance team to calculate the cost savings of the disclaimer (B1020; B1808-09; B1598), and the patent lawyers immediately engaged GSK's dispute resolution (litigation) group to assist in carrying out the disclaimer (B1805-06; B1632).

GSK kept these plans secret from DRIT, depriving DRIT of an opportunity to address GSK's purported invalidity concerns or work out a solution that might preserve the '092 Patent's value. (B1839-40, B1867; B1100-03.) Such

[1] A terminal disclaimer would have remedied the purported invalidity problem by shortening the life of the patent without killing it entirely. (A462-68.)

secrecy was contrary to GSK's internal guidelines, which require GSK's lawyers to "generally [] maintain" patents that "are subject to third party obligations" and to "approach[] the third party" if they are considering taking action adverse to such patents. (B1015 (guideline #1).)

On April 27, 2015, GSK voluntarily filed the statutory disclaimer with the PTO. (B1047.) No GSK business person was involved in the decision to disclaim; GSK's patent lawyers obtained only the business's "rubber stamp" shortly before filing the disclaimer. (*See* B1042.) GSK also disclaimed the '092 Patent *before* receiving the written invalidity opinion GSK requested from F&R (B1689-90); in fact, a final written opinion was *never* delivered—GSK received only an unsigned opinion marked "DRAFT" (B1428-32; B1050-64; B1689-93).

GSK's most senior patent lawyer involved in the disclaimer, Ruth Priestley, candidly admitted that its purpose was to stop paying royalties to DRIT. (B1645-46.) In addition, Ms. Hitchcock testified that GSK filed a statutory disclaimer instead of the alternatives, such as terminal disclaimer or letting the patent lapse, because statutory disclaimer was the "clearest way" to "stop the payments". (B1811-12.) GSK made this decision despite the fact that the '092 Patent still had value even after Eli Lilly's announcement, as reflected in GSK's documents showing that another product that would compete directly with Benlysta was being developed. (B1070; B1957-58; B1801-03, B1826-27.)

E. GSK Finally Confesses.

On June 9, 2015—six weeks after filing—GSK finally told DRIT that it had disclaimed the ’092 Patent, but did not say that royalty payments would stop. (B1103; B1572-75; B1867.). DRIT did not learn until August 2015 that GSK had ceased paying royalties as of the disclaimer date. (B1576-79; B1100-02.) During this period, GSK never told DRIT that it believed that the ’092 Patent was invalid or that the ’092 Patent had lost its commercial value. (B1580-81.)

F. GSK Retains All the Benefits of the Bargain.

GSK continues to sell Benlysta in the U.S. Sales of Benlysta have increased every year since they began in 2011, with U.S. sales totaling $439 million in 2017. (B1968.) GSK refuses to pay royalties on post-April 27, 2015 sales. (B1578-79.)

G. DRIT Brings Suit in the Superior Court and Prevails on Its Implied Covenant Claim After a Six-Day Trial.

On July 28, 2016, DRIT brought this action for breach of contract and breach of the implied covenant of good faith and fair dealing based on GSK’s bad faith statutory disclaimer of the ’092 Patent and subsequent failure to pay royalties to DRIT. (B1107; *see also* B1201.) GSK moved to dismiss. (Ex. A to Answering Br. (“MTD Op.”).)

The Court dismissed DRIT's breach of contract claim, holding that there was no "express contractual restriction or limitation on Defendant's ability to disclaim their rights" to the '092 Patent. (*Id.* at 17-18.)

However, the Superior Court allowed DRIT's implied covenant claim, noting that "[w]hen material aspects of an agreement are left to one party's discretion, the implied covenant demands that party exercise its discretion reasonably and in good faith." (*Id.* at 18.) In rejecting GSK's attempt to inflate the importance of the upfront and milestone payments received by Biogen, the court cited DRIT's allegations that Benlysta was valued at $500 million at the time the Agreement was negotiated, that "the royalty payments were a 'critical component of the consideration Biogen accepted in exchange for giving up its claim to ownership of the inventions at issue'", and that "it is 'virtually unknown for the owner of a patent voluntarily to disclaim a patent'". (*Id.* at 20 (footnotes omitted).) The court held that "[w]hether [GSK] acted in bad faith in this regard is ultimately a question of fact unsuitable for resolution at this stage." (*Id.*)

Following discovery, GSK moved for summary judgment on DRIT's implied covenant claim, which the Superior Court denied. (Ex. A to Opening Br. ("MSJ Op.").) Recognizing that GSK was obligated "to refrain from arbitrary or unreasonable conduct" that deprives DRIT of "the fruits of the bargain" and to exercise any discretion to disclaim royalty-bearing patents "reasonably in light of

the Agreement", the Superior Court held that "there remain genuine issues of material fact as to whether [GSK] disclaimed the '092 Patent for the sole reason of eliminating royalty payments and therefore acted in bad faith". (*Id.* at 11, 18-20.) This was "a question for the jury to decide." (*Id.* at 20.)

Following a six-day trial in which DRIT presented extensive evidence of GSK's bad faith conduct from fact witnesses (including Biogen and GSK personnel), documents, and experts (*see supra* Sections D-E), the jury took less than 45 minutes to deliver a verdict finding that GSK had breached the implied covenant by statutorily disclaiming the '092 Patent. (A793.)

After trial, GSK moved for judgment as a matter of law or a new trial with respect to DRIT's implied covenant claim, which the Superior Court denied. (Ex. B to Opening Br. ("JMOL Op.").) The Superior Court explained that, "[a]fter hearing all of the evidence during the week-long trial, the Court believes the jury found GSK's purported business motivations for the disclaimer to be less than credible, and it reached an appropriate verdict." (*Id.* at 5.) The Superior Court rejected GSK's argument that the parties should have foreseen a statutory disclaimer: "The evidence supports the conclusion that the statutory disclaimer was such an unusual event that it would not have been reasonably anticipated by the parties. It is also clear that if such an event had been anticipated, it certainly would have been addressed in the contract as it went to the fundamental

underpinning of the Agreement, the continued payment of royalties for which Biogen bargained." (*Id.* at 5-6.) The court also rejected GSK's argument it was entitled to a new trial because DRIT's expert Philip Johnson's testimony was misleading and unfairly prejudicial, finding that "[t]he basis or lack thereof for Mr. Johnson's opinions were thoroughly reviewed during cross-examination and his opinions were significantly challenged by that examination", "his credentials as an expert were sufficient, he stayed within the limitations placed by the Court on his testimony, and that the Court appropriately exercised its gatekeeping function regarding this expert's testimony." (*Id.* at 7.) The court concluded that Mr. Johnson's testimony "clearly was not unfairly prejudicial or misleading". (*Id.*)

Summing up its ruling, the court remarked that it "always finds it amazing that after a lengthy jury trial the unsuccessful party often believes that there was no evidence to support the verdict and the jury simply got it wrong. It is as if only the evidence they presented was credible and their version of the facts should have been adopted by the jury." (*Id.* at 6.) Given "every opportunity to present evidence to convince the jury that [it] acted appropriately and in good faith", GSK simply "failed to persuade the jury." (*Id.* at 7.)

Lastly, the Superior Court denied GSK's request to prematurely cut off royalties, finding GSK's claim that its "royalty obligations would have ended in October 2016, even without the statutory disclaimer, was less than convincing".

(*Id.* at 10.) Instead, the court found that "[t]he expectation of the parties to the initial contract was that, in the absence of certain identified events, [DRIT] would continue to receive royalties until the patent expired" and awarded damages "through the date of the jury's verdict". (*Id.* at 10-11.)

The Superior Court entered final judgment, GSK brought this appeal, and DRIT cross-appealed from the dismissal of its breach of contract claim.

ARGUMENT

I. THE SUPERIOR COURT CORRECTLY HELD THAT GSK IS NOT ENTITLED TO JUDGMENT AS A MATTER OF LAW.

A. Question Presented

Did the Superior Court correctly hold that the evidence at trial was sufficient to allow the jury reasonably to conclude that GSK breached the implied covenant of good faith and fair dealing by statutorily disclaiming the '092 Patent? (B2023-38; B1223-64.)

B. Scope of Review

In reviewing the Superior Court's denial of a defendant's motion for judgment as a matter of law following a jury verdict, this Court views the record evidence "in a light most favorable to plaintiff" to "determine whether under any reasonable view of the evidence, the jury could justifiably find in favor of the plaintiff". *Mercedes-Benz of N. Am. Inc. v. Norman Gershman's Things to Wear, Inc.*, 596 A.2d 1358, 1362 (Del. 1991). The "enormous deference [] given to jury verdicts" is reflected in Article IV of the Delaware Constitution, *Young v. Frase*, 702 A.2d 1234, 1236 & n.4 (Del. 1997), which provides that "the findings of the jury, if supported by evidence, shall be conclusive." Del. Const. art. IV, § 11(1)(a). "Thus, the factual findings of a jury will not be disturbed if there is 'any competent evidence upon which the verdict could reasonably be based.'"

Mercedes-Benz, 596 A.2d at 1362 (quoting *Turner v. Vineyard*, 880 A.2d 177, 179 (Del. 1951)).[2]

This Court "review[s] the trial court's denial of a motion for summary judgment for abuse of discretion. 'There is no "right" to a summary judgment. A trial court's denial of summary judgment is entitled to a high level of deference and is, therefore, rarely disturbed.'" *Empire Fin. Servs., Inc. v. Bank of N.Y. (Del.)*, 900 A.2d 92, 97 (Del. 2006).[3]

C. Merits of Argument

In challenging the Superior Court's denial of its motion for judgment as a matter of law, GSK ignores the extensive evidence of its bad faith presented to the jury, mischaracterizes the Superior Court's straightforward application of settled law as a "doctrinal sea change", and disregards the highly deferential standard of review applicable to civil jury verdicts. Despite the underlying patent issues, this is a quintessential implied covenant case in which the defendant engaged in "arbitrary or unreasonable conduct which has the effect of preventing

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[2] In citing *Trievel v. Sabo*, 714 A.2d 742 (Del. 1998), GSK errs twice. *First*, that case addressed the standard of review for "*granting* [the defendant's] motion for judgment as a matter of law", not denying it. *Id.* at 744 (emphasis added). *Second*, it involved a motion for judgment as a matter of law before the jury could render its verdict (*i.e.*, a "directed verdict" under Rule 50(a)), not a Rule 50(b) motion. *Id.*

[3] GSK's citation to *Winshall v. Viacom International Inc.*, 76 A.3d 808 (Del. 2013), is inapposite. That case addressed the standard of review for an "appeal from the *grant* of summary judgment", not a *denial*. *Id.* at 815 (emphasis added).

the other party to the contract from receiving the fruits of the bargain". *E.g.*, *Dunlap*, 878 A.2d at 442. The implied covenant required GSK to exercise any discretion it had to disclaim royalty-bearing patents reasonably and in good faith, and ample evidence supported the jury's conclusion that GSK failed to do so.

1. The Agreement did not "expressly" authorize GSK to statutorily disclaim a patent to avoid paying royalties.

GSK asserts that the Agreement "expressly permitted GSK to disclaim the '092 Patent and thereby cease royalty obligations on that patent". (Opening Br. 16.) The Agreement says no such thing—it says nothing about the circumstances under which GSK may disclaim its patents, much less provide that GSK may do so to end its royalty obligation. The term "disclaimer" appears only in the definition of "Valid Claim" in Section 1.49 (A083; set out in full, *supra* at 10). That definition does not confer *any* affirmative rights, let alone "expressly" give GSK the right to statutorily disclaim the '092 Patent royalty payments. Rather, this is passive language that describes what happens to a royalty-bearing patent claim when certain exogenous events occur.

Testimony confirmed this. GSK's Ms. Hitchcock admitted that the Agreement contains no language expressly permitting GSK to disclaim its patents, and, in fact, does not even "talk about" GSK's disclaimer rights. (B1784-88.) Biogen's corporate representative testified that Biogen did not expect GSK to

voluntarily disclaim a licensed patent to avoid its royalty obligation, and that Biogen would have never agreed to such a provision. (B1509-10, B1484.)

In contrast, the Agreement contains other provisions that expressly define GSK's right (or not) to terminate the payment of royalties, depending on the type of patent. For "Biogen Idec Prosecution Patent[s]" (*i.e.*, *not* the '092 Patent), Sections 7.3 and 7.4 expressly give GSK the right to terminate its license on a "patent-by-patent" basis, "for any reason or for no reason at all", and thereby cease paying royalties on those patents. (A093-94.) These provisions, therefore, gave GSK an express option to stop licensing those patents and terminate royalties on them. But for "HGS Patents" (like the '092 Patent"), Section 7.5 provides that GSK's obligation to make royalty payments "shall survive" if GSK terminates the Agreement for a material breach by Biogen. (A094.) That is, Biogen expressly protected its right to receive royalties on the '092 Patent *even if GSK terminated the Agreement for cause*. Significantly, Biogen's corporate representative explained that Biogen sought this protection "to prevent a situation where GSK

could essentially manipulate a breach for itself by stopping payment and then terminate the agreement, which would stop payment entirely". (B1499-500.)[4]

Thus, merely pointing to the word "disclaimer" in a definitional section (as GSK does 20 times) does not establish any express right to disclaim. Indeed, it would make no sense for the parties to make GSK pay royalties if Biogen breached but then somehow let GSK unilaterally escape its royalty obligations simply by filing a disclaimer with the PTO. The Agreement, therefore, has a "gap", and it is precisely these sorts of "residual nooks and crannies" that the implied covenant is designed to fill. *Gerber v. Enter. Prods. Holdings, LLC*, 67 A.3d 400, 419 (Del. 2013), *overruled on other grounds by Winshall*, 76 A.3d at 815 n.13.

[4] Because the Agreement does not (a) expressly grant GSK the right to take the actions challenged; or (b) set forth a standard of conduct or review by which to evaluate GSK's actions, the facts here are distinguishable from the cases GSK cites. *See, e.g.*, *Allen v. El Paso Pipeline GP Co.*, 113 A.3d 167, 190-91 (Del. Ch. 2014) (contract required defendant to consider the best interests of the Partnership under a subjective good faith standard); *Allied Capital Corp. v. GC-Sun Holdings, L.P.*, 910 A.2d 1020, 1033-34 (Del. Ch. 2006) (contract explicitly restricted debt investments, but not the complained-of equity investments); *Nationwide Emerging Managers, LLC v. Northpointe Holdings, LLC*, 112 A.3d 878, 896 (Del. 2015) (contract expressly allowed defendant to terminate subadvisory contracts based on fiduciary and for-cause standards); *Nemec v. Shrader*, 991 A.2d 1120, 1126 (Del. 2010) (contract contained express redemption right).

2. The Superior Court correctly held that the implied covenant required GSK to exercise any discretion to disclaim reasonably, and that it was a fact issue for the jury.

The Superior Court correctly held that the implied covenant required GSK to exercise any discretion it had to disclaim "reasonably in light of the Agreement", and that "there remain genuine issues of material fact as to whether [GSK] disclaimed the '092 Patent for the sole reason of eliminating royalty payments and therefore acted in bad faith". (MSJ Op. at 20; *see also* MTD Op. at 18-20; JMOL Op. at 5-7.) This was a straightforward application of settled law.

The implied covenant of good faith and fair dealing "requires 'a party in a contractual relationship to refrain from arbitrary or unreasonable conduct which has the effect of preventing the other party to the contract from receiving the fruits' of the bargain." *Dunlap*, 878 A.2d at 442. For example, "parties are liable for breaching the covenant when their conduct frustrates the 'overarching purpose' of the contract by taking advantage of their position to control implementation of the agreement's terms." *Id.* Additionally, "[t]he implied covenant is well-suited to imply contractual terms that are so obvious . . . that the drafter would not have needed to include the conditions as express terms in the agreement." *Dieckman v. Regency GP, LP*, 155 A.3d 358, 361 (Del. 2017).

In particular, it is well-established that "[w]hen exercising a discretionary right, a party to the contract must exercise its discretion reasonably."

E.g., *Gerber*, 67 A.3d at 419 (emphasis and citation omitted); *see also Oxbow Carbon & Minerals Holdings, Inc. v. Crestview-Oxbow Acquisition, LLC*, 202 A.3d 482, 504 n.93 (Del. 2019) (collecting authorities); *Chamison v. HealthTrust, Inc.—The Hosp. Co.*, 735 A.2d 912, 922 (Del. Ch. 1999) (defendant breached the implied covenant by abusing its discretion regarding selection of counsel in order to escape its indemnification obligations), *aff'd*, 748 A.2d 407 (Del. 2000).

Whether a party has exercised its discretion in good faith "is a factual matter". *Desert Equities, Inc. v. Morgan Stanley Leveraged Equity Fund II L.P.*, 624 A.2d 1199, 1207 (Del. 1993); *see also Amirsaleh v. Bd. of Trade of City of N.Y., Inc.*, 2008 WL 4182998, at *1, 7-9 (Del. Ch. Sept. 11, 2008) (genuine issue of material fact as to whether defendant "exercised its discretion in good faith" precluded summary judgment); *Bay Ctr. Apts. Owner, LLC v. Emery Bay PKI, LLC*, 2009 WL 1124451, at *6-8 & n.29 (Del. Ch. Apr. 20, 2009) (denying motion to dismiss implied covenant claim based on allegations that defendant exercised its discretion in bad faith).

The Superior Court's application of these settled principles was no "doctrinal sea change". (Opening Br. 6.) The long line of authorities—from both Delaware and elsewhere—holding that the implied covenant requires a party to a contract to exercise its discretion reasonably was recently reaffirmed by this Court in *Oxbow*. 202 A.3d at 504 n.93 (citing *Blish v. Thompson Automatic Arms Corp.*,

64 A.2d 581, 597 (Del. 1948); *Wood v. Lucy, Lady Duff-Gordon*, 118 N.E. 214, 215 (N.Y. 1917) (Cardozo, J.); Steven J. Burton, *Breach of Contract and the Common Law Duty to Perform in Good Faith*, 94 Harv. L. Rev. 369, 379-85 (1980)).[5] These authorities confirm that it is GSK who seeks a drastic change in law, such that the implied covenant would not apply to the very situation in which it is perhaps most frequently deployed. *See* Paul M. Altman & Srinivas M. Raju, *Delaware Alternative Entities and the Implied Contractual Covenant of Good Faith and Fair Dealing Under Delaware Law*, 60 Bus. Law. 1469, 1480-81 (2005) ("One context in which application of the Implied Covenant is particularly note-worthy is in the instances where a party is allowed discretion under the agreement to take certain actions. . . . Delaware cases generally support the proposition that the Implied Covenant requires that such discretion must be exercised in good faith and consistent with the reasonable expectations of the parties.").

Nor would allowing claims such as DRIT's to go to a jury "destabilize the predictability of contracts in Delaware". (Opening Br. 6.) As explained by Professor Burton in his widely cited article, a party acts in bad faith when it "refuses to pay the expected cost of performance" (*e.g.*, by taking actions with the

[5] Although *Oxbow* found no breach of the implied covenant under the unique facts of that case, that result is easily distinguishable because there, the parties asserting implied covenant claims did "not argue that the [counterclaim-defendants] exercised [their] contractual discretion in bad faith". 202 A.3d at 504 & n.93.

sole purpose of depriving a counterparty of expected payments under the contract). Burton, *supra*, at 373 (cited in *Oxbow*, 202 A.3d at 504 n.93; *Amirsaleh*, 2008 WL 4182998, at *8 n.47; *Emery Bay*, 2009 WL 1124451, at *7 n.29). For example, examining a set of cases involving commercial real estate tenants, who modified their businesses in a way that reduced sales (and therefore reduced the contractual rent owed to the landlords), Professor Burton observed that "where the [tenant] diverted business for the 'sole purpose' of bringing gross receipts down at the leased premises, a 'direct violation' of the covenant was established." *Id.* at 384-85. By contrast, when the record clearly establishes that the defendant acted for legitimate business purposes unrelated to depriving the plaintiff of payments owed under the contract, a court would be justified in granting the defendant judgment as a matter of law. And contracting parties are always free to narrow the reach of the implied covenant by "defining in the agreement the scope under which discretionary rights may be exercised". Altman & Raju, *supra*, at 1484.

Here, GSK's witnesses admitted at trial—and GSK concedes on appeal—that it statutorily disclaimed the '092 Patent solely to avoid paying royalties to DRIT. (B1645-46 ("[T]he purpose of the disclaimer was to stop paying royalties to DRIT."); B1811-12 (statutory disclaimer was the "clearest" way to "stop the payments"); Opening Br. 42 ("GSK chose to file a statutory disclaimer over a terminal disclaimer only because the former allowed it to

terminate royalties sooner.").) That makes this a paradigmatic case of bad faith. Indeed, GSK's witnesses testified that even though they had previously encountered patents with invalidity problems, none had ever filed a statutory disclaimer to address such problems. (B1544-45; B1665-66, B1669-70, B1751; B1816; B1645.) DRIT's two expert witnesses testified similarly regarding general practices. (*See* A439 ("GSK's statutory disclaimer of the '092 Patent was highly irregular and inconsistent with accepted practice"); A535-36 (similar).)

GSK's argument that its discretion to disclaim came from patent law rather than the Agreement changes nothing.[6] (*Contra* Opening Br. 28-30.) There is no basis in Delaware law for the proposition that the implied convent requires a party to exercise its discretion reasonably *only* when the discretion is explicitly conferred by the contract, as opposed to implicit in the parties' relationship or other applicable law. GSK does not cite, and DRIT has been unable to locate, any case holding that the implied covenant is so cabined.

Indeed, case law holds the opposite. In *Dunlap*, this Court rejected defendant's argument that the implied covenant did not apply because it had

[6] GSK claims its right to disclaim the '092 Patent comes from two different sources—the Agreement (Opening Br. 16) and the Patent Act (*id.* at 29). Neither is correct. As discussed in Section I.C.1, the Agreement has no such "express" provision. And as to some "pre-existing right under the Patent Act" (*id.*), GSK was still obligated to exercise its discretion to disclaim reasonably and in good faith.

exercised an extracontractual, statutory exhaustion right; the Court recognized that a party to a contract who acts in bad faith toward its counterparty by exercising even a statutory right can still violate the implied covenant. 878 A.2d at 437, 440-45. Likewise, this Court stated in *Gerber* that "[w]hen exercising a discretionary right, a party to the contract must exercise its discretion reasonably." 67 A.3d at 419. In so stating, the Court did not limit that principle to discretionary rights conferred by a contract, as opposed to some other source of applicable law.

The Court of Chancery has similarly recognized that a party's bad faith exercise of its extracontractual discretion may violate the implied covenant. In *Buckeye Partners, L.P. v. GT USA Wilmington, LLC*, the court found a reasonable probability of success on the merits on the plaintiff's implied covenant claim where the defendant, the plaintiff's landlord, exercised its property rights to block an access road needed by the plaintiff's customers solely to force the plaintiff to make certain payments allegedly owed to the defendant. *See* 2020 WL 2551916, at *8 (Del. Ch. May 20, 2020). If an owner of real property can breach the implied covenant by exercising its extracontractual property rights in bad faith, then so too can an owner of patents, like GSK. *See also* Burton, *supra*, at 384-85 (collecting implied covenant cases addressing commercial real estate tenants' diversion of business to deprive their landlords of rent).

3. The extensive evidence at trial was more than sufficient to support the jury's verdict.

Barely acknowledging the extensive trial record and ignoring the highly deferential standard of review, GSK also attacks the evidentiary basis for the jury's verdict. GSK argues that "it was entirely foreseeable that GSK would statutorily disclaim the '092 Patent" and that "DRIT adduced *no* evidence suggesting that GSK would have agreed to limit its right to disclaim the patent." (Opening Br. 21-22, 26.) GSK is simply wrong, ignoring, as the Superior Court observed, all the evidence to the contrary that was presented at trial.

Starting with the parties' reasonable expectations, there was ample evidence that the parties reasonably expected at the time of contracting that GSK would not take the unprecedented step of disclaiming its patents solely to cut off royalties. Despite GSK's attempt to aggrandize the "upfront multimillion dollar payouts" received by Biogen, the evidence showed that the parties expected that *royalty* payments would be the primary consideration due to Biogen under the Agreement. (B1487-88 (Q. "[D]id Biogen expect that the royalty payments would be the most substantial source of value in connection with the rights granted under the settlement agreement?" A. "Yes."), B1508-09; B1707-08 (GSK recognized Benlysta's "blockbuster potential"). That makes sense, because the "upfront multimillion dollar payouts" totaled only $6.5 million, whereas the royalties were reasonably expected to be tens of millions of dollars. (B1365; B1707-08; B2007;

A453, A480, A489-90.) GSK itself acknowledges this when it complains that the Superior Court is requiring "GSK to pay some $100 million in royalties through August 2022". (Opening Br. 38.)

Because of the importance of those royalty payments, Biogen did not contemplate that GSK could voluntarily disclaim the '092 Patent to avoid its royalty obligations; had Biogen thought that was a possibility, it would have insisted that GSK be prohibited from doing so. (B1509-10, B1533-34.) By contrast, there was no credible evidence that GSK believed that it had bargained for the right to disclaim a patent to avoid paying royalties. In fact, the testimony from both Biogen and GSK witnesses, as well as the documentary record, showed that "disclaimer" was *never even discussed* during negotiation of the Agreement. (B1479 (Q. "Did GSK or HGS ever discuss with Biogen the possibility that it could or would voluntarily disclaim a licensed patent prior to expiration for the purpose of avoiding paying royalties?" A. "No."), B1498, B1509-10, B1533; B1745-47 ("I do not recall whether we discussed disclaimer with Biogen."); B0011-509, B0519-875 (disclaimer to terminate royalties not mentioned in 15 drafts of the Agreement or the parties' email exchanges about them).)

That GSK would have acceded to a provision prohibiting it from statutorily disclaiming its patents solely to avoid its royalty obligations is evident from Biogen's greater leverage over GSK during negotiations. As the senior party

in the interference, Biogen was more likely to prevail because, as GSK's witness admitted, "the senior party often wins interferences". (B1710-11(Q. "There's a better success rate if you're the senior party. Right?" A. "Correct.").) In addition, Biogen had further leverage because it held a patent that GSK admitted could be used to block the commercialization of Benlysta. (B1780-83 (Q. "If they won and they got the patent, GSK was concerned that Biogen would have a patent to block the sale of Benlysta in the U.S.; correct?" A. "That was a possibility, yes."); B1465 (Q. "Did Biogen have an understanding that if the Biogen '605 patent were to prevail in the interference, that Biogen might have the right to exclude Glaxo and HGS from making, selling, marketing its Benlysta drug?" A. "Yes."); B1705-07.)[7] Indeed, this leverage enabled Biogen to negotiate a provision (Section 7.5) preserving its right to royalty payments on the HGS Patents (including the '095 Patent) even if *Biogen* breached the contract. (A094.)

Meanwhile, the jury was entitled to reject GSK's self-serving, *post hoc* assertion that it would not have agreed to limit its patent disclaimer rights. The only evidence GSK cites to support that claim is (1) testimony from GSK's witnesses that GSK wished to cover different ways "a patent could be *abandoned*"

[7] GSK now argues that Biogen could not obtain a blocking injunction (Opening Br. 25), but GSK failed to make that argument below and has, therefore, waived it. *See* Del. Supr. Ct. R. 8. In any event, GSK's claim is factually contestable (as evidenced by GSK witnesses' trial testimony contradicting its position on appeal).

and that it was "important to [GSK] to have the ability to terminate the patent at any stage"; and (2) the determination by a purportedly "neutral arbitrator" that GSK's patent would survive over Biogen's. (Opening Br. 22, 24-25; A730; A668 (emphasis added).) None of this is sufficient to overturn the jury's verdict.

First, the jury was entitled to reject GSK's witnesses' self-serving testimony as not credible, especially in light of testimony from DRIT's patent expert and a GSK employee that abandonment of a *patent application* is different from the disclaimer of an *issued patent*. (A472-74; B1843-44.) Indeed, the fact that GSK was concerned about abandonment, but never raised disclaimer, during negotiations, is further evidence that the parties did not contemplate the possibility that GSK would disclaim a patent for the purpose of cutting off royalty payments.

Second, in considering the parties' leverage, the jury was entitled to credit Biogen's status as senior party in the interference and give little weight to the purportedly "neutral arbitration" that GSK emphasized. As DRIT demonstrated, this "arbitration" was not a "neutral", impartial proceeding. It occurred *after* the parties had already signed a *binding* term sheet, by which point Biogen was no longer incentivized to ensure its patent won out over GSK's; GSK, not Biogen, hired and paid for the "arbitrator"; and Biogen was not even represented by counsel before the "arbitrator" because, as even GSK's witness admitted, "Biogen wasn't really a party to the arbitration". (B1722-24; B1527; *see*

also B0510-15.) And GSK's witness ultimately admitted that "[t]here was no formal arbitration of the interference". (B1743.)

Given the evidence supporting the jury's conclusion that the parties reasonably expected that GSK would not use its discretion to disclaim its patents solely to avoid paying royalties, there was a wealth of evidence that GSK acted in bad faith in disclaiming the patent for that very purpose.

Testimony from DRIT's two experts—not just Mr. Johnson—further supported the conclusion that GSK's disclaimer was unreasonable because (1) the accepted practice in the face of a validity issue is to do nothing; (2) it was highly unusual for a patentee to seek a written opinion that its *own* patent is invalid; and (3) it was inconsistent with industry standards for GSK to fail to communicate with DRIT prior to the disclaimer. (A439-40, A458, A489; A535-36, A545-47.) Contrary to GSK's assertions, industry norms (or "accepted practices" in Mr. Kunin's terminology) are an acceptable guidepost in determining whether a party breached the implied covenant. (*See infra* Section II.C.1.)

"[T]he factual findings of a jury will not be disturbed if there is 'any competent evidence upon which the verdict could reasonably be based.'" *Mercedes-Benz*, 596 A.2d at 1362. In light of the extensive evidence of bad faith and the enormous deference given to jury verdicts, this Court should affirm the judgment below.

II. THE SUPERIOR COURT PROPERLY EXERCISED ITS DISCRETION IN DENYING GSK'S REQUEST FOR A NEW TRIAL BASED ON PHILIP JOHNSON'S TESTIMONY.

A. Question Presented

Did the Superior Court properly exercise its discretion to deny GSK's request for a new trial when GSK (1) grounds its request solely on its contention that Philip Johnson was improperly permitted to testify that GSK's statutory disclaimer was inconsistent with industry norms and (2) cannot show undue prejudice? (B2038-47.)

B. Scope of Review

This Court reviews the Superior Court's denial of a motion for new trial under "a stringent 'abuse of discretion' standard of review." *Strauss v. Biggs*, 525 A.2d 992, 996-97 (Del. 1987). Where the appellant contends that the Superior Court erred "in admitting certain evidence, the reviewing court will first consider whether the specific rulings at issue were correct. If the court finds error or abuse of discretion in the rulings, it must then determine whether the mistakes constituted 'significant prejudice so as to have denied the appellant a fair trial.'" *Id.* at 997.

C. Merits of Argument

GSK argues that Mr. Johnson's testimony that GSK's statutory disclaimer was inconsistent with industry norms was irrelevant because it "had nothing to do with GSK's and Biogen's expectations", and prejudicial because it was the "centerpiece" of DRIT's case that GSK acted in bad faith. (Opening Br. 6,

33, 37.) GSK is wrong on both points. *First*, Mr. Johnson's testimony regarding industry norms was relevant to the issue of whether GSK's violated the implied covenant when it chose to disclaim. *Second*, the centerpiece of DRIT's case was not Mr. Johnson's testimony—it was the extensive testimony from numerous fact witnesses, mostly GSK's own employees, that GSK acted in bad faith. Mr. Johnson testified on direct for less than an hour, and nearly all of the testimony about which GSK complains was elicited by *its lawyers* on cross. Accordingly, Mr. Johnson's testimony, even if it were irrelevant, did not prejudice GSK.

1. Industry norms are relevant to determining whether a party has breached the implied covenant.

The Superior Court did not abuse its discretion in concluding that Mr. Johnson's testimony regarding industry norms was relevant. GSK argues that Mr. Johnson's opinions are irrelevant because he did not opine on the parties' reasonable expectations. (Opening Br. 34-36.) Although the parties' reasonable expectations are relevant to one of the key issues in this case—determining whether an implied obligation exists—Mr. Johnson's opinion were directed to another—whether GSK's actions were consistent with that implied obligation when it statutorily disclaimed the '092 Patent.

Delaware courts have routinely relied on or permitted evidence on industry norms to evaluate parties' conduct. *See, e.g.*, *Ridgeway v. Acme Markets, Inc.*, 194 A.3d 372, 2018 WL 4212140, at *3 n.18 (Del. 2018) (TABLE) (slip-and-

fall); *Gerstley v. Mayer*, 2015 WL 756981 (Del. Super. Ct. Feb. 11, 2015) (contract and tort claims related to accidental cremation); *Joseph T. Dashiell Builders v. Andrews*, 2002 WL 31819895 (Del. Super. Ct. Dec. 10, 2002) (contractor's implied obligation to construct improvements with good quality and workmanship); *Pfizer Inc. v. Advanced Monobloc Corp.*, 1999 WL 743927, at *7 (Del. Super. Ct. Sept. 2, 1999) (manufacturer's contractual responsibilities); *Fleming Companies, Inc. v. DRR, L.L.C.*, 1999 WL 167822, at *6 (Del. Super. Ct. Mar. 3, 1999) (alleged rushed timing of performance under contract); *J. A. Const. Co. v. City of Dover*, 372 A.2d 540, 550 (Del. Super. Ct. 1977) (alleged breach of contract where time for delivery was unspecified).

Industry standards are particularly important as a gap-filler in the contractual context. It is black-letter law that contracts can be interpreted in light of industry norms, also known as "custom" or "trade usage". *See, e.g.*, *Salamone v. Gormon*, 106 A.3d 354, 374 (Del. 2014) (observing it "is well settled" that "business custom and usage in the industry" is a permissible source of extrinsic evidence for contract interpretation); *see also* 12 *Williston on Contracts* § 34:1 (trade usage and industry standards are synonymous, and "the language of an agreement should be construed in view of common practices"). And trade usage may be used "[t]o add terms to the agreement in accordance with the usage." 12 *Williston on Contracts* § 34:1. That is, usage may act "as a 'gap-filler,'

allowing evidence of usage to be introduced when the contract is silent as to a particular issue." *Id.* Delaware courts have applied this principle in diverse contractual settings. *See In re Trust of Gore*, 2011 WL 13175993 (Del. Ch. Dec. 30, 2010) (dispute over the meaning of a trust instrument); *BAE Sys. Information & Electronic Sys. Integration, Inc. v. Lockheed Martin Corp.*, 2009 WL 264088, at *5 & n.38 (Del. Ch. Feb. 3, 2009) (breach of contract case in which one of the parties claimed that a particular term was too indefinite to be enforceable); *N. Amer. Philips Corp. v. Aetna Cas. and Sur. Co.*, 1995 WL 628447 (Del. Super. Ct. Apr. 22, 1995) (complex commercial insurance coverage case).

The implied covenant is no exception. In determining the scope of the common law implied covenant, this Court has, for example, drawn on the Uniform Commercial Code's ("UCC") implied duty of good faith. *See E.I. DuPont de Nemours & Co. v. Pressman*, 679 A.2d 436, 443 (Del. 1996) ("the [UCC] is appropriate to consider by analogy" in implied covenant cases); *Oxbow*, 202 A.3d at 504 n.93 (analogizing to "open-term" gap-filling under the UCC). The Delaware UCC defines "good faith" by reference to "reasonable commercial standards of fair dealing", 6 *Del. C.* § 1-201(20), which means industry norms or standards, *Sherrock v. Commercial Credit Corp.*, 269 A.2d 407, 409 (Del. Super. Ct. 1970) (explaining UCC "commercial reasonableness" in terms of

whether the party "followed accepted standard procedures of the automobile trade").[8]

Some jurisdictions have *explicitly* incorporated industry standards into the evaluation of whether a party has breached the common law implied covenant of good faith and fair dealing. *See City of Gillette v. Hladky Constr., Inc.*, 196 P.3d 184, 196 (Wyo. 2008); *McCoy v. First Citizens Bank*, 148 P.3d 677, 681-82 (Mont. 2006); *Indep. v. Hecla Mining*, 137 P.3d 409, 415 (Idaho 2006); *Hangarter v. Provident Life & Acc. Ins. Co.*, 373 F.3d 998, 1016-17 (9th Cir. 2004); *New Design Constr. Co. v. Hamon Contractors, Inc.*, 215 P.3d 1172, 1182 (Colo. App. 2008); *Iron Horse Eng'g Co. v. Nw. Rubber Extruders, Inc.*, 89 P.3d 1249, 420-21 (Or. Ct. App. 2004); *Encompass Ins. Co. v. Berger*, 2014 WL 4987978, at *21 (C.D. Cal. Oct. 7, 2014); *CleanOne, Inc. v. RSM US LLP*, 2017 WL 923949, at *5 (D. Utah Mar. 6, 2017); *Pro Star Mktg. Grp. v.*

[8] Other jurisdictions hold the same. *See In re Jersey Tractor Trailer Training Inc.*, 580 F.3d 147, 156-57 (3d Cir. 2009) (New Jersey UCC); *Tom-Lin Enters., Inc. v. Sunoco, Inc. (R&M)*, 349 F.3d 277, 282 (6th Cir. 2003) (Ohio UCC); *Antero Res. Corp. v. S. Jersey Res. Grp.*, 933 F.3d 1209, 1221-22 (10th Cir. 2019) (New Jersey UCC); *E. Air Lines, Inc. v. McDonnell Douglas Corp.*, 532 F.2d 957, 979 (5th Cir. 1976) (California UCC); *In re Nieves*, 648 F.3d 232, 239-40 (4th Cir. 2011) (general UCC); *Graffman v. Espel*, 1998 WL 55371, at *5 (S.D.N.Y. Feb. 11, 1998) (New York UCC), *aff'd sub nom. Graffman v. Doe*, 201 F.3d 431 (2d Cir. 1999).

Home Depot, Inc., 2006 WL 8457595, at *7 (D.N.J. June 20, 2006).[9] Thus, in asking this Court to reject the relevance of industry norms, GSK contravenes longstanding Delaware law and the weight of authority in other jurisdictions.

2. The Superior Court acted within its discretion in concluding that Philip Johnson's testimony on industry norms was not misleading.

GSK argues that Mr. Johnson's testimony was "irrelevant and misleading" because Mr. Johnson "declined to tie his testimony to the parties' expectations". (Opening Br. 34.) However, that limitation on Mr. Johnson's testimony is precisely what GSK sought—and obtained—before trial. In ruling on GSK's motion *in limine* to exclude Mr. Johnson, the Superior Court accepted GSK's argument that Mr. Johnson could not opine on the parties' intent or state of mind, confining the scope of Mr. Johnson's testimony to industry norms regarding patent validity opinions and patent management in the biopharmaceutical industry. (B1324-28; A534.) Having successfully excluded this testimony, GSK cannot now complain about its absence.

Based on his extensive experience as a patent lawyer—27 years in private practice and 17 years as Chief Patent Counsel at Johnson & Johnson

[9] If GSK, solely on reply, purports to repeat its argument below that Mr. Johnson's opinions were unreliable because the norms are "unwritten" (Opening Br. 32-33; *see* A826-27), these cases make clear that there is no requirement that the industry norms be codified.

(A528-34)—Mr. Johnson testified that three aspects of GSK's conduct were inconsistent with industry norms: (1) GSK's request for a written opinion of invalidity; (2) GSK's decision to statutorily disclaim; and (3) GSK's failure to communicate with DRIT before the disclaimer. (A535-34, A545-47.) GSK complains only of Mr. Johnson's testimony about statutory disclaimer (item (2)).

Mr. Johnson's opinions on statutory disclaimer were firmly grounded in the record—including the Agreement itself.[10] Mr. Johnson based his opinions on his review of extensive documentary evidence, including GSK's internal patent guidelines, the deposition transcripts of the key witnesses who testified at trial, and his observation of the witnesses' live testimony. (A534-35; A556-58.) GSK's witnesses testified, consistent with Mr. Johnson's opinion, that even though they had previously encountered patents with invalidity problems, *none* had ever filed a statutory disclaimer. (B1544-45; B1665-66, B1669-70; B1751; B1816; B1645.)

Mr. Johnson's testimony that the Agreement was "different . . . than the normal patent license" because the patent owner was paying, not receiving, royalties, does not render his testimony irrelevant. Indeed, GSK admits that this unusual situation gave GSK an "incentive" to deprive DRIT of the royalty stream.

[10] GSK's assertion that Mr. Johnson "didn't even review the Agreement" (Opening Br. 6) is wrong. (A576 (testifying on cross when challenged on this very issue: "I did consider the contract, as you know, because we discussed it. . . . I considered the contract in connection with preparing my expert report."); *see also* B1199.)

(Opening Br. 35.) In any event, GSK's argument goes only to the weight of Mr. Johnson's testimony, which was for the jury to weigh. GSK had a full and fair opportunity to cross-examine Mr. Johnson on these issues—and it did so in an extensive and aggressive questioning. (A570-622.) In fact, almost all of Mr. Johnson's testimony that GSK cites in its opening brief was elicited *by GSK* during that cross-examination. (*See* Opening Br. 34-35 (citing A609-10; A572-73; A573; A570; A570-71).) And GSK presented its own expert witness, Lawrence Knopf, who testified about Mr. Johnson's opinions. (B1903-49.) As the Superior Court found, "[t]he basis or lack thereof for Mr. Johnson's opinions were thoroughly reviewed during cross-examination and his opinions were significantly challenged by that examination. . . . No doubt the testimony was not to Defendants' liking, but it clearly was not unfairly prejudicial or misleading and was appropriately allowed to be given to the jury." (JMOL Op. at 7.)

Finally, there is no basis to conclude that Mr. Johnson's testimony misled the jury, which was instructed under settled law on the implied covenant and on the role of expert testimony. (B1970-88.) GSK stops short of complaining about the Superior Court's jury instruction—and with good reason. The Superior Court fairly incorporated both sides' suggestions into its final jury instructions,

rejecting only one minor modification requested by GSK. (B1975-76, B1980; B1754-57.)[11]

3. The Superior Court properly exercised its discretion in denying GSK's request for a new trial.

GSK does not cite a single case granting a new trial on the basis of expert testimony. Instead, the cases cited by GSK confirm that this Court applies a deferential standard of review to trial judges' evidentiary rulings on expert testimony. *See Eskin v. Carden*, 842 A.2d 1222, 1226 (Del. 2004) (reaffirming "the long-standing standard of review of abuse of discretion applies to trial judges' rulings on the admissibility of [expert] testimony" and upholding the trial judge's determination); *Mason v. Rizzi*, 89 A.3d 32, 34 (Del. 2004) (holding "the trial judge did not abuse her discretion" either by barring certain expert testimony or by allowing certain other expert testimony).

Moreover, DRIT did not "rely exclusively" on Mr. Johnson's testimony to establish the reasonable expectations of the parties. (*Contra* Opening Br. 37.) DRIT relied on testimony from *the parties* to establish their reasonable expectations—including extensive testimony (totaling almost six hours) on this subject from both GSK and Biogen witnesses who participated in the drafting of the Agreement. (*See supra* Section I.C.3 (citing testimony from Jo Ann Taormina,

[11] GSK did not challenge the Superior Court's jury instructions in its opening brief and has thus waived any such challenge. *See* Del. Supr. Ct. R. 14(b)(vi)(A)(3).

Lucy Hitchcock and Michelle Wales, among others); A627-704; B1770-1900; A704-35; B1695-751; B1455-534.) Those witnesses testified consistently that that the parties did not anticipate, at the time of contracting, that GSK would take the unprecedented step of disclaiming its patents solely to cut off royalties. (*See supra*.) Nor was Mr. Johnson's testimony focused exclusively on GSK's decision to statutorily disclaim the '092 Patent. His direct testimony occupied *less than an hour out of a six-day trial* and covered the three topics identified above as well as presenting his qualifications.

Nor was Mr. Johnson's testimony the "centerpiece" of DRIT's case. The centerpiece was the extensive evidence that GSK acted in bad faith by disclaiming the '092 Patent (*see supra*). And, notably, GSK does not complain about similar testimony from DRIT's unrebutted PTO expert witness, Stephen Kunin, a 34-year veteran of the PTO who retired as Deputy Commissioner for Patent Examination Policy. Mr. Kunin, among other things, testified that GSK's disclaimer "was highly irregular and inconsistent with accepted practice". (A431, A439-40.). Thus, even if the Superior Court had granted GSK's request to exclude Mr. Johnson's, the jury still would have heard similar testimony from Mr. Kunin.

Considering the testimony at trial, and Mr. Johnson's actual role in it, the Superior Court was well within its discretion in refusing to grant a new trial.

III. THE SUPERIOR COURT PROPERLY EXERCISED ITS DISCRETION IN DETERMINING DRIT'S DAMAGES.

A. Question Presented

Did the Superior Court properly exercise its discretion in determining that the appropriate remedy for GSK's breach of the implied covenant is the continuation of royalty payments under the Agreement as if the '092 Patent had not been statutorily disclaimed? (B1991-95; B2059-63.)

B. Scope of Review

This Court reviews the Superior Court's "damages determination for abuse of discretion, and will uphold its factual findings unless they are clearly erroneous." *Siga Techs., Inc. v. PharmAthene, Inc.*, 132 A.3d 1108, 1128 (Del. 2015). This is a "highly deferential standard". *State v. Lewis*, 797 A.2d 1198, 1202 (Del. 2002). This Court has "emphasize[d] the limited scope of appellate review of a damages award"; this Court "do[es] not substitute [its] own notions of what is right for those of the trial judge if that judgment was based upon conscience and reason, as opposed to capriciousness and arbitrariness." *Siga Techs.*, 132 A.3d at 1130. "When factual findings are based on determinations regarding the credibility of witnesses, the deference already required by the clearly erroneous standard of appellate review is enhanced." *CDX Holdings, Inc. v. Fox*, 141 A.3d 1037, 1041 (Del. 2016).

C. Merits of Argument

GSK disregards both the substantial evidence supporting the Superior Court's damages award and the deferential appellate standard of review. The Court should reject GSK's arguments for three reasons. *First*, GSK is estopped from asserting that royalty payments should have ended in October 2016 because GSK took the opposite position before trial, promising that, if found liable, it would pay damages through trial and continue to pay royalties afterward under the Agreement. *Second*, ample evidence supports the Superior Court's finding that the parties reasonably expected royalties to continue until August 2022. *Third*, the evidence was more than adequate for the Superior Court to conclude, as factfinder, that GSK would not have terminally disclaimed the '092 Patent.

1. GSK is estopped from asserting that royalty payments should have ended in October 2016.

"Under the doctrine of quasi-estoppel, the Court may preclude a party from asserting, to another's disadvantage, a right inconsistent with a position it has previously taken." *RBC Cap. Mkts., LLC v. Jervis*, 129 A.3d 816, 873 n.241 (Del. 2015) (alteration and internal quotation marks omitted); *see also Pers. Decisions, Inc. v. Bus. Plan. Sys., Inc.*, 2008 WL 1932404, at *6 (Del. Ch. May 5, 2008) ("[T]o allow [the defendant] . . . to now change its position to advance its litigation aims would offend equitable principles."), *aff'd*, 970 A.2d 256 (Del. 2009). "[Q]uasi-estoppel applies when it would be unconscionable to allow a person to

maintain a position inconsistent with one to which he acquiesced, or from which he accepted a benefit." *RBC*, 129 A.3d at 872-73. Unlike traditional estoppel, "[a] party does not need to show reliance for quasi-estoppel to apply." *Id.* at 873 n.241.

Here, GSK's post-trial position directly contradicts the position it took before trial. In opposition to a DRIT motion to compel damages discovery, GSK, in December 2016, promised the Superior Court that the damages calculation would be so "straightforward" that a "sixth-grader" could do it. (B1191-93.) GSK told the Superior Court that "we're going to owe the royalties for sales *up to the date of the trial*" as damages, "and you're going to order us to keep paying royalties based on the contract language *for all future sales* up to what would have been whatever the Court determines the proper termination date would be, [*i.e.*,] we'll pay actual royalties on actual sales as the contract contemplated." (B1191 (emphases added).) When the Superior Court expressed concern that GSK would try to walk back from this representation, GSK again assured the court that if it lost, GSK would "pay [DRIT] the royalties [GSK] already owed them . . . and *then on a go-forward basis [] pay them under the contract when the royalties are due.*" (B1193 (emphasis added).) DRIT relied on this representation, agreeing to forego all damages discovery.

Months after the close of fact discovery, GSK suggested for the first time that the damages period should end in October 2016—*two years* before the

trial date. GSK did not provide any basis for this new theory until June 19, 2018 (three months before trial), when in opposition to a motion in *limine,* GSK argued that damages should end on this date because GSK *could have* terminally disclaimed the '092 Patent (an action GSK never took). (*See* B1316-21.) GSK had never previously made that argument—not in its answer (*see* B1183-84), interrogatory responses, depositions, oral arguments, or extensive court filings.

The Superior Court properly rejected GSK's about-face. Had it not, DRIT would have been seriously prejudiced: in reliance on GSK's representation DRIT relinquished its request for damages discovery, did not retain a damages expert, did not proffer damages-related testimony, and did not submit damages to the jury. (B1194 (counsel for DRIT noting that, in light of GSK's representations, "we just eliminated the need for damages experts at trial"); B1268.)

Rewarding GSK's "self-interested 180 degree turn" would be unconscionable. *See Pers. Decisions, Inc.*, 2008 WL 1932404, at *7. GSK never disclosed this damages theory, avoided damages discovery, limited the scope of DRIT's fact and expert discovery, and avoided a jury determination of damages. GSK cannot be heard to exploit these benefits to gain an unfair advantage by changing its position now. That is what the doctrine of quasi-estoppel prohibits.

2. The Superior Court properly found that the parties reasonably expected royalties to continue until August 2022.

Ample evidence showed that the parties reasonably expected royalty payments to continue until the expiration of a royalty-bearing patent, whenever the PTO determined that expiration date to be. The undisputed evidence was that date is August 4, 2022.

Ignoring the record, GSK asserts that the parties expected in 2008 that royalties would end in 2016. (Opening Br. 44.) But Biogen's and GSK's corporate representatives testified that they expected the royalties to last until the royalty-beraing patent actually "expired". (B1478, B1490; A658.) GSK's assertion that the parties expected that patent to expire in October 2016 has no support in the record (and GSK cites none). In fact, GSK's corporate representative testified that in 2008, the parties "had no idea of how long [the patent] would last", though "it was likely that there would be some patent term adjustment." (B1792-93.) "Patent term adjustment" is an *extension* of a patent's term.

The evidence shows that at the time of GSK's statutory disclaimer, the parties knew that the '092 Patent's expiration date had been set at August 4, 2022. *See Siga Techs.*, 132 A.3d at 1132-33 ("[U]nder Delaware law, the standard remedy for breach of contract is based on the reasonable expectations of the parties that existed before or *at the time of the breach*." (emphasis added).) DRIT's

unrebutted patent expert, Mr. Kunin, confirmed that on February 2, 2015—before GSK filed the disclaimer—the PTO adjusted the term of the ’092 Patent so that it ended on August 4, 2022. (B1035; A452-53, A480, A489-90.) GSK’s outside patent counsel admitted before and during trial that the patent “would have expired on August 4, 2022 absent the statutory disclaimer”. (B1054; B1433, B1436-38.) DRI Capital’s CEO and former general counsel each testified that they understood royalty payments would continue until the expiration of the ’092 Patent in 2022. (B1351; B1577-78.) Thus, the Superior Court’s finding that the ’092 Patent would have expired on August 4, 2022 is supported by uncontested documentary and testimonial evidence.[12]

3. The Superior Court properly found that GSK would have done nothing rather than terminally disclaim the ’092 Patent.

The Superior Court found “less than convincing” GSK’s claim that it would have terminally disclaimed the ’092 Patent, but for the statutory disclaimer. (JMOL Op. at 10.) Again, ample evidence at trial supported that conclusion. DRIT’s experts testified that the accepted practice when faced with the invalidity

[12] This conclusion holds regardless of whether, as GSK contends, the Superior Court mistakenly implied that the term of a patent commences on the issuance of the patent rather than the filing of the application. (*Cf.* Opening Br. 44-45.) The Superior Court correctly based its conclusion on “[t]he expectation of the parties” (JMOL Op. at 10), and the evidence is clear that the parties expected the patent to expire on whatever date the PTO ultimately granted, which turned out to be August 4, 2022.

problem faced by GSK would be for GSK to *do nothing* and keep the patent alive. (A439, A458, A479-80, A489; A611.) GSK's corporate representative conceded that doing nothing "was an option". (B1811.) She further testified that keeping the patent alive "added value" even with the validity issue, confirming that doing nothing was not only an option, but in fact rational. (B1801-03.) And the patent had value: a GSK slideshow generated just after the disclaimer was filed identified multiple Benlysta competitors, at least one of which could have infringed the '092 Patent. (B1070; B1957-58.) Moreover, in soliciting the invalidity opinion, GSK told F&R to *ignore* the possibility of filing a terminal disclaimer, confirming that GSK did not intend to pursue that option. (B1019; B1413.)

Ultimately, GSK did not terminally disclaim the patent—it filed a statutory disclaimer because killing the patent was, in GSK's mind, the fastest route to cutting off royalties. To give GSK the benefit of a decision it never made in order to cap its damages would only reward GSK's bad faith. This Court should affirm the Superior Court's damages determination.

IV. ALTERNATIVELY, THE COURT SHOULD UPHOLD THE JUDGMENT BECAUSE GSK BREACHED THE AGREEMENT WHEN IT CEASED PAYING ROYALTIES.

The jury verdict should be upheld by the Court for the reasons stated above. Should the Court disagree, an alternative ground exists to uphold the judgment in favor of DRIT: Count I of DRIT's complaint, for breach of contract, was dismissed in error by the Superior Court. Under the unambiguous language of the Agreement, GSK is not excused from making royalty payments to DRIT even if GSK exercises its discretion to statutorily disclaim royalty bearing patents.

A. Question Presented

Should the Superior Court have denied GSK's motion to dismiss Count I of the complaint when the terms of the Agreement unambiguously require GSK to continue paying royalties even if it disclaims a royalty-bearing patent? (B1150-63.)

B. Scope of Review

The Supreme Court reviews *de novo* rulings on motions to dismiss. *Cent. Mortg. Co. v. Morgan Stanley Mortg. Capital Holdings LLC*, 27 A.3d 531, 535 (Del. 2010). This Court "may affirm on the basis of a different rationale than that which was articulated by the trial court, if the issue was fairly presented to the trial court." *RBC*, 129 A.3d at 849.

C. Merits of Argument

In interpreting a contract, "Delaware courts' central task is determining the parties' shared intent. To do that, the court first looks to the contract's plain text." *Hartley v. Consol. Glass Holdings, Inc.*, 2015 WL 5774751, at *8 (Del. Ch. Sept. 30, 2015), *aff'd*, 137 A.3d 122 (Del. 2016). The court must read the contract "as a whole, in order to divine that intent." *Equity Tr. Co. v. Interactive Brokers LLC*, 2018 WL 1216082, at *3 (Del. Super. Ct. Mar. 6, 2018), *aff'd*, 196 A.3d 885 (Del. 2018). The contract should not be read to"produce[] an absurd result or one that no reasonable person would have accepted when entering the contract." *Osborn ex rel. Osborn v. Kemp*, 991 A.2d 1153, 1160 (Del. 2010). Rather, a court should construe the contract "so that a reasonable person in the position of either party would have no expectations inconsistent with the contract language." *Eagle Indus. v. DeVilbiss Health Care*, 702 A.2d 1228, 1232 (1977).

Here, the Agreement unambiguously provides that GSK must continue to make royalty payments if it voluntarily disclaims the royalty-bearing patent. Although the Agreement allows royalties to end when certain enumerated events occur, GSK's voluntary disclaimer of a royalty-bearing patent is not one of those events. The Agreement nowhere excuses GSK's payment of royalties after it voluntarily disclaims a royalty-bearing patent. GSK, therefore, breached the contract by failing to pay DRIT royalties after disclaiming the '092 Patent.

This conclusion is reinforced by the circumstances under which the Agreement was executed. As GSK admits (Opening Br. 35), the Agreement is not a typical patent license in which Biogen would retain all rights to the patents in the event of termination of royalty payments. Instead, Biogen gave up its right to a patent that would have blocked Benlysta sales in exchange for a royalty stream based on GSK's '092 Patent. If, as GSK argues, it had free reign to terminate its royalty obligation by disclaiming this royalty-bearing patent anytime it wanted—including the day after the contract was signed—Biogen would have received virtually no benefit whatsoever. The Superior Court recognized this:

> [I]f I accept [GSK's] argument, on the day after [GSK] got the patent, [GSK] could disclaim it and not pay any royalty at all, which would seem to be really inconsistent with what was intended by the agreement that was entered into because it would make no sense to have the royalty clause if that was the purpose.

(B1170.)

1. The Superior Court misinterpreted the Valid Claim provision.

Biogen's (and thus DRIT's) right to receive royalties under the Agreement extends "until **expiration** of the last Valid Claim". (A085 (emphasis added).) GSK was obligated to continuing paying royalties after the '092 Patent was disclaimed because a voluntary disclaimer is not an event which would take a royalty-bearing patent out of the corpus of Valid Claims.

This result is firmly grounded in the contractual language. The Valid Claim definition uses two "that has not" clauses to delineate the ways in which a patent right covered by the agreement claim may lose status as a "Valid Claim":

> a claim of an issued, unexpired patent within the Patent Rights *that has not* expired, lapsed, or been cancelled or abandoned, and *that has not* been dedicated to the public, disclaimed, or held unenforceable, invalid, or cancelled by a court or administrative agency of competent jurisdiction in an order or decision from which no appeal can be taken or was timely taken, including through opposition, reexamination, reissue or disclaimer.

(A083 (emphasis added).) The first "that has not" clause identifies events that can take place without judicial or agency action. The second "that has not" clause identifies events, including disclaimer, that require an "order or decision" by "a court or administrative agency". These are the *only* actions that remove a patent claim from the corpus of Valid Claims and thereby end royalty payments, absent an express provision allowing for the cessation of royalty payments (such as exists in Sections 7.3 and 7.4 for Biogen Idec Prosecution Patents (*see infra* at Section IV.C.2)).

Rather than reaching this straightforward interpretation, the Superior Court concluded that "once [GSK] disclaimed the patent rights covering Benlysta, [it was] no longer required under the Settlement Agreement to pay royalties with respect to U.S. sales of the product." (MTD Op. at 17.) The Superior Court found, incorrectly, that DRIT's interpretation was "legally . . . flawed" because it would

have the court "essentially ignore the meaning of the term 'disclaimed'" in the patent context. (*Id*. at 14-16.) The Superior Court also found DRIT's interpretation was "grammatically" flawed because, under the last antecedent rule, "by a court or administrative agency" should be read to modify only "held unenforceable, invalid, or cancelled by a court or administrative agency", and not "by dedication to the public" and "disclaimed". (*Id*. at 16-17.)

The Superior Court reached an incorrect interpretation because it attempted to conform the terms of the contract to the plain meaning of "disclaimer", rather than to interpret "disclaimer" as it is used in the Agreement. DRIT does not dispute that the common usage of "disclaim" in the context of U.S. "patent rights refers to a patentee's renunciation of legal rights to claims of a patent" (*id*. at 15) or that GSK had the discretion to disclaim the '092 Patent, subject to its obligation under the implied covenant to exercise that discretion reasonably and in good faith. But that does not end the inquiry—the question is whether GSK's unilateral disclaimer also ended its obligation to pay royalties.

Under the plain language of the contract, GSK's voluntary disclaimer of the '092 Patent did not extinguish its obligation to pay royalties. The second "that has not" clause—where "disclaimer" appears—provides that only a disclaimer *ordered by a court or administrative agency* takes the claim out of the corpus of "Valid Claims", and thereby ends GSK's royalty obligation. This is

clear from the text: "*that has not* been dedicated to the public, disclaimed, or held unenforceable, invalid, or cancelled by a court or administrative agency of competent jurisdiction in an order or decision from which no appeal can be taken or was timely taken, including through opposition, reexamination, reissue or disclaimer". *See Lorillard Tobacco Co. v. Am. Legacy Found*., 903 A.2d 728, 739-40 (Del. 2006) ("[a] court must accept and apply the plain meaning of an unambiguous term in the context of the contract language and circumstances").

This interpretation does not "ignore the meaning of the term 'disclaimed.'" (MTD Op. at 14). Courts have the power to order a patentholder to take certain actions with respect to its patents, including requiring the patent to be dedicated to the public or disclaimed. For example, the court in *Interlego A.G. v. F.A.O. Schwarz, Inc*. ordered, pursuant to its equitable powers, that the plaintiff disclaim the patents at issue before it would dismiss the action after discovery revealed that the plaintiffs' claims were indefensible. 1978 WL 21421, at *3-5 (N.D. Ga. Mar. 8, 1978). Other courts have acknowledged a court's ability to order a disclaimer of a patent. *See, e.g.*, *Liquid Carbonic Co. v. Gilchrist Co.*, 253 F. 54, 59 (7th Cir. 1918) (patentee must disclaim certain patent claims for the court to grant a decree for injunction); *Jacobsen v. Katzer*, 609 F. Supp. 2d 925, 931 (N.D. Cal. 2009) (implying court's power to "order[]" disclaimer); *Becton Dickinson & Co. v. R.P. Scherer Corp*., 211 F.2d 835, 843 (6th Cir. 1954)

(similar); *cf. United States v. Libbey-Owens-Ford Glass Co*., 1973 WL 885, at *5 (N.D. Ohio Feb. 8, 1973) (contemplating court's ability to order the dedication of a patent to the public); *United States v. Gen. Elec. Co*., 115 F. Supp. 835, 843 (D.N.J. 1953) (same).

This limitation is further evident from the second instance of "disclaim" at the very end of the second "that has not" clause: "including through opposition, reexamination, reissue or **disclaimer**." (A083 (emphasis added).) "Disclaimer" is again used in the context of a Court order. Nowhere is "disclaim" used to encompass a voluntary disclaimer *by the patentholder*.

The Superior Court misapplied the last antecedent rule, which is a flexible rule of contract construction. The rule provides that "qualifying words or phrases, where no contrary intention appears, usually relate to the last antecedent". *Rag Am. Coal*, 1999 WL 1261376, at *4. Applying that rule, the Superior Court concluded that the phrase "by a court or administrative agency of competent jurisdiction" modifies only the "held unenforceable, invalid or canceled" of the second "that has not" clause, and not "dedicated" or "disclaimed".

But, as the Superior Court acknowledged (MTD Op. at 17 n.60), "the last antecedent rule is but one of numerous rules designed to assist in the discovery of intent and is not to be inflexibly or uniformly applied", *NBC Universal v. Paxson Commc'ns Corp.*, 2005 WL 1038997, at *6 (Del. Ch. Apr. 29, 2005), and

is less persuasive where a "contrary intention appears", *Rag Am. Coal*, 1999 WL 1261376, at *4. Here, a contrary intention is evident in the grammatical structure of the Valid Claim provision. If the phrase "by a court or administrative agency" was meant to modify only the phrase "held enforceable, invalid, or canceled" (MTD Op. at 13), instead of all the events following the second "that has not", there would be no need to organize the enumerated events with two separate "that has not" clauses. *See Alta Berkeley VI C.V. v. Omneon, Inc*., 41 A.3d 381, 387 (Del. 2012) (clarifying clause like "provided, however" only applied to the series it preceded because otherwise it would be rendered superfluous). The provision would have instead been written as a single sequence with a single "that has not clause" and only one conjunction, which would require the addition and deletion of several words. DRIT's interpretation, however, requires no modifications to the provision, and gives meaning to the natural separations in the Valid Claim provision.

2. The Superior Court's interpretation of the Valid Claim provision is inconsistent with the Agreement as a whole.

The Superior Court's interpretation also fails to properly consider the Agreement as a whole. Although the court concluded that there was no "contrary intention" in the Agreement (MTD Op. at 17 n.60), the contact as a whole does exhibit such a contrary intention.

First, no provision of the Agreement affirmatively gives GSK the power to terminate its payment obligations by voluntarily disclaiming a royalty-bearing patent. "Rights that are critical to one party but potentially detrimental to another party, and that run contrary to the prevailing legal framework governing the parties' relationship, must be set forth in 'crystal clear' and 'unequivocal' language within the text of the parties' contract and cannot be left for inference after an alleged breach has occurred." *See Segovia v. Equities First Holdings, LLC*, 2008 WL 2251218, at *14 (Del. Super. Ct. May 30, 2008) (citing *State v. Interstate Amiesite Corp.*, 297 A.2d 41, 44 (Del. 1972)).

Second, the parties were careful to include provisions addressing the parties' termination rights—and ensuring that the royalty payments on the '092 Patent *survived* termination. Indeed, an entire section of the Agreement—Section 7—is dedicated to Biogen's and GSK's rights to terminate, with no discussion whatsoever of any right of GSK to terminate royalty payments on the '092 Patent. (A093-94.) Section 7.3 of the Agreement affirmatively grants GSK the right to terminate, on a patent-by-patent basis, royalty payments on "Biogen Idec Prosecution Patents" (not the '092 Patent) "for any reason or for no reason at all" and Section 7.4 specifically relieves GSK of paying royalties after such termination. (A093.) And under Section 7.5, GSK was obligated to *continue paying royalties* on the '092 Patent (an "HGS Patent") even if GSK terminated the

Agreement for material breach by *Biogen*. (B1112, B1122, B1129-30; A094.) If the parties wanted to give GSK the right to terminate royalty payments on the '092 patent, they knew how to do so—but elected not to because of the central importance of that royalty stream to Biogen. *See Osborn ex rel. Osborn*, 991 A.2d at 1160 (contracts should not be interpreted to "produce[] an absurd result or one that no reasonable person would have accepted when entering the contract").

Third, the Superior Court's interpretation of the Agreement effectively gives GSK and unbargained-for right to terminate, which is inconsistent with the limitations placed on its power to terminate royalty payments in the carefully crafted termination provisions of Section 7. Courts in this state have often found such constructions contrary to the overall agreement. *See Coyne v. Fusion Healthworks, LLC*, 2019 WL 1952990, at *8 (Del. Ch. Apr. 30, 2019) (rejecting defendants' motion to dismiss where defendants' proposed contract interpretation produced "absurd" result of granting managerial power to withdrawn members of a company); *2009 Caiola Family Trust v. PWA, LLC*, 2014 WL 1813174, at *11 (Del. Ch. Apr. 30, 2014) (rejecting as absurd a proposed contract interpretation that would prevent non-managing members from participating in general management or control of the company "but simultaneously give[s] them unilateral decision-making authority as to the most significant actions of the Company").

This Court can and should affirm the verdict on the alternative ground that the contract does not permit GSK to cease paying royalties after the filing of a voluntary disclaimer of the royalty bearing '092 Patent. *RBC*, 129 A.3d at 849 (court may affirm on an alternative basis if the issue was fairly presented to the trial court); *Rossdeutscher v. Viacom, Inc.*, 768 A.2d 8, 24 (Del. 2001), *as revised* (Apr. 2, 2001) (affirming dismissal on grounds that were presented to the Superior Court but not decided by it).

CONCLUSION

For the foregoing reasons, the Superior Court's judgment in favor of DRIT should be affirmed.

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