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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.	)	Court below: Superior Court of the State of Delaware, C.A. No. N16C-07-218 WCC CCLD
DRIT LP,	)	
Plaintiff Below, Appellee/Cross-Appellant.	)	

APPELLANTS' REPLY BRIEF ON APPEAL AND CROSS-APPELLEE'S ANSWERING BRIEF ON CROSS-APPEAL

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INTRODUCTION

DRIT's response brief overwhelmingly relies on the trial record. But this case never should have gone to the jury in the first place because the Agreement expressly and unambiguously exempts disclaimed patents from GSK's royalty obligation. DRIT's arguments to the contrary lack merit.

First, DRIT's breach of contract claim is baseless; it ignores the Agreement's plain text, creates impermissible superfluity, contradicts the rest of the Agreement, and rests on the counterintuitive premise that the parties agreed that GSK would *continue* paying royalty payments even if GSK validly disclaimed the patent.

Second, GSK as a matter of law did not breach the implied covenant of good faith and fair dealing. Because the Agreement unambiguously authorized GSK to stop making royalty payments upon GSK's patent disclaimer, there is no gap for the implied covenant to fill. Nothing in the Agreement suggests that GSK must opt to pay DRIT millions of dollars in royalties when none are required. Further, the source of GSK's right to disclaim is federal law, not the Agreement, so cases constraining a party's exercise of contractually bestowed discretion are inapplicable to GSK's disclaimer. Expanding that rule to any situation in which a party exercises discretion pursuant to an extrinsic federal (or state) law would represent a sea change in this Court's implied-covenant jurisprudence.

Third, this Court should alternatively order a new trial, because the Superior Court improperly admitted misleading and prejudicial testimony from DRIT's expert, Philip Johnson. Delaware law only allows expert testimony with a direct connection to the case at hand, yet DRIT offers no connection between Johnson's testimony and the parties' Agreement, and Johnson himself repeatedly noted that the Agreement covered a unique scenario, not standard industry language. While DRIT now downplays the importance of Johnson's testimony, DRIT persistently showcased this misleading testimony to the jury.

Fourth, at a minimum, this Court should vacate the Superior Court's damages award and remand for further proceedings. The Superior Court awarded DRIT a windfall likely to total upwards of $100 million. But DRIT stood to earn nowhere close to that amount under the Agreement, even under DRIT's reading of the contract. The Superior Court's damages award also rests on a misapprehension of patent law that DRIT does not even attempt to defend in its brief.

SUMMARY OF ARGUMENT ON CROSS-APPEAL

4. Denied. The Superior Court correctly dismissed DRIT's breach of contract claim, because the Agreement unambiguously provided for GSK to halt royalty payments if any patent is "disclaimed." DRIT's contrary argument absurdly contends that royalty obligations end only if a court disclaims the patent—even though only patent-holders, not courts, can disclaim patents.

ARGUMENT

I. The Superior Court Properly Dismissed DRIT's Breach-of-Contract Claim

A. Question Presented

Whether the Superior Court correctly dismissed DRIT's claim for breach of contract where the contract expressly allowed GSK to halt royalty payments after disclaiming its patent.

B. Scope of Review

This Court reviews a Superior Court decision granting a motion to dismiss *de novo*. *Winshall v. Viacom Int'l, Inc.*, 76 A.3d 808, 813 (Del. 2013).

C. Merits of the Argument

DRIT's cross-appeal (at 56) argues that the Agreement requires GSK to make royalty payments until a disclaimer of the '092 Patent is "*ordered by a court or administrative agency*." DRIT thus posits that even if the Agreement authorized GSK to relinquish all rights to the patent, GSK would *still* owe DRIT millions of dollars in royalty payments. But section 1.49 refers to a "disclaimed" patent, not a patent "ordered" disclaimed. That plain text forecloses DRIT's position. Only the patentee (GSK) can disclaim a patent; courts and agencies cannot. DRIT's argument thus rests on impermissibly reading in "a limitation not found in the contract language." A148 (MTD Order 16 (quoting *Nw. Nat'l Ins. Co. v. Esmark,*

Inc., 672 A.2d 41, 44 (Del. 1996)). This Court should affirm the dismissal of DRIT's breach-of-contract claim.

1. The Agreement required GSK to make royalty payments to DRIT "until expiration of the last Valid Claim." A085 (§ 3.4). The Agreement defines "Valid Claim" as:

> 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 (§ 1.49) (emphases added). Thus, under the plain text, a Valid Claim is one "that has not been [1] dedicated to the public, [2] disclaimed, *or* [3] held unenforceable, invalid or cancelled by a court or administrative agency."

The last-antecedent rule further forecloses DRIT's reading that courts or agencies must order all three of those actions. That rule "provides that a limiting clause or phrase should ordinarily be read as modifying only the noun or phrase that it immediately follows." *Lockhart v. United States*, 136 S. Ct. 958, 962 (2016) (quotations and alterations omitted). Here, the phrase "by a court or administrative agency of competent jurisdiction" modifies only the nearest antecedent: "held unenforceable, invalid or cancelled"; the phrase does not apply to "disclaimed" or "dedicated to the public." DRIT (at 59) deems the last-antecedent rule

inapplicable, claiming that if "by a court or administrative agency" modified only "held unenforceable, invalid, or cancelled," the Agreement could have dispensed with the two "that has not" clauses and grouped all events together. But DRIT cannot ignore the last-antecedent rule because DRIT believes the contractual language could have been more efficient. Regardless, the parties understandably separated out the events into two clauses to avoid a cumbersome, 72-word sentence that would have invited confusion.

DRIT's reading also defies how patents work. Courts and agencies do not dedicate a patent to the public or disclaim it; *only patentees* can take those actions. The Patent Act allows a "patentee" to "make disclaimer of any complete claim." 35 U.S.C. § 253. Likewise, a "patentee may . . . dedicate to the public the entire term, or any terminal part of the term, of the patent granted." *Id.* By contrast, a patentee cannot "h[o]ld" a patent "unenforceable, invalid, or cancelled." As DRIT emphasized at trial, courts or agencies must take those actions. A454-58; A552-53. DRIT agrees (at 56) that the ordinary meaning of "disclaim" is a "patentee's renunciation of legal rights to claims of a patent." That ordinary meaning forecloses DRIT from reading the Agreement to say "disclaimed . . . by a court or administrative agency." *E.g.*, *Allied Capital Corp. v. GC Sun Holdings, LP*, 910 A.2d 1020, 1030 (Del. 2006) ("[C]lear and unambiguous [contract] terms are interpreted according to their ordinary and usual meaning.").

2. DRIT (at 57-58) cites various cases for the proposition that courts can "*order* a patentholder" to dedicate a patent to the public or disclaim it. But those cases reinforce that *patentees* are the only actors who can disclaim the patent; the most a court can do is order the patentee to take that step. Again, the Agreement says the patent must be "disclaimed," not "*ordered* disclaimed," so DRIT's reading requires impermissibly inserting extra words that appear nowhere in the Agreement. *Nw. Nat'l Ins. Co.*, 672 A.2d at 44 (finding contract interpretation "untenable, because it adds a limitation not found in the contract language"). Nor was this some trivial omission; the Agreement used verbs carefully, using "*held* unenforceable," for instance, to refer to judicial or agency actions.

DRIT (at 58) cites the second instance of "disclaim" in section 1.49, referring to a patentee appealing a court or agency decision "through opposition, reexamination, reissue or disclaimer," as generally contemplating judicial action. But again, the plain text shows that a *patentee* must take those actions, not a court or an agency. Nor would a patentee's use of disclaimer while *appealing* a court order be a disclaimer *ordered* by a court, thus further undermining DRIT's position that section 1.49 requires disclaimer ordered by a court.

DRIT's interpretation—that GSK could disclaim the '092 Patent, but would still owe royalties—would also produce absurd practical results. Once a patentee disclaims a patent, the "patentee has no further right [] to enforce the claims which

have been disclaimed." *W.L. Gore & Assocs., Inc. v. Oak Materials Grp., Inc.*, 424 F. Supp. 700, 702 (D. Del. 1976). DRIT never explains why any party, much less GSK, would ever agree to pay royalties on a product that the patent could no longer protect. *Cf. Kimble v. Marvel Entm't, LLC*, 576 U.S. 446, 462-63 (2015) (public policy against extension of patent monopoly through licensing of expired or unenforceable patents); *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) (similar).

3. DRIT (at 60-61) is incorrect that other provisions of the Agreement support its position. Sections 7.3 and 7.4 allow GSK to terminate licenses and royalty payments for Biogen-owned patents (not the '092 Patent) "for any reason or for no reason at all." But the fact that the Agreement expressly authorizes GSK to terminate royalties on Biogen-owned patents without disclaimer does not help DRIT, because under the Patent Act GSK could not disclaim Biogen-owned patents—so GSK needed the Agreement to bestow the right to terminate royalties on those patents. Those provisions say nothing about GSK's right to disclaim and terminate royalties on its own patents (like the '092 Patent). And section 7.5 merely provides that GSK's obligations to make royalty payments on its own patents survive in the event of a material breach by Biogen so long as the product is "*covered by a Valid Claim*." That language makes perfect sense: section 7.5 reaffirms that GSK must pay royalties on Benlysta *only* so long as GSK benefits from a Valid Claim covering the drug. Once the patent no longer benefits GSK—

where, for example, a court holds the patent invalid or GSK disclaims based on its economic interests—the Agreement provides that royalties cease. Biogen's "material breach" is irrelevant to whether GSK benefits from the patent, and so Biogen's breach is not the trigger for cessation of royalties—the lack of a Valid Claim ends royalties. *Cf. Kimble*, 576 U.S. at 462-63.

DRIT's remaining arguments are irrelevant to the only issue in DRIT's cross-appeal: whether the Agreement terminates GSK's royalty obligations only if a court or agency disclaims the patent. DRIT's assertion (at 60) that the Agreement does not "affirmatively give[] GSK the power to terminate its payment obligations by voluntarily disclaiming a royalty-bearing patent" just reiterates DRIT's erroneous implied-covenant arguments. The Agreement obviously provides GSK with the right to terminate royalties upon disclaimer, by expressly specifying disclaimer as an affirmative basis for ceasing royalties. Relatedly, DRIT (at 61) asserts that the Superior Court's decision gives GSK an "unbargained-for right to terminate." But that just conflates cessation of royalties with termination. GSK and Biogen have obligations in the Agreement other than payment of royalties on this disclaimed patent, like payment of royalties in other countries where certain patents still protect Benlysta—which *GSK has continued to pay*. In any event, DRIT just begs the question of what the Agreement says, and again, it says "disclaimer," something only GSK may do.

II. The Implied-Covenant Doctrine Does Not Apply

DRIT's implied-covenant claim never should have proceeded to trial. That doctrine applies only if the contract leaves some gap to fill. But there is no gap here, because the Agreement expressly acknowledges that GSK can disclaim its patent and thereby terminate royalties. DRIT cannot now use the implied covenant to force GSK to pay millions of dollars by claiming that the contract impliedly limited GSK's "discretion." That doctrine also applies only if it is clear *both* parties would have agreed to the implied term, *i.e.*, that both GSK and Biogen would have agreed to limit GSK's right to disclaim its patent even if royalty payments far outweighed any benefit the patent conferred. DRIT offered no evidence that GSK would have agreed to limit the scope of its pre-existing right to disclaim in such a way. Finally, the doctrine applies only to unforeseeable developments. But the parties obviously foresaw that GSK might disclaim its patent; after all, the Agreement expressly recognizes disclaimer as one way for GSK's royalty obligations to end. Any one of those legal points requires reversal.

Most of DRIT's contrary arguments are irrelevant: DRIT assumes that the implied-covenant doctrine applies, then relitigates cherry-picked facts adduced at trial. *E.g.*, DRIT Br. 21-22, 30-34. But the key appellate issue is a pure legal question: whether the implied covenant should apply at all. DRIT's insistence (at 19) on deferring to the jury's findings is misplaced, because this Court reviews

legal issues *de novo*. *CompoSecure, L.L.C. v. CardUX, LLC*, 206 A.3d 807, 816 (Del. 2018); *Saudi Basic Indus. Corp. v. Mobil Yanbu Petrochemical Co., Inc.*, 866 A.2d 1, 24 (Del. 2005).[1] And while DRIT asserts that the disclaimer language in the Agreement operates only in limited circumstances, DRIT agrees that *some* form of disclaimer ceases royalties. This arrangement was hardly bizarre or unfair: GSK had to pay royalties on the '092 Patent for so long as the patent was valuable to GSK, and GSK could disclaim the patent, and thereby terminate royalty payments, in the event that the costs of owning the patent outweighed the benefits.

A. There Is No Contractual Gap To Fill

The Agreement left no gap to fill because the Valid Claim Provision, section 1.49, expressly recognizes that GSK's royalty obligations end if GSK "disclaimed" the '092 Patent. The Patent Act gives patentees unfettered right to "make disclaimer of any complete claim" (statutory disclaimer) or to partially disclaim the patent (terminal disclaimer). 35 U.S.C. § 253. The Agreement places no limits whatsoever on these rights. There is thus no work for the implied covenant to do: GSK's right to disclaim its patent depends on GSK's rights under the Patent Act, not on anything in this Agreement. GSK Br. 28-31.

[1] GSK may appeal the denial of summary judgment even after a final judgment. *See* 10 Del. Code § 144.

A "disclaimer" ends GSK's royalty obligations (*supra*, pp. 4-9) and DRIT does not dispute that GSK statutorily disclaimed the '092 Patent in 2015. Those two points require judgment in GSK's favor. DRIT has no explanation for what the word "disclaim" could possibly refer to, if not GSK's pre-existing right under the Patent Act to disclaim its patent. DRIT's contention (at 21) that the Valid Claim definition "does not confer any affirmative rights" or prescribe when GSK can disclaim its patents therefore gets the law backwards. The burden was on DRIT to show that the Agreement expressly *limited* GSK's existing rights. DRIT's reliance (at 21) on GSK's in-house lawyer, Ms. Hitchcock, is ironic. She testified that "there's nothing in [the] agreement which limits [GSK's] ability to have full control over [its] own patents." B1784-85. The fact that the Agreement did not prescribe when GSK can exercise its right to disclaim—although the parties could easily have included such a term—proves that the Agreement does no such thing.

For the same reason, DRIT (at 23, n.4) wrongly dismisses the cases GSK cites, where a contract expressly granted the right to engage in the conduct at issue and therefore rejected the applicability of the implied-covenant doctrine. By making clear that disclaimer would end GSK's royalty obligation, the Agreement recognizes GSK's existing right to disclaim. GSK Br. 20-21; *Nationwide Emerging Managers, LLC v. Northpointe Holdings, LLC*, 112 A.3d 878, 896-97 (Del. 2015) (refusal to pay fee did not offend implied covenant where contract

provided exceptions to paying the fee, even if refusal to pay was "disingenuous"); *Allied Capital Corp.*, 910 A.2d at 1033 (contract permitted future investments and did not explicitly prohibit contested equity investments, therefore implied covenant did not restrict conduct).

DRIT (at 22-23) claims that section 1.49's reference to disclaimer is ambiguous because other provisions "expressly define GSK's right (or not) to terminate the payment of royalties." But DRIT's cited provisions do not say what DRIT thinks they say. *Supra* pp. 8-9. Sections 7.3 and 7.4 allow GSK to terminate its license on certain *Biogen-owned* patents "for any reason or for no reason at all" and to then stop making royalty payments. A093. GSK could not disclaim those Biogen-owned patents (only Biogen could). Therefore, it is unsurprising that the Agreement gave GSK the right to terminate its license to those patents absent disclaimer. And the provisions are irrelevant to whether, under the Agreement, GSK can disclaim patents that GSK itself owns.

Finally, DRIT (at 23) asserts that it would be nonsensical for the Agreement in section 7.5 to require GSK pay royalties even if Biogen breached the Agreement, "but then somehow let GSK unilaterally escape its royalty obligations simply by filing a disclaimer with the PTO." In other words, DRIT reads the Agreement as requiring GSK to continue paying royalties even if Biogen materially breached the agreement, and from that reasons that Biogen would never

have allowed GSK to unilaterally disclaim GSK's own patent. DRIT completely misreads section 7.5 from start to finish. DRIT misleadingly omits key language in section 7.5 obligating GSK to pay royalties following a breach *only* for a product "covered by a Valid Claim," *i.e.*, a product covered by a patent that GSK had *not* disclaimed. Just like the rest of the Agreement, section 7.5 recognized that GSK could terminate royalties by disclaimer and through other means.

B. GSK Would Not Have Agreed To Restrict Its Right To Disclaim

For the implied covenant claim to go to the jury, DRIT needed evidence that GSK would have agreed to limit its pre-existing patent right. *See e.g.*, *Winshall*, 76 A.3d at 816 (implied covenant failed "as a matter of law" in part because it was not clear from underlying agreement that parties would have agreed to implied term); *Dunlap v. State Farm Fire & Cas. Co.*, 878 A.2d 434, 442 (Del. 2005); *Fisk Ventures, LLC v. Segal*, 2008 WL 1961156, at *10 (Del Ch. May 7, 2008); GSK Br. 22-23. But DRIT offered no evidence suggesting that GSK would have agreed to a limitation that would have been so manifestly contrary to GSK's interest in entering into the Agreement. Instead, most of DRIT's argument (at 30-31) concerns Biogen.

When DRIT does turn to GSK, DRIT (at 31-32) asserts that GSK did not affirmatively bargain for a patent-disclaimer right. But why would GSK bargain for a right that federal law already conferred? Regardless, this point would not

satisfy DRIT's burden to show that GSK would have *agreed* to limit its existing disclaimer right. DRIT also argues that Biogen had leverage over GSK in the negotiations. But if one party's purportedly superior leverage was enough to prove the other would have agreed to any implied term, then the implied-covenant doctrine would always allow the stronger party to impose myriad implied restrictions on the weaker party after the fact. No Delaware case has accepted leverage alone as sufficient. In any event, the trial evidence showed that GSK believed that it had the superior negotiating position, and that GSK believed that it had protected its right to cease royalties upon disclaimer. GSK Br. 22, 24-25. DRIT's citation (at 32) to trial testimony that Biogen "might" have obtained an injunction blocking Benlysta sales in the event that GSK *lost* the interference is beside the point, because DRIT introduced no evidence to contradict GSK's belief that GSK would have won the interference absent settlement.

C. GSK's Disclaimer Was Plainly Foreseeable

DRIT's implied-covenant claim fails as a matter of law for another independent reason: the implied covenant doctrine applies only when the parties *objectively* could not have anticipated the development. GSK Br. 26; *Nemec v. Shrader*, 991 A.2d 1120, 1126 (Del. 2010). The Agreement itself illustrated that the parties knew that GSK's disclaimer of the '092 Patent was a possibility. Both Biogen and GSK were sophisticated parties with extensive patent portfolios, and

they intentionally included disclaimer in a list of contingencies that would halt royalty payments. DRIT's only response (at 21-22, 30-31) is that Biogen did not, *in fact*, foresee GSK's disclaimer. But what the parties *actually* foresaw is legally irrelevant. *See Oxbow Carbon & Minerals Holdings, Inc. v. Crestview-Oxbow Acquisition, LLC*, 202 A.3d 482, 507 (Del. 2019) ("Delaware's implied duty of good faith and fair dealing is not an equitable remedy for rebalancing economic interests after events *that could have been anticipated, but were not*, that later adversely affected one party to a contract." (quoting *Nemec*, 991 A.2d at 1128) (emphasis added)).

D. Contractual-Discretion Cases Do Not Apply Here

DRIT takes a different tack, contending that all discretionary rights—including GSK's discretionary right to disclaim its patent—are necessarily subject to the implied-covenant doctrine. DRIT Br. 28-29; GSK Br. Ex. A (MSJ Opinion) at 19-20. But Delaware law forecloses that argument. Instead, the contract itself must be the source of the discretion: "[T]he implied covenant requires that . . . discretion be used reasonably and in good faith" when "*a contract confers discretion* on one party." *Airborne Health, Inc. v. Squid Soap, LP*, 984 A.2d 126, 146-47 (Del. Ch. 2009) (emphasis added). Even then, a party still has broad leeway to exercise its discretion; it simply may not exercise that discretion "in a

way that is impliedly proscribed by the contract's express terms." *Oxbow Carbon*, 202 A.3d at 504 n.93; GSK Br. 30-31.

That line of cases makes sense: when a contract grants one party discretion and authorizes actions that might not otherwise be permissible, courts sometimes presume that the parties did not intend to grant that party unbridled discretion that would undermine other contractual provisions. Those courts *interpret* contractually-granted discretion, rather than imply new terms whole cloth. But that line of cases has no application here, where the source of the discretion is a federal statute and the parties have *not* contractually limited that discretion. DRIT does not dispute that under federal law, GSK can disclaim its patent at any time, for any reason. The contractual-discretion line of cases thus does not allow courts to read in extratextual limits on GSK's right to disclaim its patent, which comes from federal patent law, not the Agreement. It would be unprecedented to hold that a contract implicitly and silently cuts back on the scope of rights that federal law (or state law) confers.

DRIT (at 26-27) fights Delaware law, citing a law-review article for the proposition that a party always violates the implied covenant by engaging in conduct for the "sole purpose" of harming the other party. But if Delaware law cut that broadly, one party could *always* use the implied-covenant doctrine to read in new terms by claiming that the other party acted for bad reasons. DRIT's

argument further fails because GSK did not act solely to harm DRIT by disclaiming the patent to avoid royalty payments. Doing so benefited GSK, and was a rational business decision because GSK's royalty payments dwarfed the value GSK derived from the '092 Patent. DRIT assumed Biogen's rights under the Agreement—including the royalty stream—without obtaining any changes to the Agreement. But substituting DRIT for Biogen does not transform GSK's rational business decision to exercise its Patent Act rights into an intentional harm to DRIT.

DRIT (at 28) maintains that the implied covenant limits even statutorily conferred discretion but cites no case embracing that novel position. *Dunlap v. State Farm Fire and Casualty Co.*, 878 A.2d 434 (Del. 2005) (cited at DRIT Br. 28-29), is distinguishable, because *Dunlap* did not cabin a party's statutorily conferred discretion. The statute at issue authorized insurers to include *in their contracts* requirements that the policyholder exhaust all available liability insurance, and the court considered whether the insurer exercised its *contractual* discretion regarding that exhaustion requirement in good faith. *Id.* at 439, 444-45. By contrast, federal law gives patentees the unfettered right to disclaim their patents and does not require patentees to enshrine that right in a contract to exercise it. Further, *Dunlap* held that the insurer "may possibly have" breached the implied covenant if the insurer *had no upside* from requiring exhaustion in that case. *Id.* at 444-45. But GSK would have been materially prejudiced if it could

not disclaim. Finally, *Dunlap* reinforces that courts may imply terms only where "it is clear from the writing that the contracting parties would have agreed" on the implied term, *id*. at 442 (quotations omitted)—but here, DRIT never showed that GSK would have agreed to limit its right to disclaim.

Gerber v. Enterprise Products Holdings, LLC, 67 A.3d 400 (Del. 2013) (cited at DRIT Br. 29), likewise centered on discretion *the contract* accorded to a party. There, the contract required the defendants to take various actions "in good faith," and provided that if an action received "Special Approval" (a concept the contract created and defined), the defendants presumptively acted in good faith. *Id*. at 409-10. The Court merely held that whatever "Special Approval" process the parties created, the implied covenant required *that* process to unfold in good faith. *Id*. at 423-24.

Buckeye Partners, L.P. v. GT USA Wilmington, LLC, 2020 WL 2551916 (Del. Ch. May 20, 2020) (cited at DRIT Br. 29), does not use the implied-covenant doctrine to limit a party's extra-contractual discretion, either. That case turned on the court's conclusion that *the contract itself* likely barred one party from blocking another's access to a road. *Id*. at *7. And the court only invoked the implied-covenant doctrine in the alternative because, even if the contract was ambiguous, the contract language rendered it "obvious" the parties would have agreed to the implied term had they more clearly addressed it. *Id.* at *8. Here, by contrast, the

Agreement does not prohibit GSK from disclaiming its patent; to the contrary, the Agreement expressly and unambiguously recognizes that GSK might disclaim, and that disclaimer would terminate GSK's royalty obligations. *Supra* p. 4-9.

DRIT's remarkable assumption that the implied-covenant doctrine applies to the exercise of statutory rights expressly preserved in the contract would also make the implied covenant doctrine the rule, not "a limited and extraordinary" exception. *Nemec*, 991 A.2d at 1125-26, 1128. Parties always negotiate agreements against the backdrop of their pre-existing statutory rights. If the implied covenant meant that parties implicitly agreed to limit how they exercised those rights—despite never expressly agreeing to limit those rights in their contract—then the implied covenant would always apply. Any time a contract merely touches on a federal or state right—rights arising under the Patent Act or the Lanham Act, for example—the implied covenant would restrict a party's ability to exercise that right consistent with federal or state law. This Court should reject DRIT's extreme approach, which would radically depart from this Court's precedents.

III. Johnson's Prejudicial Testimony Warrants a New Trial

Even if this Court does not grant GSK judgment as a matter of law, GSK is at least entitled to a new trial. The Superior Court never should have admitted Johnson's testimony that GSK's statutory disclaimer of the '092 Patent supposedly violated unwritten industry "norms," especially given Johnson's concession that the Agreement here was unusual and did not reflect industry-standard terms. GSK. Br. 32-37; A535-36, A551-52, A554-55.

1. DRIT (at 40-41) hardly defends the Superior Court's justification for admitting Johnson's testimony, *i.e.*, that Johnson was a purported expert with longstanding experience in the intellectual property field. GSK Br. Ex. B (JMOL Opinion) at 7. Being an expert is not blanket authorization to offer irrelevant or misleading opinions; rather, expert testimony about industry norms is inadmissible without a "special nexus" to "the facts of the case." *E.g.*, *Eskin v. Carden*, 842 A.2d 1222, 1229 (Del. 2004); *see Mason v. Rizzi*, 89 A.3d 32, 37-38 (Del. 2004).

DRIT (at 36-40) contends that courts consider industry norms in many contexts. That is true but irrelevant. None of DRIT's authorities establishes that industry norms are relevant to interpreting *atypical* contracts addressing specialized circumstances. Several of DRIT's authorities acknowledge the impropriety of doing so. *E.g.*, *J.A. Jones Const. Co. v. City of Dover*, 372 A.2d 540, 550 (Del. Super. 1977) ("The applicability of [norms] may depend upon the

nature of the item being supplied and whether it is unique or experimental."). Having opined that GSK and Biogen entered into an Agreement that did *not* reflect industry norms, it was manifestly improper for Johnson to mislead the jury by portraying GSK's actions under that Agreement as nefarious departures from industry norms.

DRIT (at 36) now admits that Johnson's testimony was irrelevant to "the parties' reasonable expectations" or "determining whether an implied obligation exists." Instead, DRIT argues (at 36, 40-41) that Johnson's testimony sheds light on "whether GSK's actions were consistent with [the] implied obligation when it statutorily disclaimed the '092 Patent." That spin on Johnson's testimony directly contradicts Johnson's concession that he was not opining on the parties' obligations under the Agreement. A573. Regardless, even the Superior Court incorrectly understood Johnson's testimony to bear on whether the statutory disclaimer would "have been reasonably anticipated by the parties," and improperly relied on Johnson's testimony for that point. GSK Br. Ex. B (JMOL Opinion) at 5. So, at a minimum, admitting Johnson's testimony created clear confusion and therefore should have been excluded under Rule 702. *See Eskin*, 842 A.2d at 1227 (trial court must ensure "expert testimony will not . . . confuse or mislead the jury" (quotations omitted)).

DRIT's recharacterization of Johnson's testimony is also nonsensical. DRIT cannot concede that Johnson had nothing to say about "the parties' reasonable expectations," yet contend that his testimony somehow bears on whether GSK breached an implied obligation. The parties' reasonable expectations define the scope of any implied terms under the implied covenant. *See Nemec*, 991 A.2d at 1125-26. By definition, the parties' expectations thus also define whether GSK's actions comported with any implied terms. If Johnson's testimony was irrelevant to the parties' expectations regarding *this* unique contract, it was equally inappropriate for Johnson to use irrelevant industry norms as the benchmark for gauging GSK's performance under this contract.

DRIT (at 41) also suggests that Johnson's testimony was relevant to showing that the "unusual situation [here] gave GSK an 'incentive' to deprive DRIT of the royalty stream." That argument ignores that DRIT had no right under the Agreement to any royalty stream from a "disclaimed" patent, and just confirms that Johnson's testimony was misleading. Johnson testified that the "standard situations" he analyzed *did not* account for this incentive to eliminate the royalty stream. GSK Br. 34-35; A570-73. That DRIT cannot explain *any* relevance of this testimony confirms that Johnson's failure to tie his testimony to the Agreement does not just limit the "weight" of his testimony, as DRIT asserts (at 42).

Johnson's testimony was irrelevant, or, at a minimum, misleading to the point of confusing even the Superior Court.

Nor does it help DRIT that Johnson purportedly reviewed the Agreement and other underlying documents when preparing his expert report. *Cf.* DRIT Br. 41. Johnson stated that he did not "try to analyze the license agreement" here as part of his analysis, A573, and testified only about "standard situations" despite agreeing that the parties' Agreement was "different . . . than the normal patent license." A570-73; GSK Br. 34-35.

Finally, DRIT (at 40) blames GSK for the misleading nature of Johnson's testimony, arguing that GSK moved *in limine* to preclude Johnson from opining on the parties' reasonable expectations. DRIT misstates the record. GSK sought (and obtained) an order *in limine* preventing Johnson from "offer[ing] any opinions as to credibility or pretext or intent." B1324-25. But GSK did not attempt to preclude Johnson from connecting his testimony to the parties' expectations; to the contrary, GSK emphasized that Johnson's testimony was irrelevant "*without* some analysis of the contract and the expectations of the parties." B1326-27 (emphasis added). That is precisely the analysis that Johnson never offered, leaving the jury and Superior Court to believe that the parties' specialized Agreement should be judged by industry norms.

2. DRIT (at 43-44) argues that any error in allowing Johnson's testimony was harmless. DRIT first portrays Johnson—an expert witness whom DRIT paid over $750,000 (A569)—as insignificant to DRIT's case. But Johnson's testimony was extremely prejudicial no matter how many minutes he was on the stand. The fact that the Superior Court was misled by Johnson's testimony, and improperly relied on that testimony when evaluating the parties' expectations, underscores the likelihood that the jury was equally confused. GSK Br. Ex. B. (JMOL Opinion) at 5. DRIT's efforts to downplay Johnson's testimony also contradict DRIT's representations to the jury. DRIT emphasized Johnson's misleading testimony more than a half-dozen times in closing argument alone. A750, A752, A756-57, A758, A764, A766, A770. For example, DRIT emphasized that Johnson was "an incredible industry expert" and "unequivocally an expert in this field," and that his testimony was "unrebutted." A756-58, A764, A770.

DRIT (at 42) contends that GSK's cross-examination of Johnson cured any prejudice. But that gets the law backwards. "*Before* cross-examination attacks the persuasiveness of expert opinion, the trial judge is obliged to satisfy herself that the expert opinion testimony is relevant, reliable, validated, and, therefore, trustworthy." *Mason*, 89 A.3d at 37 (emphasis added); *Cf. U.S. v. Gaskell*, 985 F.2d 1056, 1061-62 (11th Cir. 1993). And the notion that GSK should have preserved its ability to challenge the improper admission of Johnson's testimony

by failing to thoroughly cross-examine him—or failing to present its own rebuttal expert—would be perverse. Had GSK elected not to challenge the relevance of Johnson's industry norms, the Superior Court may well have later denied GSK's motion for a new trial on that basis. *Rodas v. Davis*, 2012 WL 1413582, at *2 (Del. Super. Jan. 31, 2012). Similarly, DRIT is wrong (at 42-43) that the jury instructions on the implied-covenant doctrine and the role of expert testimony cured any prejudice. The Superior Court's instruction to consider the parties' expectations meant little when DRIT spent much of the trial confusing the jury—and apparently the Superior Court—on how to evaluate those expectations.

DRIT (at 44) also claims that the admission of "similar testimony" from DRIT's expert Stephen Kunin eliminated any prejudice from admitting Johnson's testimony. But Kunin's testimony materially differed from Johnson's because the Superior Court sustained GSK's objection at trial *limiting* Kunin's testimony that it was unheard of for a patent owner like GSK to file a statutory disclaimer. A481-83. Johnson, by contrast, testified extensively on precisely this point. A551-55. And no fact witnesses' testimony cured the prejudice of admitting Johnson's expert testimony regarding industry norms. No one else touted their 45 years of practice in the industry, as Johnson did, nor did others testify that no "pharmaceutical company such as GSK [would] ever want to disclaim a patent" like the '092

Patent. A528, 554. Courts scrutinize expert testimony with particular care because expert testimony receives unique weight.

Likewise, DRIT's references (at 41) to Johnson's testimony that other aspects of GSK's conduct were contrary to industry norms—like GSK's decision to seek a written opinion regarding the validity of the '092 Patent or GSK's communications with DRIT regarding the disclaimer—are beside the point. Johnson's characterization of GSK's statutory disclaimer as "unheard of" in the industry underpinned DRIT's case that GSK could not terminate royalties by filing such a disclaimer and was thus extremely prejudicial.

Finally, DRIT (at 43) dismisses *Eskin* and *Mason* because those cases upheld the trial judge's exclusion of expert testimony. But those cases clearly establish that trial judges—like the Superior Court here—abuse their discretion if they admit expert testimony without having determined that the "testimony reliably creates a connection" to the facts of the case. *Eskin*, 842 A.3d at 1230. If Johnson's testimony had any relevance, that relevance was "plainly outweighed" by the "danger that the jury would be confused or misled into believing that [this case] fell within [Johnson's] 'one-size-fits-all' [industry norm]." *Id.* at 1231.

IV. This Court Should Vacate the Damages Award

The Superior Court ordered GSK to pay DRIT ongoing royalties likely to total more than $100 million, a far greater sum than GSK stood to earn under the Agreement. That award, divorced from the parties' expectation interest in the Agreement, should be vacated. GSK Br. 39-45. DRIT's main response is to argue that GSK is estopped from pointing out the blatant errors in the Superior Court's damages award, but GSK's damages position has always been the same. And DRIT's responses on the merits are wrong.

A. Estoppel Does Not Bar GSK's Arguments

DRIT (at 46-48) argues that the doctrine of quasi-estoppel bars GSK from challenging DRIT's damages calculations because GSK purportedly represented at a pre-trial discovery conference that GSK would pay damages through trial and royalties well into the future. For good reason, the Superior Court did not accept this argument. *Compare* A909-12, *with* GSK Br. Ex. B (JMOL Opinion) at 8-11. The quasi-estoppel doctrine applies only if DRIT can show that it would be "unconscionable" for GSK to take a position "inconsistent with a position it has previously taken." *RBC Cap. Mkts., LLC v. Jervis*, 129 A.3d 816, 872-73 & n.241 (Del. 2015); *see Simon-Mills II, LLC v. Kan Am USA XVI Ltd. P'ship*, 2017 WL 1191061, at *35 (Del. Ch. March 30, 2017). But GSK neither adopted inconsistent positions nor acted unconscionably.

GSK's position has always been that if GSK owes damages, GSK would pay in the form of royalties on actual Benlysta sales, not in a lump-sum award that projects future Benlysta sales. Thus, at the discovery conference, GSK resisted DRIT's efforts to seek discovery on forecasts of future Benlysta sales. GSK explained that, if DRIT prevailed, GSK would pay "actual royalties on actual sales as the contract contemplated" and that the actual-royalties metric—consisting of multiplying a royalty rate by a sales volume—would be so "straightforward" that a "sixth-grader" could calculate damages. B1191, B1193. Far from representing that GSK would pay royalties until 2022, GSK promised to pay royalties only until "whatever the Court determines the proper termination date would be." B1191. Both before the Superior Court and now, GSK argued that "the proper termination date" for DRIT's damages is October 2016, not August 2022.

DRIT (at 47) takes out of context GSK's statement that GSK was "going to owe royalties for sales up to the date of trial." B1191. That statement reflects that GSK could simply pay royalties on any pre-trial sales for which GSK owed royalties without forecasting pre-trial sales. DRIT cannot possibly have thought this statement conceded that GSK would pay royalties on *all* pre-trial sales, given that GSK explicitly left open "the proper termination date" for the royalty period. And GSK's putative concession would also make no sense: GSK would never have tied its damages exposure to an unpredictable trial date.

Even crediting DRIT's erroneous portrayal of GSK's words, that putative inconsistency falls far short of "a shocking shift in position amounting to unconscionable action." *Simon-Mills II, LLC*, 2017 WL 1191061, at *35. The Superior Court did not bar DRIT from "all damages discovery" (DRIT Br. 47) based on GSK's statements. Nothing prevented DRIT from retaining whatever damages expert DRIT liked, or from submitting damages to the jury. DRIT merely could not obtain discovery into forecasts of Benlysta sales, which are *still* irrelevant to any damages issue.

B. GSK Would Have Ended Royalties in 2016 by Filing a Terminal Disclaimer, Had Statutory Disclaimer Been Unavailable.

DRIT does not dispute that the proper measure of damages must account for any actions that GSK would have taken to limit its royalty obligations absent any breach of the implied covenant (*i.e.*, absent any statutory disclaimer of the '092 Patent). GSK Br. 39-40. Nor does DRIT dispute that GSK could have *terminally* disclaimed the '092 Patent by October 2016 to end royalties without offending the implied covenant, and that the terminal disclaimer would have cured a defect in the patent. GSK Br. 40-42.

DRIT argues (at 50-51) that GSK would have elected to "do nothing and keep the patent alive" until 2022 instead of filing the terminal disclaimer, because the '092 Patent may have had some residual value despite its conceded defect. But the record plainly forecloses that argument. GSK obviously determined that the

cost of royalty payments far outweighed any value the '092 Patent might have retained; that was why GSK filed the statutory disclaimer. As DRIT itself explains (at 51), "killing the patent was, in GSK's mind, the fastest route to cutting off royalties." DRIT never explains why, if GSK wanted to end royalties and GSK could *not* statutorily disclaim the patent, GSK would not simply follow the next "fastest route to cutting off royalties"—here, filing a terminal disclaimer that would have caused the patent to expire in October 2016. *Id.*; A700-02.

DRIT (50-51) suggests, based on testimony from its experts Kunin and Johnson, that "the accepted practice" would have been for GSK to do nothing rather than terminally disclaim the '092 Patent. DRIT misstates their testimony. Kunin and Johnson explained that doing nothing was *one* option for GSK, but they were clear that filing a terminal disclaimer was another valid, reasonable path. Kunin, for instance, explained that terminal disclaimer "is precisely one of the ways that the [Patent Office] instructs applicants as a simple way of eliminating [the defect]. Now, there are other things that can be done, but this is a very simple and common technique." A468-69; *see* A472 ("The accepted practice is you use a terminal disclaimer."); A501 (terminal disclaimer "an option").

Finally, DRIT (at 51) suggests that GSK did not intend to pursue terminal disclaimer because GSK instructed its attorneys to ignore terminal disclaimer as a remedial option when analyzing the patent's defect. But that is misleading: GSK

instructed its attorneys to forgo analysis of *any* options to remedy the defect, including statutory disclaimer (because GSK was already aware of its remedial options), so that hardly shows GSK would have done nothing instead. B1413, A516, A694. At bottom, DRIT's argument that GSK would have irrationally paid royalties beyond the value of the '092 Patent for *another six years* after it could have easily ended them with a terminal disclaimer is not credible. The Superior Court's contrary conclusion was clearly erroneous even under this Court's deferential standard of review for damages awards.

C. The Superior Court's Damages Award Independently Warrants Vacatur Because the Court Severely Misapprehended Patent Law

The Superior Court's damages award rests on a clear misunderstanding of patent law. When GSK and Biogen negotiated the Agreement in 2008, the PTO had yet to grant the '092 Patent. So the parties contracted knowing that, if the PTO granted the patent, the standard term would run 20 years from its application date in 1996, until 2016. The PTO granted the patent in 2011, and in 2015, extended the patent's term to 2022. To calculate damages for a breach of the Agreement, the critical question was the parties' expectations *in 2008* regarding how long the PTO would likely extend the '092 Patent term, assuming it granted GSK's patent application. GSK Br. 43-44.

But the Superior Court, believing the patent term ran 20 years from the date the '092 Patent "took effect," thought the patent expired in 2031. That conclusion

was manifestly wrong, and DRIT tellingly does not defend that reasoning. Because of this erroneous understanding of patent law, the Superior Court did not analyze the parties' expectations in 2008 regarding how long the PTO would likely extend the '092 Patent term. GSK Br. 44-45.

DRIT (at 49) tries to salvage the damages award by contending that "[a]mple evidence" regarding the parties' expectations as to the length of the patent term supports the Superior Court's bottom line. But the Superior Court's error meant that the court refused to consider any of the evidence DRIT cites in its brief, let alone engage in fact-finding on this disputed issue. *See* GSK Br. Ex. B (JMOL Opinion) at 8-11. DRIT (at 49-50) also points to the parties' expectations at "at the time of GSK's statutory disclaimer" (2015) as the relevant metric for damages. That does not help DRIT, because the Superior Court did not find any facts about the parties' expectations at that time, either.

Regardless, DRIT is wrong to focus on the parties' expectations at the time of the breach. DRIT cites *Siga Technologies, Inc. v. PharmAthene, Inc.*, 132 A.3d 1108 (Del. 2015), but nothing in *Siga* upset the long-settled rule that expectation damages are "based upon the reasonable expectation of the parties *ex ante*." *Duncan v. Theratx, Inc.*, 775 A.2d 1019, 1022 (Del. 2001); *see* GSK Br. 44. The parties' expectations at the time of breach were relevant in *Siga* only because that case concerned the breach of a preliminary agreement to later negotiate a license

agreement—so the parties' expectations at the time of breach were relevant to determining the value of the license that never came into being. *Id.* at 1118-19, 1132-33. Other courts have accordingly cited *Siga* as consistent with the rule under Delaware law that parties receive expectation damages "representing the parties' reasonable expectation of the value of the contract *at the time they entered into the contract*." *Bresler v. Wilmington Tr. Co*., 855 F.3d 178, 199 (4th Cir. 2017) (emphasis added); *see* Restatement (Second) of Contacts § 351(a).

CONCLUSION

This Court should reverse the Superior Court's denials of GSK's Motion for Summary Judgment and Motion for Judgment as a Matter of Law or New Trial. At a minimum, this Court should vacate the Superior Court's damages award.

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CERTIFICATE OF SERVICE

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