UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

NOVARTIS PHARMA AG,

Plaintiff,

-against-

INCYTE CORPORATION,

Defendant.

1:20-cv-400-GHW

MEMORANDUM OPINION AND ORDER

GREGORY H. WOODS, United States District Judge:

Plaintiff Novartis Pharma AG ("Novartis") and Defendant Incyte Corporation ("Incyte") partnered to commercialize a valuable drug compound called ruxolitinib, agreeing that Incyte would sell the drug in the U.S. (where it is sold as "Jakafi"), and Novartis would sell it elsewhere (as "Jakavi").[1] Dkt. No. 421 ("Novartis's SUMF") ¶ 251. The parties agreed to pay one another royalties based on sales of the drug in their respective domains. *See id.* In 2019, Incyte reduced by 50 percent its royalty payments to Novartis on U.S. sales of the drug, based on Incyte's interpretation of Section 8.3(c) of the parties' agreement. *See generally* Dkt. No. 177 ("Incyte's Mem."); Dkt. No. 409 ("Novartis's Mem."). Namely, Incyte had determined that it was entitled to invoke a stepdown provision of the agreement, as a result of the loss of some of its regulatory protections for the drug in the United States. *See id.* Incyte then ceased those payments altogether in 2021 in accordance with its understanding of Section 8.3(c). *See id.* Novartis initiated this lawsuit, contending that Incyte's invocation of the 50 percent stepdown provision of the contract was improper, and that Novartis is entitled to overdue and ongoing royalty payments based on its own, conflicting interpretation of the contract's provision. *See* Dkt. No. 1.

[1] The drug is a kinase inhibitor used to treat rare blood cancers and to support organ transplants. Dkt. No. 415-2 ("Incyte's SUMF") ¶ 1002.

The dispute hinges on the parties' differing interpretations of Section 8.3(c). This provision sets three possible endpoints for the royalties, which "shall be paid . . . for a period which is the longer of: (i) the last to expire the last to expire of any Valid Claim of Licensed Patent Rights Covering such Licensed Product in such country; (ii) ten (10) years following the date of First Commercial Sale in such country; and (iii) the expiration of Regulatory Exclusivity for such Licensed Product in such country." Ex. 1 (the "Agreement") § 8.3(c).[2] Further, if the royalty payments continue "solely due to clause (ii) . . . or . . . Generic Competition exists," then the royalty-paying party is entitled to invoke the stepdown provision and reduce the royalty payments by 50 percent. *See id.* The parties agree that Generic Competition does not exist. Novartis's SUMF ¶ 287. They dispute whether the royalty from 2019 onward continues "solely due to clause (ii)" (as Incyte contends) or due to both clauses (i) and (ii) (as Novartis contends). Under the former reading, invocation of the stepdown provision in 2019 was proper; under the latter, it was not.

Novartis contends that the endpoint in subsection (i) has yet to occur, whereas Incyte argues that Section 8.3(c)(i) is inapplicable altogether to the royalties Incyte owes to Novartis under the Agreement. Novartis interprets subsection (i) to mean that Incyte's royalty payments on its sales of the compound continue until all Novartis-owned *or Incyte-owned* U.S. patents over the drug expire: 2028. *See, e.g.*, Novartis's Mem. at 1–3, 14–15 (native).[3] In other words, Novartis contends that a "Valid Claim of Licensed Patent Rights Covering such Licensed Product in such country" has yet to expire with respect to the royalty stream owed from Incyte to Novartis on U.S. sales of Jakafi.

By contrast, Incyte contends that it was correct to invoke the 50 percent stepdown of its royalty payments to Novartis in 2019 because, in its view, there are currently *no* "Valid Claim[s] of

[2] In its ruling on the motion to dismiss, the Court held that Incyte no longer has "Regulatory Exclusivity" as defined in the Agreement. *See* Dkt. No. 52 at 19. The parties agree that the endpoint listed in subsection (ii) is November 2021, ten years from the First Commercial Sale of Jakafi. *See* Dkt. No. 422 ("Novartis's SUMF Response") ¶ 1438.
[3] Pagination generally matches the page of the exhibit on which the cited material appears on ECF, unless otherwise noted.

Licensed Patent Rights Covering such Licensed Product in such country" applicable to the royalties Incyte owes to Novartis for U.S. sales of Jakafi; Incyte interprets this provision to refer to any *Novartis-owned* U.S. patents over the drug, of which there are zero. *See, e.g.*, Incyte's Mem. at 1–3 (native). Incyte argues that because Jakafi had lost its regulatory exclusivity in the United States in November of 2018, it was therefore proper to reduce the royalties Incyte paid to Novartis on U.S. sales of Jakafi by 50 percent in 2019—because at that point, the royalties were continuing "solely due to clause (ii)." *See id.* at 5–6 (native). Incyte, in turn, argues that it was justified to cease payments altogether in 2021 because that is the date "ten (10) years following the date of [Jakafi's] First Commercial Sale" in the U.S. *See id.*

Thus, the central issue in this case is whether there is "any Valid Claim of Licensed Patent Rights Covering such Licensed Product in such country" that applies to the royalties Incyte owes to Novartis for U.S. sales of the drug under the Agreement. Because the Court concludes that the meaning of Section 8.3(c)(i) of the Agreement is ambiguous, and the available extrinsic evidence is capable of multiple reasonable interpretations, Novartis's and Incyte's motions for summary judgment are DENIED.

I. BACKGROUND[4]

A. Novartis and Incyte Pre-Agreement

Incyte "began researching and developing new drug compounds, including ruxolitinib, in the early 2000s." Dkt. No. 415-2 ("Incyte's SUMF") ¶ 1001. Keith Mikkelson, who serves as Incyte's Division Vice President, Head of Business Development and Licensing ("BD&L"), testified that he thinks that Incyte "invented ruxolitinib and synthesized the molecule in 2005." Ex. 1001[5] ("Mikkelson Dep. Tr.") at 11:9-11, 41:16-

[4] The facts are drawn from the parties' Local Rule 56.1 statements and other documents submitted in connection with the parties' cross-motions for summary judgment. They are undisputed in relevant part unless otherwise noted.
[5] Exhibit citations refer to the most recent version of the exhibit filed on the docket.

41:22. Ruxolitinib, "a compound from a category known as 'JAK inhibitors,'" showed "great promise in treating certain bone marrow and blood cancers." Incyte's SUMF ¶ 1002. By 2006, Incyte had begun filing applications for U.S. patents on ruxolitinib, and by 2007 Incyte began conducting clinical studies with the drug.[6] *Id.* ¶¶ 1002–03. The "brand-name for Incyte's U.S. ruxolitinib product" is Jakafi. *Id.* ¶ 1009.

Despite its early success with the drug's clinical trials, Incyte held significant debt in late 2007.[7] *See* Novartis's SUMF ¶ 7. The closing price of Incyte's stock on December 31, 2007 was $10.05 per share, *id.* ¶ 9, declining to $7.61 per share on June 30, 2008, *id.* ¶ 14, and $3.79 per share on December 31, 2008, *id.* ¶ 13. In its 10-K for the fiscal year ending on December 31, 2008, Incyte reported that "[i]n the past five years, we have had negative cash flow from operations" and "likely will not generate sufficient cash flow from our operations in the future to enable us to meet our anticipated fixed charges . . . ." *Id.* ¶ 12.[8] Incyte reported that it had "limited expertise with and capacity to conduct preclinical testing and

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[6] Mr. Mikkelson testified that Incyte "had done a tremendous amount of preclinical and clinical development for [ruxolitinib], including starting a phase 1/2 study on myelofibrosis in 2007[,] leading up to the initiation of phase 3 studies prior to signing the agreement with Novartis." Ex. 1001 at 41:16-41:22. And Incyte's 10-K for the fiscal year ending on December 31, 2007 described Incyte as a "drug discovery and development company," with a number of programs and potential products, including four compounds in Phase II clinical trials. *See* Ex. 1100 ("Incyte's 10-K FY 2007") at 5. One such compound was Incyte's JAK 424 Inhibitor (INCB18424), which had "positive interim results from several Phase IIa clinical trials in" myelofibrosis and other patient populations, and was "well tolerated." *Id.* at 5–7, 35. Notwithstanding these positive results, Incyte's 10-K stated that its "drug discovery and development activities face, and will continue to face, intense competition," and that "[i]f [it] commence[d] commercial product sales, [it would] be competing against companies with greater manufacturing, marketing, distributing and selling capabilities, areas in which we have limited or no experience." *Id.* at 12.

[7] For the fiscal year ending on December 31, 2007, Incyte reported in its 10-K "that it had a 'large amount of debt'", namely, "an aggregate principal amount of total consolidated debt of $421.8 million, and convertible notes that were to mature in 2011 and thereafter, with $401.8 million maturing in 2011." *Id.* ¶ 7 (citing Ex. 12 ("Incyte's 10-K FY 2007") at 28, 64 (native pagination)). Note that although Incyte does not dispute the quoted language or dollar figures cited, Incyte disputes this proposition as "misleading insofar as Incyte refinanced the referenced debt *prior to* entering into the Agreement with Novartis," refinancing in early 2009. Dkt. No. 415-3, 415-4 ("Incyte's SUMF Response") ¶¶ 7, 11 (emphasis in original). Further, Incyte's 10-K reported that for the "past five years, we have had negative cash flow from operations," had "net losses from inception in 1991 through 1996 and 1999 through 2007," and had "an accumulated deficit of $1.0 billion as of December 31, 2007." Dkt. No. 422 ("Novartis's SUMF Response") ¶ 1127; *see also* Dkt. Nos. 415-5, 415-6 ("Incyte's SUMF Reply") ¶ 1127 (disputing the cited proposition on the same grounds listed above, but not disputing the quoted language included herein).

[8] Incyte's 10-K also stated that it "do[es] not have any drug products that have generated revenues and [it] cannot assure you that [it] will generate revenues from the drug candidates that [it] license[s] or develop[s] for several years, if ever." *Id.* ¶ 16.

clinical trials, and our resulting dependence on other parties could result in delays in and additional costs for our drug development efforts." *Id.* ¶ 15. The 10-K also reported millions of dollars in outstanding aggregate principal on Incyte's debts. *Id.* ¶ 12.[9] Still, the 10-K reported that Incyte's clinical trials with the JAK 424 Inhibitor were "positive" and that "the compound has been well tolerated[,] suggesting that further development is warranted." *Id.* ¶ 15.

In contrast, Novartis's "form 20-F for the fiscal year end[ing on] December 31, 2008 . . . reported $41,459 million in net sales from continuing operations covering four operating divisions," including those for "brand-name patented pharmaceuticals" and "generic pharmaceuticals." *Id.* ¶ 20. And "[i]n the pharmaceuticals division alone, Novartis AG reported 53 'key marketed products' across six therapeutic areas, and 7 'key marketed products' in the oncology therapeutic arena" at the time. *Id.*

B. Novartis and Incyte Form a Collaborative Relationship

Novartis and Incyte began exploring a collaborative relationship in late 2008 through early 2009, *see id.* ¶¶ 2–5, as Incyte sought a collaboration to market and sell ruxolitinib in the U.S, *see* Incyte's SUMF ¶ 1004.[10] By late 2008, Incyte was additionally developing "several other promising drug compounds, including capmatinib ('c-MET') . . . , for which it also

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[9] In its response, Incyte adds that it refinanced the debt prior to entering into the Agreement, and that Incyte's Chief Financial Officer, David Hastings, testified that "[t]he key metric for our financial performance was cash balances and cash burden [going into 2009]," and his recollection of "having access to capital through various offerings ensuring that the company had capital to deploy these research programs." Incyte's SUMF Response ¶ 12 (citing Ex. 245 ("Hastings Dep. Tr.") at 60:25-62:15). In any case, in the first half of 2009, Incyte's share price did not exceed $4.08. Novartis's SUMF ¶ 14.

[10] To be sure, Incyte was considering partnerships with other companies beyond Novartis. *See* Incyte's SUMF Response ¶¶ 22, 548 ("In 2009, Novartis was competing with at least six other pharmaceutical companies hoping to do a deal with Incyte."). Incyte contends that it "intended to commercialize ruxolitinib in the United States on its own" and that "it began considering collaborations to commercialize the drug outside the U.S.," Incyte's SUMF ¶ 1004, although "Novartis disputes that Incyte would have been able to [c]ommercialize ruxolitinib without Novartis' various material contributions as a collaborator," Novartis's SUMF Response ¶ 1004. And "Novartis does not dispute that when the parties commenced exploratory collaboration discussions in late 2008-early 2009, Incyte advised Novartis that it wished to be the collaborator party marketing and selling ruxolitinib in the U.S. after the completion of Development, including clinical trials, and following U.S. Food and Drug Administration . . . approval." Novartis's SUMF Response ¶ 1004.

sought a partnership to commercialize." Incyte's SUMF ¶ 1017. Novartis Oncology's Business Development and Licensing team was particularly interested in the JAK 424 Inhibitor—the main active ingredient in ruxolitinib—which Incyte had discovered. *See* Incyte's SUMF ¶ 1006; Dkt. No. 422 ("Novartis's SUMF Response") ¶ 1006.

Specifically, "[i]n engaging in preliminary exploratory conversations with Incyte, Novartis was interested in two of Incyte's programs in development: (a) the JAK program for the JAK 424 Inhibitor in the Oncology field (the 'JAK Program'), as well as for the follow-on JAK inhibitor compound INCB28050 in the Rheumatoid Arthritis ('RA') field (the 'JAK 050 Inhibitor'); and (b) the c-MET program in the Oncology space (the 'c-MET Program')." Novartis's SUMF ¶ 3.[11] For its part, Incyte was seeking out a partner who would have "the field presence or sales team needed to bring the drug to market" abroad, which Incyte itself did not have. Incyte's SUMF ¶ 1016. Novartis was among "several other major pharmaceutical companies" who "were interested in gaining rights to develop and commercialize ruxolitinib-based drug products, either through a corporate acquisition of Incyte or through a licensing deal." *Id.* ¶ 1005.

The parties held meetings in December of 2008 to discuss both the JAK and the c-MET Programs and to explore potential areas for collaboration. Novartis's SUMF Response ¶¶ 1124–25. Patricia Andrews—one of the "lead" members of Incyte's team on the Novartis-Incyte collaboration, who served as Incyte's Chief Commercial Officer from October 2008 through August 2012, *see* Ex. 1013 ("Andrews Dep. Tr.") at 36:10-17, and a participant in the eventual term sheet drafting process—testified that Novartis initiated the first meeting with Incyte in late 2008, *id.* at 73:22-25, 74:2-3, 75:10-11, 80:22-24. Novartis

[11] Novartis ultimately "dropped out of" the RA field. *See* Ex. 246 ("MacLaughlan Dep. Tr.") at 217:2-218:4; Novartis's SUMF ¶ 2.

had begun pursuing the Incyte collaboration "based on the clinical data from Incyte's drug development program." Incyte's SUMF ¶ 1018; *see also id.* ¶ 1020.[12] In advance of some of these meetings, Novartis shared materials speaking to the "Partnership Advantages" that Incyte theoretically could have with Novartis, should the two consider a collaborative arrangement. Novartis's SUMF ¶ 24 (citing Ex. 24 at 6).[13]

In February of 2009, "Novartis conducted due diligence on Incyte's JAK and c-MET compounds at Incyte's headquarters" and received "'positive' feedback . . . such that there was a desire 'to move forward' with continued evaluations and preliminary discussions with Incyte on what a collaboration might look like." *Id.* ¶ 27; *see also* Incyte's SUMF ¶ 1021 (noting that "Novartis was enthusiastic in its assessment of Incyte" following these early February meetings). Novartis envisioned that Incyte would contribute "IP as well as resources and funds" to the parties' collaboration. Dkt. Nos. 415-3, 415-4 ("Incyte's SUMF Response") ¶ 583. Todd MacLaughlan—Novartis's Head of Oncology Negotiations for Business Development and Licensing, Novartis's SUMF ¶ 2—testified that "one of the things [Incyte] liked about [Novartis] was that [Novartis] did have global presence . . . and [Novartis was] in multiple markets around the world." Ex. 1004 ("MacLaughlan Dep. Tr.") at 97:2-97:15. Ms. Andrews testified that the "positives" of entering into the Incyte-Novartis collaboration included that Novartis "had money," as well as global clinical development expertise, and that Novartis was "an established European player," "big" both in and out of

[12] "Going into the collaboration subject of the Agreement, the JAK 424 Inhibitor was entering Phase III of Development, with Novartis to actively participate in and contribute to Phase III trials, whereas c-MET was in Phase I of Development." Novartis's SUMF Response ¶ 1373.

[13] For example, one presentation stated that "Novartis can help Incyte maximize the probability and success of a development program *both* in the U.S. and in Europe over both the short and long term," given Novartis's "[g]lobal [l]aunch [e]xperience" and "[p]ost-[l]aunch [e]xperience." *See* Ex. 24 at 7. While Incyte does not dispute that the document cited contains the statements quoted, Incyte asserts that "the slide deck is a marketing piece and should be viewed as such—Novartis was trying to sell itself to Incyte by saying all of the things Novartis could *theoretically* bring to the table." Incyte's SUMF Response ¶ 24 (emphasis in original and citations omitted).

Europe and the United States, such that Novartis "could sell [Incyte's] product well in Europe" and "in the rest of the world." Andrews Dep. Tr. at 85:4-87:12.

Novartis stood to benefit from the potential collaboration too. Manuel Litchman—who served as Novartis's Head of Oncology Licensing in its BD&L team from 2008 through 2012, *see* Ex. 1011 ("Litchman Dep. Tr.") at 12:18-15:8—testified that the JAK and c-MET Programs were "attractive as licensing opportunities for Novartis," *id.* at 121:22-123:17. And he replied "[y]es" when asked whether "JAK2 [was] filling a gap with respect to the Novartis oncology's group book of business for products that it commercializes." *Id.*

By early 2009, negotiations on deal terms for a potential collaboration and licensing agreement were underway. *See* Novartis's SUMF ¶¶ 37–38. An internal PowerPoint presentation circulated on February 13, 2009 by Novartis's Mr. MacLaughlan[14] proffered one "Potential Business Structure" between Novartis and Incyte; it proposed a "50/50 GM [gross margin] split" if the parties co-promoted within the United States, and it noted that "Novartis would receive Royalty/milestones from Incyte" if there was "no US co-promote." *See* Ex. 10 at 8–9.[15] On February 18, 2009, Mr. MacLaughlan emailed Incyte's Paul Friedman and Ms. Andrews with "a potential structure that we can use to discuss how we might move forward together in a strategic relationship in Oncology and Inflammation for discussion purposes." Novartis's SUMF ¶ 29 (quoting Ex. 27 at 2). This email attached a slide which read, under a header referencing the JAK oncology space: "X%/y% Gross Margin Split US if co-promote, royalty to [Novartis] otherwise." *Id.* ¶ 30 (quoting Ex. 27 at 3).[16]

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[14] Mr. MacLaughlan was Novartis's lead negotiator on the Incyte-Novartis deal until May 2009, at which point Douglas Hager took over as lead negotiator. *See* Ex. 251 ("Hager Dep. Tr.") 15:7-16; *id.* 32:21-24.

[15] Novartis describes this slide in Novartis's SUMF ¶ 28, the characterization of which Incyte disputes in Incyte's SUMF Response ¶ 28. But the parties do not dispute the slide's language quoted above.

[16] Novartis interprets this slide to indicate that "Novartis expected that . . . in the JAK Oncology space, there would be a "X%/y% Gross Margin Split US if [the parties elected to] co-promote, [or Incyte

A February 19, 2009 email from Ms. Andrews to Mr. MacLaughlan, among others, stated that at least one of the structures Novartis proposed—a potential co-promotion in the United States—was "more all-encompassing than we [at Incyte] envision." Ex. 1018 at 2. She explained:

> Incyte needs to retain a strategic and operational identity separate from the partnership with Novartis. US rights to [JAK Inhibitor] 424 in MPD are an essential part of our identity. . . . [W]e want to commercialize 424 in MPDs in the U.S. ourselves. This is not a co-promotion. At the same time, we can see that it might be good to have some cross-fertilization of ideas that benefit both parties commercially in our respective geographies . . . .

Id.; *see also* Litchman Dep. Tr. at 96:19-25 ("Q. Do you understand that Incyte wanted to retain the rights to commercialize ruxolitinib in the United States itself? A. Yes. When [Ms. Andrews] says this is not a co-promotion, she means that they want to promote it themselves.").

"By March 2009, the Novartis Oncology BD&L team was undergoing internal deal valuation efforts to determine if a collaboration with Incyte made business sense and to support seeking a negotiation mandate from Novartis senior management, including by undertaking financial modeling in Microsoft Excel and employing 'conservative' sales forecasts and other 'particulars of the deal' that would potentially be negotiated." Novartis's SUMF ¶ 34. "[A] 'negotiation mandate' at Novartis amounted to permission by Novartis senior management to engage in formal negotiations on deal terms for a potential collaboration and license agreement; no 'real' deal term discussions that 'Novartis is standing behind' or term sheets could be sent to Incyte without such a mandate." *Id.* ¶ 37.

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would pay a] royalty to [Novartis] otherwise." *Id.* ¶ 31 (brackets in original). Incyte disputes Novartis's characterization of the slide, noting that only its contents (as quoted in-text above) are undisputed. *See* Incyte's SUMF Response ¶ 31. Incyte disputed "[a]ny mischaracterization, inference, or generalization drawn from the absence of a 'requirement' for Novartis to develop IP in the slide . . . as unsupported by the evidence." *Id.*

Novartis's Oncology Deal Committee ("ODC") approved a negotiation mandate request in mid-March 2009, which meant that the possibility of a strategic collaboration with Incyte regarding the JAK 424 Inhibitor, the JAK 050 Inhibitor, and the "c-MET inhibitor" could progress to the next level of approvals—the Deal Review Committee ("DRC"). Novartis's SUMF Response ¶ 1157. A presentation circulated internally at Novartis in advance of this mid-March meeting included a slide entitled "Overview of Deal Structure." *See* Ex. 1112 at 14. The slide states that Novartis and Incyte would both contribute "$" and "Resources" to the JAK Program, and it states: "x/y Gross Margin Split US if co-promote, royalty to NVS otherwise." *See id.*; *see also* Ex. 1017 at 3 (a similar—though not identical—slide, marked "For Discussion Only" and emailed from Mr. MacLaughlin to Incyte's Friedman and Andrews in mid-February 2009).

Other internal Novartis communications include commentary on Incyte paying a royalty rate to Novartis on U.S. sales, although the parties dispute the extent to which such royalty rates were mutually discussed early on. *See* Novartis's SUMF ¶ 35.[17] These internal communications include an email dated March 15, 2009 from Brian Goldfus—Novartis's Executive Director of BD&L in 2009, *see* Ex. 13 ("Goldfus Dep. Tr.") at 17:7-11[18]—to Mr. MacLaughlan and Douglas Hager, who were Novartis's two lead negotiators on the deal, *see* Ex. 1111; Ex. 251 ("Hager Dep. Tr.") 15:7-16; *id.* 32:21-24. A presentation attached to this email indicated that, as part of the "Proposed Terms for Negotiating Mandate," Incyte

[17] Novartis asserts that "[i]n the Novartis Oncology BD&L initial modeling . . . the concept of a royalty being paid by Incyte to Novartis on Incyte's U.S. JAK Sales was incorporated from the outset." *Id.* ¶ 35. Incyte questions whether the contemplated royalty was "necessarily 'incorporated' in any potential deal between the parties," and Incyte contends that at least some of Novartis's internal deal models "do not contain any analysis or forecasting concerning . . . the duration of Incyte's royalty payments to Novartis," and that in any case, "[t]hose internal models . . . do not have any relevance to [the parties'] understanding relating to the duration of" these royalty payments. Incyte SUMF Response ¶ 35.

[18] In this capacity, Mr. Goldfus "was responsible for analyzing any deal for global oncology excluding [mergers and acquisitions]." Goldfus Dep. Tr. at 17:25, 18:2-6.

would pay to Novartis a nonzero walk-away royalty rate on U.S. Jakafi sales. *See* Ex. 1111 at 6.[19]

Novartis's DRC met in late March 2009 to discuss the Novartis-Incyte collaboration, after which the proposed terms, if approved, would proceed to Novartis's Pharma Committee (the "PhC"). *See* Ex. 1075 ("B. Goldfus Tr.") at 162:8-17. The presentation dated March 30, 2009 for the DRC meeting stated that the "[a]bility of a partner to help address Incyte's debt is a critical element of the deal." *See* Ex. 1113 at slide 3 (emphasis in original).[20] It stated that "Incyte may face liquidity problem in Q1'11 when ~$400M in convertible debt matures," *id.*; and that, as part of the prospective deal's "[f]inancial overview," there could be an "[u]p to $150M vehicle to help with debt overhang," *id.* at slide 4. And the potential "[d]eal [s]tructure" in these slides depicted Incyte contributing "IP/Resources/$" to the collaboration. *See id.* at slide 18.[21]

Following a meeting on April 7, 2009 between Novartis and Incyte representatives, Novartis's Mr. Goldfus emailed a PowerPoint presentation to Mr. MacLaughlan, among others, which suggested that the parties had recently discussed the royalty rates.[22] Novartis's

[19] For context, "[i]n 2009 at Novartis, an 'in-going' set of terms would be where Novartis BD&L personnel would start in negotiations with a potential collaborator, whereas a 'walk-away' set of terms would represent the point at which Novartis 'would not be willing to accept' anything 'worse' and thus would be when Novartis 'would no longer pursue the deal.' '[F]lexibility in terms of the financial terms' for the deal negotiations would thus exist between the 'ingoing' set of terms and 'walk-away' set of ter[m]s." Novartis's SUMF Response ¶ 1163.

[20] Incyte objects to the proposition in Novartis's SUMF referencing this PowerPoint presentation, as Incyte again argues that "Incyte refinanced the referenced debt *prior to* entering into the Agreement with Novartis;" and that it did not "need[] Novartis to develop or commercialize" ruxolitinib. *See* Incyte's SUMF Response ¶ 41 (emphasis in original). It also disputed Novartis's characterization of what the slides showed, although it did not dispute the quoted language. *See id.*

[21] In addition, a slide deck with the header "DRAFT"—sent from Mr. Goldfus to Mr. MacLaughlan on March 17, 2009, and entitled "Incyte: Request for Negotiation Mandate . . . DRC March 30th, 2009"—includes a slide called "Incyte c-Met and JAK-2 Inhibitor: Proposed Terms for Negotiating Mandate (cont.)." *See* Ex. 1306. This slide reads, under the header "JAK-2 in Oncology:" "Incyte pays Novartis [a nonzero] royalty on sales in US (0% in walk-away case)." *Id.* at 2, 4, 8.

[22] Specifically, he slide deck was entitled "Novartis discussion with Incyte;" it included a slide called "Incyte feedback," which states under "[d]eal terms:" "[u]pfront amount 'light' by about $100M," "[r]oyalties need to be approx. 2x current . . . ," and "[t]hough adverse to sharing US value, in the end seemed to accept a 5% share for NVS [Novartis]." Novartis's SUMF ¶ 43 (quoting Ex. 1118 at 5).

SUMF ¶ 43. On April 11, 2009, Mr. Goldfus emailed Mr. MacLaughlan, Mr. Hager, and Mr. Litchman "some slides that may be used to present to Herve [Hoppenot] . . . next week about why/how our offer has changed."[23] Ex. 1118 at 2. One slide, entitled "Incyte JAK-2 Inhibitor in Oncology," lists among the "Proposed Terms for Negotiating Mandate" that Incyte would pay to Novartis a nonzero figure "of net sales in the U.S.," and a marginally smaller nonzero figure "in walk-away case." *Id.* at 21. Other internal Novartis slide decks from spring 2009 indicate a similar understanding.[24]

On April 17, 2009, Novartis's Pharma Committee met to request support for a negotiation mandate, which was ultimately approved. *See* Incyte's SUMF ¶ 1027. A presentation circulated internally prior to the PhC meeting listed, for the "[c]urrent PhC proposal," a nonzero walk-away rate of royalties payable on U.S. JAK sales, and the next slide stated that the "[p]roposed terms" were "close to walk-away." Ex. 1114 at slides 4–5. This presentation depicted Novartis's anticipated incoming royalties from Incyte on U.S. JAK Sales as apparently continuing through the last year in the slide, 2026.[25] *See id.* at slide 7.

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[23] Herve Hoppenot "function[ed]" as Novartis's Chief Commercial Officer in 2009. *See* Ex. 262 ("Hoppenot Dep. Tr.") at 14:14-17. Later, "Herve Hoppenot left Novartis and joined Incyte as its Chief Executive Officer in January 2014, becoming Chairman of the Board in May 2015." Novartis's SUMF ¶ 331.

[24] For instance, in late March 2009, Mr. Litchman emailed "the final version of the . . . deck for the 17 April Pharma Committee" meeting; this slide deck lists "0% in walk-away case" for the potential royalties Incyte would pay to Novartis regarding "JAK in Oncology." *See* Ex. 1023 at 2, 17. Another slide deck, sent by Mr. Goldfus on March 27, 2009 and entitled "In-licensing of JAK and cMet inhibitor programs from Incyte: Request to support negotiation mandate" for the "Deal Review Committee," dated "30 March 2009" is similar. *See* Ex. 1307. This deck has a slide entitled "Additional Proposed Terms for Negotiating Mandate," which, for "JAK2 in Oncology," likewise lists "0% in walk-away case." *Id.* at 3–5, 25. This email was forwarded internally at Novartis on April 14, 2009 and described as "the potential Incyte transaction." *Id.* at 2; *see also* Ex. 1308 (another internal Novartis email from April 15, 2009 attaching the same slide deck). Note that Incyte argues, from these exhibits, that "from at least as of March 17, 2009 to April 15, 2009, Novartis was contemplating a 0% 'walk-away' rate for the proposed Incyte royalty on United States sales of a JAK product." *See* Incyte's SUMF Response ¶ 498. Novartis disputes this, arguing that these slide decks are "undeveloped and unapproved draft form presentations that were never actually submitted to Novartis management for approval and necessarily are not presentation materials that ever supported the receipt of a negotiation mandate within Novartis . . . ." *See* Novartis's SUMF Reply ¶ 498.

[25] Specifically, the slide deck included a slide entitled "Novartis P&L cMet + JAK, Walk-Away terms," which showed "Alliance Revenue"—which, according to Mr. Goldfus's and Mr. Hager's depositions, represents the anticipated incoming royalties from Incyte on U.S. JAK Sales—through the last year in the slide, 2026. *See id.* at 10, 18; B. Goldfus Tr. at 204:23-205:25, 265:11-24; D. Hager Tr. at 314:3-10.

This presentation also estimated that, for Novartis's JAK-specific Profit & Loss statement's "Walk-Away terms," the "[p]ayback period (years from launch)" would consist of nearly a decade—a time period ending before Incyte invoked the stepdown in 2019. *Id.* at slide 15; *see also* Novartis's SUMF ¶ 44 (describing a "walk-away" rate as a set of terms representing the point at which Novartis "would not be willing to accept" anything "worse," and thus when Novartis "would no longer pursue the deal").

Internal Novartis emails from mid-April indicated that, at least in Mr. Hager's view, the valuation described in the PhC presentation was "based on reasonably well-founded estimates of the patent life of each compound." Ex. 1119 at 2. In this email, Mr. Hager stated that "[t]he JAK compound patent, without extensions will expire in 2025 . . . ." *Id.* And he testified that the PhC ultimately approved the negotiation mandate for the JAK Program with a nonzero reverse royalty walk-away term.[26] *See* D. Hager. Tr. at 308:14-25. The PhC's approval of the negotiation mandate, in his view, "meant [that] we [Novartis] could start negotiations" with Incyte. *See id.* at 172:6-21.

For Incyte's part, one of its own internal presentations—dated May 1, 2009—indicated that the company's "Objectives in Strategic Collaboration" included, as "Financial Goals," "[m]aximiz[ing] near term payments to carry Incyte through 2012 and profitability," "[s]har[ing] or offload[ing] development costs," and "a partner who helps with debt overhang." Ex. 1008.1 at slide 4.

C. Novartis and Incyte Negotiate and Draft the Agreement

Throughout the spring and summer months of 2009, Novartis and Incyte negotiated the terms of their arrangement. *See, e.g.*, Novartis's SUMF ¶¶ 43–48. Each side circulated

[26] The Court adopts the parties' briefing's use of the term "reverse royalty" throughout this opinion, as a shorthand means of referring to the royalty that Incyte paid to Novartis on U.S. sales of the drug under the Agreement.

financial models internally. *Id.* ¶¶ 46–48;[27] *see also id.* ¶ 55 (citing various internal PowerPoint presentations that contain Novartis's financial models related to valuation of the potential deal with Incyte). Novartis's models reflected incoming royalties from Incyte on U.S. JAK Sales through at least 2026. *See* Ex. 32 at 10, 18; Ex. 248 ("Goldfus Tr.") at 204:23-205:25, 265:11-24 (testifying that the "alliance revenue" row in the slide at Ex. 32 would represent the royalties Novartis received from Incyte); Ex. 26 ("Hager Tr.") at 314:3-19 (same, and testifying that this shows the reverse royalty extending beyond ten years). Mr. Goldfus of Novartis testified that the company "anticipated the possibility of earning [back] those . . . funds" that Novartis paid to Incyte for sales and regulatory milestones, and that "[o]therwise, we would not have entered [into] the deal." Goldfus Dep. Tr. at 132:19-133:9.

The parties dispute what Novartis's "walk-away" royalty rate—a set of terms representing the point at which Novartis "would not be willing to accept" anything "worse," and thus when Novartis "would no longer pursue the deal," *see* Novartis's SUMF ¶ 44—was throughout the negotiations. Incyte contends that, at least for some part of the spring of 2009, Novartis contemplated a walk-away rate of 0 percent, while Novartis asserts that the walk-away rate was nonzero and marginally higher. *See id.* ¶¶ 45, 47, 54; Incyte's SUMF Response ¶¶ 45, 47, 54, 498.

For its own financial models, Novartis asserts that it "consistently modeled receipt of royalties from Incyte on U.S. JAK Sales through Incyte U.S. patent expiration," Novartis's SUMF ¶ 60, although Incyte disputes this proposition—arguing that patent life need not be linked to royalty duration, that some internal Novartis models do not analyze the duration of Incyte's royalty

[27] Incyte disputes consideration of these internal models as lacking "relevance to Incyte's or Novartis's understanding relating to the duration of Incyte's royalty payments to Novartis . . . ." Incyte's SUMF Response ¶ 48. For example, Incyte asserts that one of the models "sets forth the 'Patent expiration year' as 2025 in the tab captioned 'Assumptions,' but shows Incyte royalty payments after the 'Patent expiration year' in 2026 . . . 2027, . . . 2028, . . . and 2029 . . . ." *Id.* (citing Ex. 105).

payments to Novartis, and that the cited material simply "states that the 'concept' for the royalty from Incyte to Novartis was 'needed to get value for multiple reasons,' . . . that Incyte 'communicated to [Novartis] what [Novartis] should use for modeling purposes in terms of patent life,' . . . that patent term '[Novartis] w[as] modeling went into 2025 and beyond,'" and "that '[Novartis'] JAK valuation is up through patent expiry,'" Incyte's SUMF Response ¶ 60 (quoting Ex. 246 ("MacLaughlan Dep. Tr.") at 369:7-2, 405:18-406:10) (internal citations omitted)). Mr. MacLaughlan—Novartis's lead BD&L negotiator through late May 2009—testified that, "at the time when [he] was there, into late May, it was clearly understood, . . . Incyte communicated to us what we should use for modeling purposes in terms of patent life, and it was always clear and [*sic*] every discussion we had that the [royalty] term that we were modeling went into 2025 or beyond." Ex. 6 ("T. MacLaughlan Tr.") at 405:18-406:10; *see also id.* at 50:9-21 ("So at the time that we were discussing the terms, it was communicated to me by Incyte what the patent life of the products would be. We used that information to determine in our modeling how long the sales should go out for.").[28]

In addition, Mr. Goldfus, when asked whether "Novartis anticipated earning back th[e] money [paid to Incyte for sales and regulatory milestones] over the course of the deal[,]" testified that Novartis "anticipated the possibility of earning those . . . funds back, yes. . . . Otherwise, we would not have entered the deal . . . ." Ex. 1075 at 132:25-133:6. He also testified that "a typical part of the financial analysis" would be to "calculate what that payback period would be." *Id.* 136:6-11. But "[i]n discussing and then negotiating a deal with Incyte, Novartis' Oncology BD&L deal team understood that 'there is a reasonable risk that all of this will fail and [Novartis would] get

[28] Incyte also objected to Novartis's inclusion of this quotation in the SUMF, asserting that "patent coverage is relevant for modeling the length of product 'sales', and has nothing to do with . . . any royalty provision or contractual interpretation." Incyte's SUMF Response ¶ 59 (quoting MacLaughlan Dep. Tr. at 50:9-21). Moreover, Incyte acknowledges that Mr. MacLauchlan also stated that he "wasn't there when they wrote that contract . . . [s]o [he] d[id]n't know what was in either parties' head." MacLaughlan Dep. Tr. at 405:18-25. But he was involved in preparing the April 22 Term Sheet. *See* Novartis's SUMF Response ¶ 1189.

nothing from [its] investment.' That said, Novartis did not aim to merely 'break even,' as that 'is not the point of a business deal,' particularly with a 'risky deal with hundreds of millions of dollars of investments.'" Novartis's SUMF Response ¶ 1169 (quoting Mr. Hager and then Mr. Goldfus). In other words, "[i]n discussing and then negotiating a deal with Incyte, Novartis strived for an agreement that . . . was 'financially viable' and still provided a 'good' and 'reasonable return on its investment.' This is because Novartis had to consider 'whether this was a better use of Novartis' . . . monies it had available for investment.'" Novartis's SUMF ¶ 56 (quoting D. Hager Tr. at 94:6-14, 99:10-13).[29] For Incyte's part, Mr. MacLaughlan stated that "it was very important for Incyte at that time to have money upfront" and "[s]o the deal was structured so that a lot of the upfront monies would go to Incyte, because they had overhead and other things, and a lot of the back-end money would go to Novartis." T. MacLaughlan Tr. at 48:8-18.[30]

1. The Term Sheets

Throughout the course of their negotiations, Novartis and Incyte exchanged seven term sheets related to the ruxolitinib JAK collaboration. These are dated, respectively: (1) April 22, 2009; (2) May 7, 2009; (3) June 11, 2009; (4) June 19, 2009; (5) June 30, 2009; (6) July 6, 2009; and (7) July 9, 2009 (collectively, the "Term Sheets"). *See* Novartis's SUMF ¶ 61.[31] At the outset, Novartis and Incyte dispute the structure and interpretation of these term sheets. Novartis contends that they all "followed the same structure in terms of

[29] Mr. Goldfus added that "once a breakeven point is . . . reached, if you continue to receive royalties at that point . . . then it's positive cash flow." Goldfus Dep. Tr. at 257:15-258:3.

[30] Incyte objected to Novartis's inclusion of this quotation in the SUMF, asserting that Incyte did not "need[] Novartis to develop or commercialize its ruxolitinib drug product," and Incyte was discussing potential deals with other companies and had raised some funding on its own. Incyte's SUMF Response ¶ 58. Incyte did not dispute that the deposition transcript included this quotation, though. *Id.*

[31] Novartis asserts that "the first draft term sheet" is the one dated April 22, 2009. Novartis's SUMF ¶ 64. Incyte asserts that the first term sheet exchanged between the parties was one dated March 10, 2009. *See* Incyte's SUMF Response ¶¶ 64, 496. But Incyte agrees that "the first term sheet related to the . . . Agreement" was that sent on April 22, 2009. *See* Incyte's SUMF ¶ 1028. The term sheet dated March 10, 2009 is entitled "Proposed Terms c-Met License" and does not concern the JAK program or contain any references to it. *See* Ex. 244. The email sent by Incyte's Dan Maravei to Novartis's Mr. MacLaughlan, attaching the March 10 term sheet, describes it as "a term sheet on a deal for cMet as a stand alone opportunity . . . ." *Id.* at 2.

delineating the royalty payments to be made by one party to the other and the duration thereof," *id.* ¶ 62,[32] whereas Incyte contends that "none of the term sheets follow the structure Novartis posits," Incyte's SUMF Response ¶ 62. Novartis asserts that the term sheets show that "the parties only contemplated one method of calculating the duration of any royalty stream being paid under the Agreement (as set forth in the 'Royalty Term' box [of each term sheet]), and (b) the parties heavily negotiated the royalties being paid by both sides, including the royalty being paid by Incyte to Novartis on U.S. JAK Sales." Novartis's SUMF ¶ 63.[33] Incyte disputes this characterization, asserting that the language of the "Royalty Term" box in the term sheets changed throughout the term sheets' progression. Incyte's SUMF Response ¶ 63. Further, Incyte contends that the April 22, 2009 term sheet and all subsequent term sheets listed the JAK royalties that Novartis would receive from Incyte as "a codicil in a box about the rates of Novartis's royalty payments to Incyte, not in its own section." *Id.* ¶ 521.[34] The parties also dispute whether, at the term sheet stage, the parties contemplated a two-way license (as Novartis contends) or only one-way licenses (as Incyte contends). *See id.* ¶ 522; *see also* Dkt. Nos. 423–24 ("Novartis's SUMF Reply") ¶ 522.

All of the Term Sheets contain the header "Proposed Terms – Non [B]inding" and conclude with a "Contingent Nature" section, which states that "[t]his Term sheet is non-

[32] Novartis makes this statement with respect to the seven term sheets discussed above, as Novartis omits the c-Met term sheet exchanged on March 10, 2009 from its count. *See* Incyte's SUMF Response ¶¶ 61–62; Novartis's SUMF ¶¶ 61–62.

[33] For example, Novartis contends that "all term sheets except the April 22 Term Sheet contained three different criteria under the 'Royalty Term' box to determine when the Royalty Term would expire, whereby the royalty term would continue until the 'later to occur of' those three events." Novartis's SUMF Response ¶ 1047.

[34] Novartis disputes the "codicil" concept, arguing that the reverse royalty obligation was "a core financial deal term" and a "necessary component of the proposed deal." *See* Novartis's SUMF Reply ¶ 521. Novartis also contends that "all of the term sheets contained one box describing royalties that would be applicable to the c-MET compound, one box describing royalties that would be applicable to the JAK compound (and here, there are royalties going both ways, from one collaborator to the other, given the nature of a territorial split arrangement), and then one box detailing the bilateral method to determine the endpoint of each potential royalty stream to be paid by either party during their collaboration and when a 50% reduction of royalties to be paid may be appropriate. This sequential order remained consistent in the final Agreement." *Id.* (internal citations omitted).

binding and is for discussion purposes only . . . ." *See* Ex. 41 (the "April 22 Term Sheet") at 3, 11; Ex. 42 (the "May 7 Term Sheet") at 3, 11; Ex. 43 (the "June 11 Term Sheet") at 13, 22; Ex. 44 (the "June 19 Term Sheet") at 14, 23; Ex. 45 (the "June 30 Term Sheet"), at 3, 14; Ex. 46 (the "July 6 Term Sheet") at 3, 13; Ex. 47 (the "July 9 Term Sheet" or the "Final Term Sheet") at 4, 14. Novartis's negotiators, Mr. MacLaughlan and Mr. Hager, testified to the same effect. *See* MacLaughlan Dep. Tr. at 104:21-105:15 ("[T]erm sheets are not binding. . . . . You can have term sheets and never enter into a deal. So the only thing that matters at the end of the day is the final agreement that both parties agree to . . . and gone through the diligence to get the deal approved on both sides."); *id.* 374:25-375:13 ("We ended up with a final agreement. And now you want to go back and compare it to the original term sheet or one of the term sheets. It's irrelevant. Completely irrelevant. The only thing that's relevant is what's in the final agreement."); Ex. 251 ("Hager Dep. Tr.") 189:7-189:13 ("[A]ll of the term sheets that we will talk about will be nonbinding.").

The first term sheet relating to the Agreement was prepared by Mr. MacLaughlan, in conjunction with other Novartis personnel. *See* Incyte's SUMF ¶ 1028; MacLaughlan Dep. Tr. at 120:13-121:124. This term sheet, dated April 22, 2009, states as its "[o]bjective" that "Novartis and Incyte wish to . . . enter into a business transaction that will facilitate development and commercialization of Incyte's c-Met and Jak inhibitors." Ex. 41 at 3. It proposed "development responsibilities by both parties and . . . cost sharing between the parties for conducting JAK Program clinical trials, whereas Novartis would cover" another set of trials. Novartis's SUMF ¶ 65. And it proposed an "[u]pfront [f]ee" of $150 million that Novartis would pay to Incyte shortly after the parties reached a "definitive agreement," in addition to other fees that Novartis would pay to Incyte following JAK developmental, regulatory, and sales milestones. *Id.* ¶ 66. It "also proposed that Novartis pay Incyte tiered

royalties . . . on JAK sales ex-U.S," *id.* ¶ 67, and that Incyte would pay a "flat" reverse royalty to Novartis on Incyte's U.S. JAK Sales, *id.* ¶ 68.

The April 22 Term Sheet's "Royalty Term" section stated:

> The royalty term will begin upon the first commercial sale of a Licensed Product and will continue, on a Licensed Product-by-Licensed Product basis and on a country-by-country basis until the later to occur of: (i) expiration of the last to expire valid claim within Licensed IP covering the sale of such Licensed Product in the country of sale at the time of sale, or (ii) the tenth (10th) year anniversary of the first sale of such Licensed Product in such country (Royalty Term Expiration Date). In the countries that do not have a valid claim, the royalty rate will be reduced by 50%. If a generic product is launched, the royalty rate will be reduced to 0%.
>
> After the Royalty Term Expiration Date, Novartis will have a fully paid-up, royalty-free license for such Licensed Product in such country.

Ex. 41 at 9.[35] This term sheet defined "Licensed IP" as:

> Any Patent or proprietary know-how owned or controlled by Incyte or its affiliates as of the Effective Date or that is acquired or developed during the Term that is necessary or useful for the researching, developing, making, using, selling, offering for sale and importing of Compounds or Licensed Products.

Id. at 3.[36] "Following Incyte's receipt of the April 22 Term Sheet from Novartis, Incyte and Novartis attorneys discussed the IP due diligence efforts being conducted by Novartis. . . . Among other things, Novartis asked Incyte for a 'patent status report' concerning its patents relating to the compounds subject of the April 22 Term Sheet, including the patents' '[e]xpiration date.'" Novartis's SUMF ¶ 72; *accord* Incyte's SUMF Response ¶ 500. The

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[35] In examining this term sheet, Mr. Hoppenot testified that "these terms," referencing Licensed IP, "are about the Novartis royalties paid to Incyte . . . ." Hoppenot Dep. Tr. at 137:15-139:20; *see also* Mikkelson Dep. Tr. at 124:25-125:18 ("Q. That section, did you understand it to apply to both the royalty that Novartis paid Incyte and the royalty Incyte paid Novartis? . . . . A. The royalty term here refers to expiration of the last to expire valid claim within licensed IP covering the manufacturing, use, sale of the licensed product in such country, and the [L]icensed IP refers to any patent or proprietary know-how owned or controlled by Incyte. So to me it's not clear that the royalty – the reverse royalty end dates are outlined in the royalty term section since the [L]icensed IP definition is specific for Incyte IP and we wouldn't pay a royalty on our own IP. So it's not clear to me that this royalty term section part 1 could apply to the reverse royalty."). While Novartis argues that this "Royalty Term" section "determined the duration of the parties' respective royalty obligations," *see* Novartis's SUMF Response ¶ 1187, Incyte argues that it "was drafted to apply only to Novartis's royalty payments to Incyte," *see* Incyte's SUMF Reply ¶ 1187.

[36] This definition of "Licensed IP" is identical to that in the Final Term Sheet, except that the Final Term Sheet did not include "Compounds or," as Incyte removed these words from the definition of "Licensed IP" in the May 7 Term Sheet. *See* Novartis's SUMF Response ¶ 1191.

parties met on April 29, 2009 to discuss this term sheet. Novartis's SUMF ¶ 73. "Initial feedback was that some things were 'on-target' while others were not." Novartis's SUMF Response ¶ 1199. Following this meeting, an internal Novartis email sent from Mr. MacLaughlan to David Epstein indicated that "Novartis remain[ed] flexible on level of equity investment . . . and on level of US participation," and that Novartis had a nonzero walk-away rate for the latter.[37] Ex. 51 at 2–3. The email conveys that this statement, among others, was a "key message[]" for Mr. Epstein to relay to Incyte during a phone call later that evening. *See id.*[38]

As negotiations continued, Incyte sent Novartis a revised draft term sheet on May 7, 2009. Novartis's SUMF ¶ 76. The May 7 Term Sheet proposed the same "[u]pfront [f]ee" that Novartis would pay to Incyte of $150 million as in the last term sheet, as well as JAK sales milestone payments. *See* Ex. 42 at 5 (native). But the timing of the provision was changed such that the milestone payments would be made sooner. *See* Novartis's SUMF ¶ 77.[39] This term sheet also contained higher JAK development and regulatory milestone payments that Incyte could theoretically receive from Novartis over time, in comparison to those listed in the April 22 Term Sheet. *Compare* Ex. 41 *with* Ex. 42; *see also* Incyte's SUMF Response ¶ 78 (providing comparative charts). And the May 7 Term Sheet contained higher tiered royalty rates applicable to Novartis's royalty payments to Incyte on ex-U.S. JAK sales. *Compare* Ex. 41 *with* Ex. 42. Moreover, the May 7 Term Sheet "did not specify any royalty to

[37] Novartis contends that "level of US participation" in this email means "in terms of royalties to be received by Novartis on Incyte's U.S. JAK Sales." Novartis's SUMF ¶ 74. Incyte disputes that characterization. Incyte's SUMF Response ¶ 74. The email itself does not define "level of US participation." *See* Ex. 51.

[38] It is unclear from the record whether the message was in fact conveyed. An email sent from Mr. Hager to Mr. Epstein on the same day, summarizing the parties' meeting to discuss the April 22 Term Sheet, stated that "the Incyte demeanor was pretty cool and noncommittal." Incyte's SUMF ¶ 1031 (quoting the email).

[39] Incyte disputed this statement by arguing that "the term sheet negotiations in this action were explicitly non-binding," and by arguing that the May 7 Term Sheet "is also inconsistent with the Agreement which does not contain any '[u]pfront [f]ee' and instead contains a 'License Fee.'" Incyte's SUMF Response ¶ 77.

be paid to Novartis on U.S. JAK Sales." *See* Incyte's SUMF Response ¶ 80; *see also id.* ¶ 506 ("In the May 7 Term Sheet, Incyte removed the provision for Incyte to pay a royalty to Novartis."). And this term sheet defined the "JAK Territory" as "ex-North America (US, Canada)." Incyte's SUMF ¶ 1034.

The May 7 Term Sheet also added, to the "Royalty Term" duration section, section "(iii) the expiration of regulatory exclusivity for such Licensed Product in such country (Royalty Term Expiration Date)," following the expiration provision with the following (modified from the last term sheet):

> In the countries in which a Licensed Product is not covered by a valid claim or regulatory exclusivity, the royalty rate will be reduced by 50%.
>
> After the Royalty Term Expiration Date, Novartis will have a fully paid-up, royalty-free license for such Licensed Product in such country.

Ex. 42 at 7–8 (native).[40] "The definition of 'Licensed IP' in the April 22 Term Sheet sent by Novartis and the May 7 Term Sheet sent by Incyte is identical, except Incyte removed 'Compounds or' from the definition in the May 7 Term Sheet." Novartis's SUMF ¶ 82. And "[t]he definition of 'Licensed IP' was never changed in any of the subsequent term sheets that followed the May 7 Term Sheet." *Id.* ¶ 83.[41] Last, the May 7 Term Sheet included a "General Cooperation Between the Parties" provision, which stated that "the Parties will exchange know how in the JAK area to facilitate the development of Licensed JAK Products." *See* Ex. 42 at 2 (native).

[40] And as Novartis acknowledges in Novartis's SUMF Response ¶ 1037, the April 22 Term Sheet's "Royalty Term" box contained similar language. *See* Ex. 41 at 9 ("In the countries that do not have a valid claim, the royalty rate will be reduced by 50%. If a generic product is launched, the royalty rate will be reduced to 0%. After the Royalty Term Expiration Date, Novartis will have a fully paid-up, royalty-free license for such Licensed Product in such country.").

[41] Thus, the definition of "Licensed IP" throughout the ensuing term sheets was: "Any Patent or proprietary know-how owned or controlled by Incyte or its affiliates as of the Effective Date or that is acquired or developed during the Term that is necessary or useful for the researching, developing, making, using, selling, offering for sale and importing of Licensed Products." *See* Ex. 42 at 1 (native).

Novartis and Incyte planned to meet on June 5, 2009 at Novartis's suggestion, with the goals of "discuss[ing] (a) 'financial assumptions to assure that there are not significant differences in how we see the potential cash flows' and (b) 'visions of how [the two companies] would work together' to successfully develop and commercialize the two compounds subject of the potential collaboration." Novartis's SUMF ¶ 85 (quoting Ex. 54 at 2–3; *see also* Incyte's SUMF Response ¶ 507. Mr. Hager stated that this meeting took place on June 5, 2009. *See* Ex. 1006 ("D. Hager Tr.") at 238:21-239:22; Ex. 1127 at 3. Ms. Andrews's email describing the meeting in advance to Mr. Hager stated that she understood its "objective" to be "to bridge the gap between [Novartis's] offer and [Incyte's] counter by talking about what we hope to achieve with our collaboration rather than about specific terms." Incyte's SUMF Response ¶ 507 (quoting Ex. 1127 at 2). The email attached a presentation that summarized points of discussion for the June 5 meeting; among these were Incyte's "[c]orporate [g]oals" to, among other things, "[b]ecome a commercially viable company," "[g]ain European operating knowledge," and "[d]evelop stable ex-U.S. revenue stream to fund U.S. activities." *See* Ex. 1095 at 5.

Mr. Goldfus emailed Mr. Hager the same day, attaching a PDF that showed "Financial Valuation" of the chemical compounds and was "to be used at the Incyte meeting" later that day. *See* Incyte's SUMF Response ¶ 87. The PDF features a static slide indicating Novartis's estimation of the "value split" of the deal. *See* Ex. 1120 at 7. The slide depicts estimations of Novartis's profits and losses ("P&L") from 2009 through 2024, and it demonstrates increasing "[a]lliance revenue" from 2012 through 2024. *Id.* Mr. Hager explained that "alliance revenue" refers to royalty payments made by Incyte on U.S. JAK Sales, and that the slide therefore depicts Novartis's anticipated increasing reverse royalties, which extended beyond ten years. D. Hager Tr. at 313:16-314:19.

Nancy Griffin, Novartis's alliance manager for the Novartis-Incyte relationship, attended the June 5, 2009 meeting and took contemporaneous notes, a "summary of" which she emailed to Mr. Hager on June 8, 2009. *See* Ex. 1128; *see also* Novartis's SUMF ¶ 299; Incyte's SUMF Response ¶ 510. These notes indicated that, at the meeting, Incyte and Novartis discussed "Financial Models and Assumptions," and that a "possibility of a royalty reduction or other avenue to pay after the fact" was "mentioned." *See* Ex. 1128 at 3. The notes include headers of both "NVS-identified Gaps" and "Incyte-identified Gaps," with bullet points under each of the two headers that read, respectively, a "US royalties question" and "US royalties – would consider payment on indications beyond MPDs. Never is better but later is possible[.]" *Id.* at 4. Ms. Griffin testified that she "understood [this] to mean that Incyte's view was that no royalty was better, but that if there were royalties paid on U.S. sales, pushing them out to later was better – or was possible . . . ." Ex. 56 ("N. Griffin Tr.") at 120:16-121:7.

Novartis sent the next operative term sheet to Incyte on June 11, 2009. *See* Novartis's SUMF ¶ 93; *see also* Ex. 43.[42] In this term sheet, the amount of JAK development and regulatory milestone payments that Incyte could receive was reduced by about 20% relative to the last term sheet, *see* Ex. 43 at 9, 28; and the sales thresholds applicable to the sales milestones were revised, such that more sales were required before milestone payments would be paid, *see id.* at 30. Last, relative to the May 7 Term Sheet, the June 11 Term Sheet proposed a marginal decrease in the tiered royalty rates applicable to ex-U.S. sales of JAK Licensed Products, and Novartis reinserted a proposed reverse royalty term going from Incyte to Novartis on U.S. JAK Sales. *See id.*[43]

[42] This term sheet was initially distributed on June 10; Novartis sent a corrected version of it on June 11. *See* Novartis's SUMF ¶ 93; Incyte's SUMF Response ¶ 511.

[43] Unlike the April 22 Term Sheet, which proposed a "flat rate of 7.5% on US sales" for Jakafi, *see* Ex. 41 at 9, the June

The "Royalty Term" section in the June 11 Term Sheet largely mirrors that in the May 7 Term Sheet, with two notable exceptions. *See* Ex. 43 at 20. First, Novartis added a newly defined term, "Valid Claim," which was defined as:

> A claim of an issued patent that has not expired or been revoked, held invalid or unenforceable by a patent office, court or other governmental agency of competent jurisdiction in a final and non-appealable judgment (or judgment from which no appeal was taken within the allowable time period) or a claim within a patent application that has not been revoked, cancelled, withdrawn, held invalid or abandoned and which has not been pending for more than seven (7) years from the date of its first filing.

See Novartis's SUMF ¶¶ 99–100; *see also* Ex. 43 at 20, 30–31. Second, Novartis added, appended to the end of the proposed 50 percent stepdown provision: "In the countries where there is a substantial loss of market exclusivity for the Licensed Product, the royalty rate will be reduced by 50%." *See* Ex. 43 at 30–31.[44] "On June 12, 2009, Doug Hager reported that he spoke 'briefly with Pat Andrews' after the exchange of the June 11 Term Sheet, and Ms. Andrews 'said that they were 'very pleased' with the term sheet' and they were impressed by Novartis' 'willingness to incorporate the discussion points raised last Friday,' June 5, 2009." Novartis's SUMF ¶ 102.

Incyte sent Novartis the next revised draft term sheet on June 19, 2009. *Id.* ¶ 103. In this term sheet, "Incyte increased the maximum amount of JAK development and regulatory milestone payments that Incyte could receive from Novartis" by a relatively small amount, although Incyte "did not . . . make any revisions to the sales milestones that Novartis had proposed in the June 11 Term Sheet." *Id.* ¶ 104. Relative to the last term

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11 Term Sheet proposed tiered reverse royalty rates of 2.5% (for $100 million to $200 million in cumulative Net Sales from launch) and 5% (for cumulative Net Sales from launch in excess of $200 million), Ex. 43 at 10.

[44] Generally, "[o]nce a product loses market exclusivity, the sales volume of the brand name manufacturer's product drastically decreases." Incyte's SUMF Response ¶ 562 (citing Ex. 48 ("Pullan Rpt.") at 7). Dr. Pullan continued: "The general industry custom for exclusive pharmaceutical licensing deals is that royalties are paid at the negotiated royalty rates as long as there is market exclusivity in that country or region that prevents competition with the party selling the same drug as a generic . . . ." Ex. 48 at 7.

sheet, Incyte also marginally increased the tiered royalty rates used to calculate Novartis's royalty payments to Incyte on ex-U.S. sales of JAK Licensed Products. *Compare* Ex. 43 *with* Ex. 44 at 11. The June 19 Term Sheet also showed relatively lower tiered royalty rates to be paid to Incyte from Novartis on U.S. JAK Sales, and relatively higher corresponding relevant sales thresholds used to calculate Incyte's payments to Novartis on U.S. JAK Sales. *Compare* Ex. 43 *with* Ex. 44 at 11. In addition, this term sheet "made the commencement of the royalty stream to Novartis based on U.S. JAK Sales contingent upon Novartis obtaining 'reimbursement and pricing approvals for the first indication for a Licensed JAK Compound in 3 out of . . . 5 [specified] countries" outside of the U.S. Novartis's SUMF ¶ 107.

Reflecting on the lattermost addition to the June 19 Term Sheet, Mr. Hager described it as "end[ing] up in a place where we would require Incyte to pay us a reverse royalty after three out of five [specified] countries [abroad] had both [been] approved from a regulatory perspective and had approved pricing for the product [abroad], which meant that we [Novartis] could begin to sell it." Ex. 26 at 203:4-11. In this way, Novartis "had increased the magnitude of the royalty rates that we would pay to Incyte in return for their accepting a reverse royalty. That was the quid pro quo that we were asking them for." *Id.* at 203:16-20. Thus, Novartis "expect[ed] Incyte to pay us at the same time we begun to have revenues [abroad] and began to pay them royalties, so that there would be congruency about the payment of royalties between the two companies, that during the time that we were paying them, we expected to have the payment back." *Id.* at 203:24-25, 204:1-7. According to Mr. Hager, this was "the principle" that Novartis had in mind in devising the reverse royalty. *See id.* at 204:8-12. In a contemporaneous email sent on June 22, 2009 from Mr. Hager to Mr. Goldfus, moreover, Mr. Hager stated that the provision by which there would be "no US royalties from Incyte to Novartis until pricing/reimbursement is achieved" at the

specified countries abroad "gives Incyte a royalty free period at the beginning of their US marketing." Ex. 58 at 2.

The June 19 Term Sheet's "Royalty Term" provision was largely the same as the one in the prior term sheet,[45] with the exception that the second sentence was modified to read: "In the countries in which a Licensed Product is not covered by a Valid Claim or regulatory exclusivity, or in countries in which there is a substantial loss of market exclusivity for a Licensed Product *due to generic competition*, the royalty rate will be reduced by 50%." Ex. 44 at 11 (emphasis added). The italicized portion is substantively new from the prior term sheet, although the three durational endpoints were identical to those articulated in the June 11 Term Sheet. *See id.* Incyte's outside deal counsel, Steven Singer of WilmerHale LLP, stated that—at least at the time of his deposition—he understood the June 19 Term Sheet's reference to the "last to expire Valid Claim within Licensed IP" in endpoint (i) to include the expiration of any valid claim of Incyte's U.S. patents. *See* Ex. 252 ("Singer Dep.") at 92:18-21.[46] In addition, Mr. Singer agreed with counsel at his deposition that "nothing in (i) [of the June 19 Term Sheet] requires Novartis to file or obtain any U.S. Patents in order for the reverse royalty stream to continue at least until the expiration of Incyte's patents covering the product it's selling in the U.S." *Id.* at 94:2-8, 94:12-15 ("Nothing in this Subsection 1 of

[45] It read: "The royalty term will begin upon the first commercial sale of a Licensed Product and will continue, on a Licensed Product-by-Licensed Product basis and on a country-by-country basis, until the later to occur of: *(i) expiration of the last to expire Valid Claim within Licensed IP covering the manufacture, use or sale of such Licensed Product in such country*, or (ii) the tenth (10th) year anniversary of the first sale of such Licensed Product in such country, or (iii) the expiration of regulatory exclusivity for such Licensed Product in such country (Royalty Term Expiration Date). . . ." June 19 Term Sheet at 11 (emphasis added). This sentence remained unchanged in the subsequent three term sheets, up to and including the final one. *See* Incyte's SUMF ¶ 1041.

[46] Specifically, the exchange was: "Q. . . . [Does t]he reference to expiration of the last to expire valid claim within [L]icensed IP include[] the expiration of any valid claim of patents held by Incyte as of the effective date that cover the licensed product? . . . . A. Under this nonbinding term sheet, which is subject to negotiation of a further agreement, that's what this term sheet says." Singer Dep. at 92:18-21. Incyte objected that this statement "has nothing to do with the understanding of the parties or any individual *at the time of drafting*." Incyte's SUMF Response ¶ 111 (emphasis in original).

this nonbinding term sheet, which is subject to further negotiation and drafting of a definitive agreement, would require that.").[47]

On June 30, 2009, Novartis sent to Incyte the next proposed term sheet. Novartis's SUMF ¶ 113. "In the email exchanging this draft, Doug Hager said to Incyte's team [that] '[o]n the financial terms, we are in close agreement on most issues.'" *Id.* (quoting Ex. 45 at 2). Mr. Hager's email added that Novartis "also propose[d] a compromise for the JAK1&2 royalties." Ex. 45 at 2. The tiered royalty rates used to calculate the parties' royalty payments were adjusted accordingly, although Novartis did not revise the cumulative amount for JAK development and regulatory milestone payments. *See id.* The "Royalty Term" section of this term sheet remained substantively unchanged from the June 19 Term Sheet. *See id.* at 11.

A call between Incyte and Novartis was scheduled to take place on July 2, 2009. *See* Ex. 60.[48] Later that week, an internal Novartis email (from Mr. Litchman to Mr. Epstein) stated:

> . . . Incyte refused on Thursday to agree to the financials in our last term sheet . . . . Their preference was to leave the various gaps and go directly to contract, where they hinted they might accept something closer to our milestones & royalties in exchange for other terms that are presumably worth more to them.
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> . . . [W]e [Novartis] insisted we needed final milestones & royalties before going to contract. Surely, we argued, whatever they [Incyte] had in mind could be expressed in the term sheet – in particular because the document had already become so detailed that it was hard to imagine an important 'tradable' term that had not already been incorporated. Also, if they end up insisting on the JAK royalties that they asked for in their last term sheet, the deal may cross the line of mgmt's willingness to support it.

Ex. 61 at 2.

[47] Incyte objected to the inclusion of this quotation in Novartis's SUMF, asserting again that the term sheet proposal was non-binding and that "Mr. Singer's statement has nothing to do with the understanding of the parties or any individual *at the time of drafting*." *See* Incyte's SUMF Response ¶ 112 (emphasis in original).

[48] It is not entirely clear from the record whether this teleconference actually happened.

Incyte sent to Novartis the penultimate term sheet on July 6, 2009. *See* Novartis's SUMF ¶ 121. In this term sheet, Incyte proposed a modest increase in the tiered royalty rates used to calculate Novartis's royalty payments to Incyte on ex-U.S. JAK Sales; and the sales threshold applicable to the 5% royalty tier was raised from $250 million to $300 million. *See* Ex. 46 at 21. The "Royalty Term" section was left unchanged from the June 30 Term Sheet. *See id.* When Mr. Singer was asked whether he agreed that, under the July 6 Term Sheet, "Novartis, for purposes of its reverse royalty payments . . . enjoyed the benefit of Incyte's patents covering the sale of products in the U.S.," he stated that "based on this term sheet, which is nonbinding, subject to further negotiation, diligence, [and] execution of a definitive agreement, that is correct." Ex. 1131 ("S. Singer Tr.") at 106:13-107:22. On July 7, 2009, Mr. Hager sent an internal email to Mr. Goldfus and other Novartis representatives, stating that "[t]he financial terms [in the July 6 Term Sheet] are generally acceptable;" and that "[a]ssuming that the standstill terms can be agreed [to] and with minor changes to this version of the term sheet," the parties "will turn [next] to contract negotiation intended to implement the term sheet." Ex. 1030 at 2.

Novartis sent Incyte the final term sheet on July 9, 2009. Novartis's SUMF ¶ 123. Relative to the July 6 Term Sheet, the Final Term Sheet made no changes to the amount of the upfront fee, the milestone payments, the royalty rates, the sales thresholds applicable thereto, or to the "Royalty Term" section.[49] *See* Ex. 47 at 15–25. The Final Term Sheet

[49] For reference, the "Royalty Term" section contained in the Final Term Sheet is as follows:

> The royalty term will begin upon the first commercial sale of a Licensed Product and will continue, on a Licensed Product-by-Licensed Product basis and on a country-by-country basis, until the later to occur of: (i) expiration of the last to expire Valid Claim within Licensed IP covering the manufacture, use or sale of such Licensed Product in such country, or (ii) the tenth (10th) year anniversary of the first sale of such Licensed Product in such country, or (iii) the expiration of regulatory exclusivity for such Licensed Product in such country (Royalty Term Expiration Date). In the countries in which a Licensed Product is not covered by a Valid Claim or regulatory exclusivity, or in countries in which there is a substantial loss of market exclusivity for a Licensed Product due to generic competition, the royalty rate will be reduced by 50%.

proposed that Incyte would receive $150 million upfront, as well as over $400 million in combined development and regulatory milestone payments over time for successive JAK indications.[50] *See id.* at 9. "'Licensed IP,' as used in endpoint (i) for calculating the 'Royalty Term,' continued to be defined as first employed in the May 7 Term Sheet, as follows:"

> Any Patent or proprietary know-how owned or controlled by Incyte or its affiliates as of the Effective Date or that is acquired or developed during the Term that is necessary or useful for the researching, developing, making, using, selling, offering for sale and importing of Licensed Products.

Novartis's SUMF ¶ 128 (quoting Ex. 47 at 4).[51]

Novartis's Mr. Goldfus and Ms. Griffin, as well as Incyte's Mr. Mikkelson all testified that "Licensed IP" here appears to refer, at least in part, to Incyte's own patent rights. *See, e.g.*, B. Goldfus Tr. at 241:13-241:20 ("Q. [In the May 7 Term Sheet, L]icensed IP is defined to include only Incyte's own patent rights, is that right? A. Yes, I see that."); *id.* at 242:14-243:2 ("Q. [The royalty term] prong [in (i)] is defined by the expiry of Incyte's own patents only, right? A. It appears to be based upon the reference to [L]icensed IP."); *id.* at 226:15-226:20 ("Q. The only IP that was exchanged here was Incyte's IP? Its patents and know-hows? . . . . A. Yeah. It does say 'by Incyte' in the [L]icensed IP, yeah."); Ex. 1005 ("Griffin Dep. Tr.") at 87:25-88:9 ("Q. And earlier when we looked at the [L]icensed IP definition, do you recall that Novartis's patent rights were not listed within that definition? . . . . A. In this draft of this initial term sheet, it seems that is how it's defined here."); Mikkelson Dep. Tr. at

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> After the Royalty Term Expiration Date, Novartis will have a fully paid-up, royalty-free license for such Licensed Product in such country.

Ex. 47 at 11.

[50] Internal Novartis emails described this proposed $150 million upfront payment to Incyte upon signing the Agreement as "at the top end of market comparables." *See* Novartis's SUMF ¶ 52.

[51] As discussed below, the parties dispute the meaning of "Licensed IP" in the term sheets—namely, whether "Licensed IP" was "limited [exclusively] to Incyte's existing patents and know-how," or instead includes the patents and know-how that Novartis "acquired or developed during the Term." *See* Novartis's SUMF ¶ 129 (arguing that the term does include Novartis's activity); Incyte's SUMF Response ¶ 129 (arguing that "Incyte is the only actor specified in the 'Licensed IP' definition" and that it ergo applies only to Incyte's IP).

68:17-68:21 ("Q. So licensed IP would include any patents or know-how by Incyte, among other things, right? A. It would include any patent or proprietary know-how owned or controlled by Incyte.").[52]

In the "License" section, the Final Term Sheet stated that "Incyte shall grant to Novartis an exclusive license . . . to collaborative research, development and commercial partners of Novartis, under the Licensed IP to research, develop, make, have made, use, sell, offer for sale, export and import Licensed products in the applicable Field and Territory." Ex. 47 at 5. The Final Term Sheet also included a "General Cooperation Between the Parties" provision, which stated that "the Parties will exchange know how in the JAK area to facilitate the development of Licensed JAK Products." *Id.* at 6. And it provides that any JAK inhibitor compound that Novartis is "currently" developing or "may" later develop during the course of the collaboration "will be included as Back-Up Compounds to INCB018424 in the collaboration overseen by the JSC," the parties' Joint Steering Committee. *See id.* at 12.

When Mr. Singer was asked whether he would agree—at least at the time of his deposition—that the Final Term Sheet contains no requirement that Novartis obtain its own U.S. patent in order for Novartis to "benefit from" the endpoint (i) contingency of the "Royalty Term" section, Mr. Singer stated that "[w]ith the same caveats . . . that this is a nonbinding term sheet that is subject to further negotiation, . . . this particular provision does not require Novartis IP." S. Singer. Tr. at 112:23-113:17.

[52] Novartis's designated expert Dr. Linda Pullan testified that, in her view: "At the time when [the Final Term Sheet] was agreed upon, Novartis had no IP that covered rux[olitinib] . . . – as such there was no need to include Novartis in the first phrase [of the definition of 'Licensed IP'] . . . ." *See* Ex. 1060 ("L. Pullan Tr.") at 101:6-18. Incyte's designated expert Peter Lankau, in turn, testified that in his view, "the only plausible conclusion is that Incyte is the actor for both clauses of the definition [of 'Licensed IP']," and that he believed this "opinion is . . . consistent with the one-way license structure of the July 9 Term Sheet." Ex. 1091 ("Lankau Rpt.") ¶ 118.

Peter Harwich—Novartis's outside deal counsel—attested that "[t]he parties agreed to financial terms, including as to royalties and the method to calculate the duration of any royalty stream being paid by either collaborator, in a term sheet dated July 9, 2009 . . . . Thereafter, outside deal counsel on both sides . . . went back and forth negotiating detailed contractual language . . . culminat[ing] in the final Agreement." Ex. 301 ("Harwich Decl.") ¶ 6; *see also id.* ¶ 9 (explaining that he does "not recall *any* communication with Incyte and/or Incyte's counsel suggesting they believed (i) the duration of the 'reverse' royalty had changed since the Final Term sheet; (ii) the duration of the 'reverse' royalty should be different from or shorter than the duration of the royalty stream payable by Novartis to Incyte; [or] (iii) the duration of the 'reverse' royalty should be predicated on whether Novartis obtains any U.S. Patent Rights for license to Incyte," among other things (emphasis in original)).

2. Drafting the Agreement

"Both Incyte and Novartis are sophisticated pharmaceutical companies with experience negotiating licensing agreements," Incyte's SUMF ¶ 1120, and each was "represented in negotiations . . . by competent, experienced legal counsel," *id.* ¶ 1121. On July 28, 2009, Incyte sent Novartis the first draft of the Agreement, which was prepared by Incyte's counsel at WilmerHale, including Mr. Singer (Incyte's lead deal counsel).[53] *See* Ex. 63 (the "July 27 Draft"); *see also* Incyte's SUMF ¶ 1050; Novartis's SUMF ¶ 134; Incyte's SUMF Response ¶ 527. The cover email attaching the July 27 Draft, sent by Incyte's Dan Maravei,[54] stated: "We . . . hope you [Novartis] will find that we have adhered thoroughly to the term sheet as we last discussed it." Ex. 63 at 2.[55] At Mr. Singer's deposition, he was

[53] While the draft itself is dated July 27, 2009, it was received by Novartis on July 28, 2009. *See* Ex. 63. Novartis's briefing refers to it as the "July 28 Draft Agreement," whereas Incyte refers to it as the "July 27" one. *See* Novartis's SUMF ¶¶ 132–34; Incyte's SUMF Response ¶ 527.

[54] Mr. Maravei was Incyte's Associate Director of Business Development, and then Director, Senior Director, and Executive Director during his "time at Incyte between 2002 and 2012." Ex. 259 ("Maravei Dep. Tr.") at 21:7-20.

[55] As noted below, the parties dispute how to interpret the phrase "adhered thoroughly" as used in this email. *See, e.g.*,

asked whether he believed it was accurate that Incyte "adhered thoroughly" to the Final Term Sheet in preparing the July 27 Draft. *See* Singer Dep. at 119:3-8. Mr. Singer responded: "When you convert an 11-page term sheet into an 80-page agreement, you have to fill in a lot of details. You have to add terms that were never considered[,] . . . to look at things in a different way, and I believe that Dan [Maravei] felt that we were . . . adhering thoroughly to the term sheet." *Id.* at 119:12-19.[56]

The July 27 Draft's Article VII outlined similar financial terms to those in the Final Term Sheet—namely, the same upfront payment, milestone payments, and royalties paid by each party to the other. *Compare* Final Term Sheet *with* July 27 Draft. The tiered royalty rates were also the same, although the July 27 Draft separates out "Novartis Royalties to Incyte" (Section 7.3(a)) and "Incyte Royalties to Novartis" (Section 7.3(b)). *Compare* Final Term Sheet *with* July 27 Draft; *see also* July 27 Draft at 39–40 (native).[57] And the durational provision—previously under the header "Royalty Term" in the Final Term Sheet, *see* Final Term Sheet at 8 (native)—now appears at Section 7.3(c) of the July 27 Draft, *see* July 27 Draft at 40 (native). Section 7.3(c) reads:

> Royalties payable under this Section 7.3 shall be paid by the applicable Party on a Licensed Product-by-Licensed Product and country-by-country basis from the date of First Commercial Sale of each Licensed Product with respect to which royalty payments are due for a period which is the longer of: (i) the last to expire of any Valid Claim of **Licensed Patent Rights** **Covering** such Licensed Product in such country; (ii) ten (10) years following the date of First Commercial Sale in such country; and (iii) the expiration of Regulatory Exclusivity for such Licensed Product

Incyte's SUMF Response ¶ 133 (asserting that although Novartis reads the phrase to imply minimal, if any, changes between the Final Term Sheet and the eventual Agreement, Incyte contends that "'adhered thoroughly' does not mean 'identical'" and "there are many changes . . . between the documents"). For example, Incyte points out—which Novartis does not dispute—that while the Final Term Sheet was 11 pages long, the July 27 Draft was 57 pages long. *See id.* ¶ 529; Novartis's SUMF Reply ¶ 529.

[56] Mr. Singer then replied "[y]es" when then asked whether he "agree[d] that Incyte was adhering thoroughly to the term sheet." *Id.* at 119:20-24.

[57] The draft also provides that "[s]ubject to the terms of this Agreement, Novartis hereby grants Incyte and its Affiliates a non-exclusive license . . . under Novartis IP . . . ." *Id.* at 13 (native). Incyte argues that this draft agreement, "unlike the term sheets, contemplated a two-way license grant . . . ." *See* Incyte's SUMF ¶ 1051. Novartis disputes the proposition that this was new, arguing that the term sheets also "contemplated a two-way license." *See* Novartis's SUMF Response ¶ 1051.

> in such country (each such term with respect to a Licensed Product and a country, a 'Royalty Term').
>
> In the event that either (A) the Royalty Term continues solely due to clause (ii) (i.e. in a specific country a Licensed Product is neither Covered by a Valid Claim of Licensed Patent Rights nor subject to Regulatory Exclusivity) or (B) Generic Competition exists with respect to a Licensed Product in a country with respect to a royalty-reporting period, then the royalty rates in such country for such Licensed Product (for such royalty-reporting period, if applicable) will be reduced to fifty percent (50%) of the applicable rate in Section 7.3(a) or 7.3(b).

Id. (emphases added).[58] This largely tracks the Final Term Sheet's "Royalty Term" provision, which included a similar set of three endpoints, although the language differs between the Final Term Sheet and the July 27 Draft. Namely, the July 27 Draft introduces the defined terms "Licensed Patent Rights" and "Covering" in subsection (i), underscored by the Court in the excerpt above. To recall, the Final Term Sheet's endpoint (i) instead read: "(i) expiration of the last to expire Valid Claim within Licensed IP covering the manufacture, use or sale of such Licensed Product in such country." *See* Final Term Sheet at 8 (native).[59]

Section 1.54 of the July 27 Draft, which introduces the term "Licensed Patent Rights" for the first time and uses it only in Section 7.3(c), defines "Licensed Patent Rights" as:

> "Licensed Patent Rights" means with respect to the Patent Rights licensed to Novartis hereunder, the Incyte Patent Rights and with respect to the Patent Rights licensed to Incyte hereunder, the Novartis Patent Rights. In each case, Joint IP shall be included, as applicable, in the Incyte Patent Rights and Novartis Patent Rights.

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[58] And Section 7.3(d) of the July 27 Draft provides that when a Royalty Term expires "with respect to a Licensed Product in a country, (i) the licenses granted by Incyte to Novartis . . . shall be deemed to be fully paid-up . . . with respect to such Licensed Product in such country; and (ii) the licenses granted by Novartis to Incyte . . . shall be deemed to be fully paid-up . . . with respect to such JAK Licensed Product in such country." *Id.* at 41 (native).

[59] As discussed below, the parties dispute whether the addition of "Licensed Patent Rights" serves to simply replace "Licensed IP" (Novartis's view) or operate entirely differently (Incyte's view). While Novartis argues that "Licensed IP" in the Final Term Sheet became "Licensed Patent Rights" in the July 27 Draft, Incyte's view is that the Final Term Sheet's use of "Licensed IP" became the defined term "Incyte IP" in the July 27 Draft—and that "Licensed Patent Rights" is a brand new term, used only in Section 7.3(c) of the Agreement, implemented "to account for the restructuring of the agreement from a one-way license agreement to a two-way license agreement and for the new bilateral royalty term provision that applied to both Novartis's royalty payments to Incyte and Incyte's royalty payments to Novartis." *See* Incyte's SUMF Response ¶ 140; *see also* Incyte's SUMF Reply ¶ 1266 (citing, *inter alia*, Mikkelson Dep. Tr. at 138:13-138:22 (testifying that the "Licensed [P]atent [R]ights definition in the agreement is substantially different from the definition of [L]icensed IP in the term sheet" and that "[t]hat was my understanding in 2009")).

July 27 Draft at 7 (native) (underscore in original). The July 27 Draft did not use the phrase "Licensed IP." *See generally id.*[60] Moreover, Section 1.18 of the July 27 Draft defines "Cover," "Covering" or "Covered" as:

> "Cover", "Covering" or "Covered" with respect to a product, technology, process or method, means that, but for a license granted to a Person under a Valid Claim included in the Patent Rights under which such license is granted, the Development, manufacture, Commercialization and/or other use of such product or the practice of such technology, process or method, by such Person would infringe such Valid Claim (or, in the case of a Valid Claim that has not yet issued, would infringe such Valid Claim if it were to issue).

Id. at 3 (native) (underscore in original). This exact definition "remains the same in, and is reflected in Section 1.23 of, the [F]inal Agreement." Novartis's SUMF ¶ 142; *see also* Incyte's SUMF ¶¶ 1058–59 ("Although the parties went through numerous rounds of revisions, issue discussions, and meetings to negotiate the final contract's text, neither the definition of 'Licensed Patent Rights' nor [that] of 'Covering' were materially changed from the July 27 Draft Agreement to the final agreement," *id.* ¶ 1058; and the definitions of these two words do not appear on the agenda of any issues lists for meetings to discuss the myriad drafts of the Agreement, nor do the parties have any written communications regarding how to implement these defined terms, *id.* ¶ 1059).[61] The meaning of these two terms—"Licensed Patent Rights" and "Covering"—lies at the heart of this case.

Additionally, while the Final Term Sheet did not use or define the terms "Incyte IP," "Incyte Know-How," or "Incyte Patent Rights," the July 27 Draft did do so. *See* Incyte's SUMF Response ¶¶ 534–35. The July 27 Draft defined these terms as follows:

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[60] In short, Novartis contends that this is because the term "Licensed IP" in the term sheets was replaced with the term "Licensed Patent Rights" in the Agreement (and is of the same meaning and effect), while Incyte contends that this is because the Agreement fundamentally differed from the term sheets. *See, e.g.*, Incyte's SUMF Response ¶¶ 544–45; Novartis's SUMF Reply ¶ 544.

[61] Although Novartis does not dispute that these definitions were not on any issues list agendas, Novartis "disputes any suggestion that the parties did not have any communications concerning the definition of 'Licensed Patent Rights' . . . ." Novartis's SUMF Response ¶ 1059.

> 1.34 "Incyte IP" means Incyte Know-How and Incyte Patent Rights.
>
> 1.35 "Incyte Know-How" means Know-How Controlled by Incyte or its Affiliates as of the Effective Date or that is acquired or developed during the Term that is necessary or useful to Develop and Commercialize Licensed Products.
>
> 1.36 "Incyte Patent Rights" means those Patent Rights Controlled by Incyte or its Affiliates as of the Effective Date or that are acquired or developed during the Term that are necessary or useful to Develop and Commercialize (a) c-MET Licensed Compounds and c-MET Licensed Products (the "c-MET Patent Rights"); and (b) JAK Licensed Compounds and JAK Licensed Products (the "JAK Patent Rights"). . . . .

July 27 Draft at 5 (native) (underscores in original). And although the Final Term Sheet did not use or define the terms "Novartis IP," "Novartis Know-How," or "Novartis Patent Rights," the July 27 Draft did do so. *See* Incyte's SUMF Response ¶¶ 536–37. These terms were defined as follows:

> 1.61 "Novartis IP" means, collectively, Novartis Know-How and Novartis Patent Rights.
>
> 1.62 "Novartis Know-How" means all Know-How that: (a) is Controlled by Novartis or its Affiliates as of the Effective Date or during the Term; and (b) are necessary or useful to Develop and Commercialize Licensed Compounds and Licensed Products.
>
> 1.63 "Novartis Patent Rights" means all Patent Rights that: (a) are Controlled by Novartis or its Affiliates during the Term; and (b) are necessary or useful to Develop and Commercialize Licensed Compounds and Licensed Products.

July 27 Draft at 8 (native) (underscores in original). Last, while the Final Term Sheet defined "Net Sales" "[w]ith respect to Licensed Products" as those "on behalf of Novartis or any Novartis affiliate, licensee or sublicensee for the Licensed Product sold to Third Parties . . . ," Final Term Sheet at 4–5 (native), the July 27 Draft defined "Net Sales . . . with respect to any Licensed Product" as "the net sales on behalf of a Royalty Paying Party or its Affiliates, licensees or sublicensees sold to Third Parties . . . ," July 27 Draft at 7 (native).[62]

[62] Incyte also observes that the payment that Novartis was to pay Incyte within thirty days of a definitive agreement was called an "Upfront Fee" in the Final Term Sheet and called a "License Fee" in the July 27 Draft. *See* Incyte's SUMF Response ¶ 540 (*comparing* Final Term Sheet at 6 (native) *with* July 27 Draft at 35 (native)). Novartis argues that this is merely a terminological shift, but that the "financial deal term" involved here "is one and the same . . . ." Novartis's SUMF Reply ¶ 540 (citing, *inter alia*, Final Term Sheet at 6 (native); July 27 Draft at 35 (native)). The proposed $150 million upfront fee to Incyte remained in every version of the term sheets and draft agreements. *See id.*

Following the transmission of the July 27 Draft, "the parties exchanged several revised drafts of the Agreement over the course of several months"—on August 18, September 1, September 15, October 2,[63] October 16,[64] October 30, November 9, November 19,[65] and November 23, 2009, respectively (together, the "Interim Drafts").[66] *See* Novartis's SUMF ¶ 143. The Section 7.3(c) royalty provision laid out in the July 27 Draft was renumbered to Section 8.3(c) in the August 18 Draft, *id.* ¶ 145; and the August 18 Draft modified the definition of "Licensed Patent Rights," Incyte's SUMF ¶ 1061.[67] In addition, in the October 2 Draft, "Novartis added 'Novartis Improvements' as a defined term and added the concept of Incyte paying a separate royalty if Novartis elected to and did develop any 'Novartis Improvements' to Incyte IP with respect to certain uses (topical and ophthalmic) outside the Field (and thus outside the scope of the parties' collaboration)."[68] Novartis's SUMF Response ¶ 1272. "The October 30 Draft Agreement contained the last change made to § 8.3(c) in any draft through to the final Agreement." *Id.* ¶ 1273.

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[63] The October 2 Draft was sent from Mr. Hager to Mr. Maravei on October 2, 2009, but the draft itself is dated September 25, 2009. *See* Ex. 68 at 2–3; *see also* Ex. 1003 ("Novartis's Request for Admission") Response No. 41.

[64] Although Incyte sent the draft on October 16, 2009, Novartis received it on the 17th due to time zone differences. *See* Ex. 69; Novartis's SUMF Reply ¶ 575. Thus, Novartis calls this the "October 17 Draft Agreement" in its briefing, and Incyte calls it the "October 16 Draft Agreement."

[65] This draft is itself dated November 17, 2009 but was sent on the 19th. *See* Ex. 73.

[66] The August 18 Draft was sent from Novartis to Incyte. *Id.* ¶ 1060. Incyte then sent Novartis the September 1 Draft, which only made a minor change to Section 8.3(c)(i)—changing the term "Licensed Compound" to "Licensed Product." *See id.* ¶ 1063. Incyte sent the September 15 Draft to Novartis. *Id.* ¶ 1067. Novartis sent Incyte the next draft on October 2. *See* Ex. 68. This draft did not modify the terms "Covering" or "Licensed Patent Rights." Incyte's SUMF ¶ 1070. Incyte sent the next draft on October 16. *See id.* ¶ 1073. Novartis sent the next draft on October 30, adding to the Stepdown Provision that the 50% reduction would be "based on the weighted average annual royalty rate in the Novartis Territory or the Incyte Territory, as the case may be, beginning on January 1st of the Calendar Year following the first Calendar Year in which there exists a situation described in (A) or (B) of this sentence in the applicable country." *Id.* ¶ 1075. Incyte sent Novartis the November 9 Draft. *Id.* ¶ 1076. Novartis sent the next draft, dated November 17, on November 19. *Id.* ¶ 1078. Incyte's deal counsel, Mr. Singer, sent the November 23 Draft. *Id.* ¶ 1079. The parties held at least two conference calls and four in-person meetings to discuss the deal after the July 27 Draft was exchanged. *See* Incyte's SUMF Response ¶¶ 576–77. It is unclear from the record whether the duration of the reverse royalty was discussed at any of these meetings.

[67] Specifically, the sentence that had read, "[i]n each case, Joint IP shall be included, as applicable, in the Incyte Patent Rights and Novartis Patent Rights" was modified to read: "[i]n each case, *Patent Rights forming part of the* Joint IP shall be included, as applicable, in the Incyte Patent Rights and Novartis Patent Rights." Incyte's SUMF ¶ 1061 (emphasis added). The definition of "Covering" was unchanged relative to the last draft. *Id.* In addition, the August 18 and September 1 Drafts used the phrase "Licensed Product" (as proposed in the July 27 Draft) as opposed to "Licensed Compound." *See* Exs. 65, 66.

[68] Some "key issues in the Oct 2 draft," listed for discussion in an email circulated by Ms. Andrews, included the "Novartis Improvements Definition" and a "Royalty on JAK Licensed Product outside the JAK Field (Section 8.3(b))."

Novartis and Incyte held a series of meetings throughout the fall of 2009 in which they continued to negotiate and discuss the draft contractual language and outstanding issues. *See, e.g.*, Novartis's SUMF ¶¶ 157–62; Incyte's SUMF ¶¶ 1062, 1065–66, 1068, 1072, 1074, 1077. In advance of some of these meetings, the parties circulated lists of "Remaining Issues" to discuss, including at least 72 discrete issues in the jointly circulated lists, and at least 34 issues in the Novartis-internally circulated lists, none of which expressly included the duration of royalty terms under Section 8.3(c). *See, e.g.*, Novartis's SUMF ¶¶ 160–61, 205–06; Incyte's SUMF Response ¶¶ 578–79; Novartis's SUMF Reply ¶¶ 578–79; Novartis's SUMF Response ¶¶ 1274, 1282–84.[69] The Interim Drafts contained relatively minor changes to the royalty duration provision at issue (Section 8.3(c)) overall[70]—although the October 30 Draft introduced "propos[ing] additional phrases to the end of Section 8.3(c), which was accepted and was the last change made to Section 8.3(c) in any draft through to the final Agreement . . . ." Novartis's SUMF ¶ 147.[71]

3. Meetings While Negotiating

Novartis and Incyte met repeatedly "to discuss the draft contractual language and outstanding issues." Novartis's SUMF ¶ 148. The first of these meetings took place on September 10, 2009. *Id.* Incyte's Mr. Maravei circulated before the meeting "a list of 8 issues to be discussed, none of which concerned royalties." *Id.* ¶ 149. The deal teams then

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Novartis's SUMF Response ¶ 1282.

[69] Novartis observes that these issue list exchanges post-date the term sheet stage, at which Novartis argues (and Incyte disputes) that the parties ultimately agreed to the duration of the reverse royalty. *See* Novartis's SUMF Reply ¶¶ 578–79.

[70] *See* Ex. 65 at 146 (redline of the July 27 Draft to the August 18 Draft); Ex. 66 at 159 (redline of the August 18 Draft to the September 1 Draft); Ex. 67 at 266 (redline of the September 1 Draft to the September 15 Draft); Ex. 68 at 172 (redline of the September 15 Draft to the October 2 Draft); Ex. 69 at 182 (redline of the October 2 Draft to the October 16 Draft); Ex. 70 at 195–96 (redline of the October 16 Draft to the October 30 Draft); Ex. 71 at 198 (redline of the October 30 Draft to the November 9 Draft); Ex. 72 at 206 (redline of the November 9 Draft to the November 19 Draft); Ex. 73 at 186 (redline of the November 19 Draft to the November 23 Draft).

[71] This last addition—italicized in the following—provided that, should "(A) the Royalty Term continue[] solely due to clause (ii) . . . or (B) Generic Competition exists . . . , then the royalty rates . . . will be reduced to fifty percent . . . *based on the weighted average annual royalty rate in the Novartis Territory or the Incyte Territory, as the case may be, beginning on January 1st of the Calendar Year following the first Calendar Year in which there exists a situation described in (A) or (B) of this sentence in the applicable country.*" Ex. 70 (emphasis added).

held a call to discuss the draft on September 18, 2009. Incyte's SUMF ¶ 1068. The parties next held a "page-turn" meeting on September 23, 2009. Novartis's SUMF ¶ 150. Mr. Hager recalls having discussed the term "[L]icensed [P]atent [R]ights" at that meeting with Mr. Singer. Hager Dep. Tr. at 270:2-8, 21-25. Mr. Hager testified that "[a]t that time, we discussed at a reasonably high level that it would cover those patent rights related to the [c]-Met and JAK compounds held currently by Incyte, and that if there were any held by Novartis, they would be added to the group." *Id.* at 270:13-18. But "we did not discuss in more detail than that." *Id.* at 270:19-20; *see also id.* at 202:11-25 (testifying that "our [Novartis's] expectations were that the [royalty] term would be until the end of the loss of exclusivity," and adding that Novartis "clearly demonstrated that by showing them [Incyte] our modeling," although "[w]e did not have a long discussion at that point").[72]

Mr. Hager added that, at this page-turn meeting, he and Mr. Singer specifically discussed the draft agreement's use of the term "[L]icensed [P]atent [R]ights" in lieu of "[L]icensed IP," as used in the Final Term Sheet. *See id.* at 316:6-12. Mr. Hager said that at the meeting, "we asked Mr. Singer . . . in a low-key way" "whether there was any meaning associated with" that change. *Id.* at 316:6-17. "[A]nd [Mr. Singer] responded to us that his definitions now said that IP – Incyte IP or [L]icensed IP – meant licensed know-how plus licensed patent rights. And that . . . the trigger for the end of payment of royalties, that the only part of [L]icensed IP that has – that has claims that could expire are the patent rights."

[72] The testimony of Jennifer Gallagher, one of Novartis's alliance managers responsible for managing the Incyte-Novartis relationship, corroborated this general understanding. Ms. Gallagher testified that she understood that the royalty term "is based on the loss of exclusivity or LOE and that is the time point when the barriers to prevent a generic company . . . from entering into the marketplace or a third-party entering and competing has occurred." Ex. 269 ("Gallagher Dep. Tr.") at 13:6-15. She added that "based on the patent filing time lines of Jakafi in the US, the earliest possible LOE would have been 2027." *Id.* at 14:14-16. She continued: "the patents, as I understand it, were filed by Novartis but flow through the agreement collaboratively. They're shared. All the patents are licensed both directions to both parties;" in her view, "Novartis didn't have to file any patents." *Id.* at 15:3-14. She then clarified that, when referencing the patents that she believed "expire[d]" in 2027, she was referring to patents filed by Incyte, which she testified are, in her view, "jointly shared under the agreement. They're licensed to both parties." *Id.* at 15:8-20.

Id. at 316:16-25, 317:2. "So [Mr. Singer] had replaced the term 'IP' with '[P]atent [R]ights' because practically[,] there was absolutely no difference between the two definitions. And therefore, . . . we didn't necessarily need to change the language that he used because it had the identical meaning as had been used in the term sheet." *Id.* at 317:3-11.

Thus, Mr. Hager testified that he understood the term "Licensed IP" as used in the Final Term Sheet to have the same meaning as "Licensed Patent Rights" in the draft, "[i]n terms of . . . what could expire," because "[k]now-how does not expire. Patent rights expire." *Id.* at 317:12-22. Mr. Hager also said that he "never heard" Mr. Singer—or anyone else at Incyte—say that Novartis had to get a U.S. patent and license it to Incyte in order to receive a reverse royalty for over ten years. *Id.* at 317:23-25, 318:2-9. Accordingly, Mr. Hager's "understanding then and [his] understanding today is that the period of payment of the reverse royalty, as we agreed to it, was that we would receive payments from Incyte until the loss of exclusivity." *Id.* at 207:21-209:9; *see also id.* at 269:2-25 (testifying that he "read[s]" the defined term "Licensed Patent Rights," as first set forth in the July 27 Draft, to mean "the sum of Incyte rights and Novartis rights").[73]

Mr. Singer, for his part, testified that he was "not aware of any discussions between Incyte and Novartis regarding" the topic of removing the term "Licensed IP" from the Final Term Sheet and adding "Licensed Patent Rights." Singer Dep. at 127:8-18. Nor did he "recall the specifics of any discussion that took place between Incyte and Novartis or Wilmer[]Hale and Novartis." *Id.* at 120:21-121:4. As for his own recollection of the change, Mr. Singer said: "I don't recall at the time what the purpose" of adding the term "Licensed

[73] Incyte notes that the testimony from Mr. Hager about his conversation with Mr. Singer took place on redirect, as a follow-up to Incyte's counsel's questions, after a 90-minute break. *See* Incyte's SUMF Response ¶ 554 (citing Hager Dep. Tr. at 304:13-305:4)). Mr. Hager stated that he "spoke to [Novartis's counsel] very briefly." *Id.* at 320:6-21.

Patent Rights" into the draft "might have been. But I can tell you what I think the plain words of the agreement say." *Id.* at 167:8-21. He continued:

> Licensed patent rights was intended to bifurcate between Incyte patent rights and Novartis patent rights, not to lump them together. The words means with respect to the patent rights licensed to Novartis, the Incyte patent rights, meaning that on Novartis's sales the Incyte patent rights were relevant. And then it goes on, and with respect to the patent rights licensed to Incyte hereunder, the Novartis patent rights, meaning that with respect to the royalties that Incyte would owe, it would be the Novartis patent rights that were relevant. That would be the intent and purpose from my perspective, but that's my analysis now. If you ask me what I remember from back then [in 2009], again, I just don't recall exactly.

See id. at 168:2-18.[74]

Many of the members of Incyte's deal team—with the exception of Mr. Mikkelson—testified similarly: they did not recall. *See* Mikkelson Dep. Tr. at 19:7, 20:2-18 (identifying, as members of "the overall negotiation deal team," Ms. Andrews, Mr. Maravei, Marshall Smith, David Hastings, Mr. Friedman, and himself, Mr. Mikkelson). Ms. Andrews testified that she did "not recall" discussing the reverse royalty with then-Novartis's Mr. Hoppenot in 2009. Andrews Dep. Tr. at 99:24-25, 100:2-5. Nor did she "recall any specific conversation or what [financial] terms [she and Mr. Hoppenot] discussed" vis-à-vis the agreement. *Id.* at 100:6-15. She also did "not recall having any discussions with Todd MacLaughlan around patent life," nor any discussions with anyone at Novartis on that topic. *Id.* at 103:6-10.[75] Nor did Mr. Hastings, Incyte's Chief Financial Officer, recall any discussions about the reverse royalty's "expiration." *See* Ex. 245 ("Hastings Dep. Tr.") at 18:22-19:2, 178:10-25.

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[74] On September 28, 2009, a WilmerHale attorney emailed Novartis's outside deal counsel with "responses/proposed revisions to certain issues raised during last week's meeting," none of which expressly addressed Section 8.3(c) or the meaning of the terms "Covering" or "Licensed Patent Rights." *See* Ex. 1041 at 2–3.

[75] Nor did Ms. Andrews "recall any discussions with Novartis" regarding, in counsel's words, "Novartis developing any IP and how that might impact the reverse royalty prior to November 24th, 2009," *id.* at 184:10-19; nor did she "recall having any discussions with Novartis about them attaining patents, post agreement, during our discussions preagreement," *id.* at 186:16-24. She also did "not remember what discussions [Incyte] had with Novartis about the length of the royalty time frame" generally speaking, *id.* at 187:7-9, or "discussing with anyone at Novartis the royalty that Incyte was supposed to pay them at any time," *id.* at 187:17-19. And she did "not recall discussing" at least some of Goldman Sachs's financial models. *Id.* at 134:20-25, 135:2-4.

Dr. Paul Friedman—Incyte's CEO and President from approximately 2001 through 2015—likewise did "not recall" any discussions regarding "whether Novartis would need to acquire its own US patent rights in order to invoke the benefit for the reverse royalty of a [V]alid [C]laim of [L]icensed [P]atent [R]ights," or "to extend beyond 10 years the reverse royalty" on that basis. Ex. 261 ("Friedman Dep. Tr.") at 14:22-25, 15:2-12, 98:18-99:23. Nor did Mr. Maravei "remember whether [he] did or didn't tell Novartis . . . at any particular time" that Incyte's U.S. patents were irrelevant to calculating the reverse royalty term's duration. Ex. 259 ("Maravei Dep. Tr.") at 265:19-266:5. Nor did he recall any conversations regarding whether Novartis would have to obtain its own U.S. patent to receive the reverse royalty payments for longer than ten years. *Id.* at 267:2-8. But he testified that, at the time of his deposition, he understood Section 7.3(c) of the July 27 draft to be "a mutual term" that "applies to both the . . . Novartis royalty as well as the Incyte royalty;" and while he "can't comment on what [he] . . . knew in 2009" because it was "13 years ago," he "do[es]n't think that's changed." *Id.* at 262:12-264:14. He also testified that, as far as royalty durational calculations were concerned, although he did not "remember having explicit conversations about how to calculate the royalty term[,] . . . . [W]e would have been more interested when it came time to contract, to understand what that meant, because there are so many interrelated parts from a definition standpoint that the true understanding of the term for . . . a royalty . . . would have been made clear in a contract, and not excruciatingly clear in a . . . term sheet document." *Id.* at 135:5-22; *see also id.* at 135:23-136:11 ("I don't know what my understanding was at the time, I don't remember . . . . I can comment only that from a process standpoint, . . . this is a term sheet and it's for a discussion purpose basically . . . .").

Mr. Mikkelson—one of Incyte's lead negotiators in the 2008–09 timeframe, *see* Mikkelson Dep. Tr. at 19:7-25, 20:2-6—testified that before Incyte sent the first draft of the

agreement to Novartis, Incyte's deal team had many internal discussions about "what the trigger should be as it relates to the end date of the reverse royalty" that Incyte agreed to pay Novartis on U.S. JAK Sales, *id.* at 129:20-130:20. And he testified that the Incyte team internally "discussed that . . . the duration or royalty term should include some of the prongs that are traditional in a . . . royalty term, which would be regulatory exclusivity, . . . or that there would be some Novartis patents that could also extend the royalty term out to the end or expiry of a valid claim related to a Novartis patent." *Id.* at 130:21-131:25. But he did not "recall having any discussions with Novartis other than the specific language that we've added to the contract and that was reviewed by their deal team." *Id.* at 138:8-12.[76] He testified that, in his view at the time of his deposition, the definition of "Licensed IP" in the Final Term Sheet was "specific for Incyte IP and we wouldn't pay a royalty on our own IP," *id.* at 124:25-125:18, although he did not "remember what [his] understanding would have been at th[e] time" of the term sheet, *id.* at 125:19-126:20; *see also id.* at 68:17-21 (testifying to his understanding—at least at the time of the deposition—that Licensed IP "would include any patent or proprietary know-how owned or controlled by Incyte").

Mr. Mikkelson further testified that he did not recall the definition of "Licensed Patent Rights" "ever changing" after Incyte first proposed it, although the parties engaged in "multiple discussions, issues lists, and so forth" throughout the course of negotiating the contract.[77] *Id.* at 132:18-133:13, 134:9-22. Mr. Mikkelson testified that his "understanding in

[76] Specifically, he did not "recall whether [they] had [a] discussion" regarding whether Incyte's patents were relevant to calculating the royalty term's duration. *Id.* at 135:8-16. But, he said, he "believe[s] that language is self-evident" in the contract, "in that it states that if Novartis is to receive a reverse royalty beyond regulatory exclusivity and the period of ten years that there would need to be a valid claim of the licensed patent rights, in this case Novartis patent rights, that would need to provide us protection for that reverse royalty to . . . continue." *Id.* at 135:8-137:13. Mr. Mikkelson also testified that he "recall[ed] that Novartis was interested in including this reverse royalty in the term sheet and in the contract" as Novartis "felt that they would be bringing value to the table, to Incyte . . . , as it relates to our commercialization of Jakafi in the United States, and that because of that there should be some consideration given related to the net sales that Incyte generates in the U.S." *Id.* at 38:5-20.

[77] The parties agree that the definition of "Licensed Patent Rights" did not appear "on any issues list or written

2009" was that the "Licensed [P]atent [R]ights definition in the agreement is substantially different from the definition of [L]icensed IP in the term sheet." *Id.* at 138:13-22. When asked whether he "discuss[ed] that understanding with anyone at Novartis," Mr. Mikkelson replied: "we drafted a contract that we sent to Novartis that very clearly stated what the definition of [L]icensed [P]atent [R]ights was, and that definition of [L]icensed [P]atent [R]ights clearly states that there are Novartis [P]atent [R]ights and there are Incyte [P]atent [R]ights and that they applied differently as it relates to the royalty term." *Id.* at 138:23-25, 139:2-7; *see also id.* 132:2-133:6 (testifying that "we clearly communicated this concept to Novartis" and that "[i]t was clearly outlined in the draft contract that we submitted to Novartis"). As for whether he understood the royalty term provision in the term sheets to apply to both Incyte's royalty and Novartis's royalty, he replied that "it's not clear to [him] that th[e] royalty term section part 1 [in the July 9 Term Sheet] could apply to the reverse royalty;" and this was his understanding at the time of the deposition. *Id.* at 124:25-126:13. And when asked whether he ever told "Novartis before the agreement was executed that patents that Incyte holds in the United States relating to ruxolitinib are not relevant to calculating the length of the royalty term[,]" Mr. Mikkelson responded that he "d[idn't] recall whether [they] had that discussion." *Id.* at 135:8-16.

Mr. Hoppenot—who in 2009 served "function[ally]" as Novartis's Chief Commercial Officer,[78] and then as President of Novartis's Oncology Business Unit, and then (as of around "2014, . . . the end of 2013") as Incyte's CEO and President—testified that he

communication exchanged between the parties during the negotiations, and after the July [27] Draft Agreement." *See* Novartis's SUMF Reply ¶ 574. The same is true of the definition of "Covering." *See id.* ¶ 592.

[78] Mr. Hoppenot testified that he did not "remember the title exactly" of his "first job" at Novartis, but the "function" of it was as Chief Commercial Officer. Hoppenot Dep. Tr. at 14:14-17.

did not have any discussions regarding how long the reverse royalty payment would last. *See* Ex. 262 ("Hoppenot Dep. Tr.") at 141:11-19.[79]

Relative to Incyte's deal team, members of Novartis's deal team testified to a different understanding. For example, when asked whether Novartis and Incyte discussed "when the end date would be in the royalty" during the negotiations, Novartis's Mr. Goldfus responded: "It's baked into the contract that the . . . royalties go through the end of . . . the patent term in the territory[,] which is the end of any . . . of the pooled patents." Goldfus Dep. Tr. at 334:14-23. And when asked what he understood the term "Licensed Patent Rights" to mean, Mr. Goldfus testified that he "understood that this was a collaboration in which the two parties would have access to a pool . . . of patent rights, 'pool' meaning any rights that were contributed by either party." *Id.* at 37:23-25, 38:2-11; *see also id.* at 193:12-17 (referencing the "pool of patents"); *id.* at 227:3-10 (testifying that he "remember[ed] that [the final contract] had a pooling of the intellectual property of the patent rights. To me, that means that everybody has access to . . . the patent pool").[80]

Ms. Griffin testified that it was "absolutely" her understanding in 2009 that the terms "Licensed Patent Rights" as used in the agreement, and "Licensed IP" as used in the term sheets, had the same substantive meaning. Griffin Dep. Tr. at 249:18-250:8. She did not

[79] He also testified that the term sheet's royalty term provision is "about the Novartis royalties paid to Incyte . . . ." *See id.* at 14:14-15:11, 139:2-20. And when asked whether his understanding of the term sheet at the time was that "the block of text which is adjacent to the royalty term . . . governs Novartis' ex-royalty payments to Incyte . . . . [b]ut not Incyte's payments to Novartis," he stated that he "didn't say that." *Id.* at 139:2-141:3.

[80] Notwithstanding the use of the past tense "understood," it is not entirely clear from the deposition transcript whether this was Mr. Goldfus's understanding in 2009 or as of the date of the deposition. And later, when Incyte's counsel pointed to the May 7 Term Sheet and asked Mr. Goldfus, "Here too the [L]icensed IP is defined to include only Incyte's own patent rights, is that right?", he responded "Yes, I see that." *Id.* at 241:17-20. He also testified that, in examining subsection (i) in the term sheet, the prong "appears to be" defined by Incyte's own patents expiring, "based upon the reference to [L]icensed IP." *Id.* at 242:14-21. And when asked whether "[t]here is no pooling under this proposed arrangement of patent rights?", Mr. Goldfus replied, "I don't see here any mention of Novartis patents in this, yeah." *Id.* at 242:22-25, 243:2. After Incyte's counsel asked whether the royalty would end solely due to the expiration of "those patents that Incyte licenses to Novartis," Mr. Goldfus responded: "At this point, I'm going to say simply, like, I'm not a lawyer." *Id.* at 243:3-10.

recall having a conversation with any Incyte representative in 2009 that the terms differed substantively. *Id.* at 249:18-250:12;[81] *see also id.* at 100:20-102:20, 105:4-15 (testifying that "at the time of the deal signing, Incyte was the only one who had the IP . . . . But the content of the agreement going forward is broader than that;" if "either party does" develop new IP during the course of the collaboration, it would fall within the scope of the term "Licensed IP," which was "broader than just the initial IP . . . coming in"). And she testified that she understood the patent rights at issue in section (i), regarding the "valid claim of the patent rights," to "include[] the IP that governs this agreement and Jackavi [*sic*] and Jakafi." *Id.* at 178:3-179:16.[82]

Mr. Harwich, Novartis's outside deal counsel, stated:

> The royalty to be paid by Incyte to Novartis on U.S. sales of Jakafi—also called the "reverse" royalty—was from the beginning one of the more heavily negotiated terms discussed by the parties. Novartis insisted on receiving a "reverse" royalty . . . given that it expected to add substantial value to the development and commercialization by virtue of being Incyte's collaboration partner. The receipt of a "reverse" royalty was at all relevant times viewed by Novartis as a critical part of the deal in these negotiations, including during the term sheet stage.

Harwich Decl. ¶ 4. He added: "[a]s it related to Incyte IP, Novartis did not intend the term 'Licensed Patent Rights' to have a new or different meaning or effect than 'Licensed IP' in the Final Term Sheet." *Id.* ¶ 7. And he stated that he "participated in a general discussion with Steven Singer . . . about why certain defined terms had changed from the Final Term Sheet to the First Draft. I was told that these changes reflected an effort to use more

[81] When asked "earlier when we looked at the [L]icensed IP definition, do you recall that Novartis's patent rights were not listed within that definition?," Ms. Griffin responded: "In [the] initial term sheet [draft] it seems that is how it's defined here." *Id.* at 87:25-88:9.

[82] In addition, Ms. Griffin testified that Novartis's understanding of "those three criteria [in Section 8.3(c)], was that things were still going on until patent expiry, which was not even here yet . . . . end of '27, '28." N. Griffin Tr. at 200:11-201:8; *id.* (testifying that when she "was working with this, [it] wasn't our understanding that any of those other criteria would be triggered").

detailed (and necessarily in certain areas more precise) contractual language rather than to alter the commercial substance of any terms reflected in the Final Term Sheet." *Id.* ¶ 8.[83]

Mr. MacLaughlan testified that the parties included the "reverse royalty" concept in the deal because Novartis "needed to get value for multiple reasons," including (a) "to make the deal make sense;" "[o]therwise, if you didn't have the royalty going out to the patent expiry date, there wouldn't be enough . . . to offset the amount of money going out of Novartis' treasury," so Novartis wanted the funds "[t]o justify the deal;" (b) "to feel compensated for the value [Novartis was] bringing to the table, to the project in general by the expertise Novartis felt that they had at the time;" and (c) "to align the goals between the companies." MacLaughlan Dep. Tr. at 368:16-369:23. He also testified that "at the time that [he] was there" at Novartis (through May 2009), he understood that "as long as you have . . . at least one valid claim in the United States, then the royalty is due from Incyte to Novartis." *Id.* at 420:8-421:24.[84]

Mr. MacLaughlan further testified that the "purpose" of the term "Licensed IP" in the parties' term sheets was to avoid situations where one party licenses patent rights from the other, "[a]nd then . . . the day after [doing so], you go, '[o]h, by the way, I have another patent that you need to license.' . . . [T]hat's what you are trying to avoid on both sides." *Id.* at 170:7-172:8. His understanding was that, at the term sheet stage, "there is no obligation for Novartis . . . to develop IP," but if such IP was developed, "then it would fall under the [L]icensed IP." *Id.* at 173:10-25; *see also id.* at 167:12-168:25 (testifying that, in his view, the category of "Licensed IP" could include "IP that's been developed by Incyte,

[83] *See also* B. Goldfus Tr. at 225:11-227:10 (testifying that he, at least at the time of his deposition, was "not sure of a distinction between" the phrase "Licensed IP" and "Licensed Patent Rights").
[84] Mr. MacLaughlan began working for Novartis in the fall of 2008 and left in May of 2009. *Id.* at 426:14-18. Notably, as Incyte correctly observes, May 2009 "was months prior to the first draft of the agreement between the parties . . . ." Incyte's SUMF Response ¶ 235.

improvements to the IP by Incyte, improvements to the IP by Novartis, joint IP"). When asked whether Novartis's potential later development of a U.S. patent would be "Licensed IP" under the term sheet definition thereof, Mr. MacLaughlan explained that "if [Novartis] developed IP that covered this product and that was required for this product to be sold, then, yes, in my opinion that would fall under the [L]icensed IP" definition. *Id.* at 169:2-13.

Novartis's Mr. Litchman testified that, in his view, Novartis's rationale for requesting the royalty from Incyte on U.S. JAK Sales was "certainly" communicated to Incyte (although he did not recall whether he himself communicated it), and he believed that Novartis was making an "enormous investment . . . in the product ex-U.S., and . . . in Incyte with the upfront and milestone[]" payments. *See* Ex. 106 ("M. Litchman Tr.") at 62:20-65:15.[85] Mr. Hager also testified that he believed it was "necessary for [Novartis] to have a reverse royalty" as that "was required of us by the management" in the negotiation mandate given the amount of money that Novartis was giving to Incyte via other financial terms. Novartis's SUMF ¶ 237. He stated:

> We [Novartis] never heard from Incyte anything about . . . their view being that we needed to have a patent at any time to support the maintenance of the reverse royalty. And so my understanding then and my understanding today is that the period of payment of the reverse royalty, as we agreed to it, was that we would receive payments from Incyte until the loss of exclusivity. In the United States, this was roughly the same time as a loss of exclusivity in the European Union, and we would continue to pay royalties to Incyte, that they would be congruent. They would be the same time frames for payment. That is my – that was my understanding in 2009, remains my understanding.

D. Hager Tr. at 207:21-209:9; *see also id.* at 269:2-25 (testifying that he "read[s]" "Licensed Patent Rights" to mean "the sum of Incyte rights and Novartis rights"); *id.* at 307:4-21 (testifying that no Incyte representative told him that Incyte expected Novartis to get a U.S.

[85] Again, Incyte's Mr. Mikkelson testified that Incyte, for its part, "felt that we were providing a license to Novartis for them to develop and commercialize outside the United States and that Incyte was fully prepared to complete the development and commercialization within the U.S." Mikkelson Dep. Tr. at 41:11-42:6.

patent and license it to Incyte to obtain more than ten years of reverse royalties, nor did anyone at Incyte tell him that Incyte's U.S. patents should not be used to calculate the reverse royalty term duration).

Additionally, Teresa Jose, the CFO of Novartis Oncology from January 2012 to January 2021, testified that—in counsel's words—she did not "ever assume Novartis was only going to be paid reverse royalties from Incyte for 10 years . . . ." Ex. 272 ("Jose Dep. Tr.") at 24:5-25, 142:18-143:5. And when asked "[d]uring your time as CFO of Novartis Oncology, did anyone ever say Novartis needed to get a patent in the U.S. and license it to Incyte in order to get more than 10 years' worth of royalties," she answered "[o]f course not." *Id.* at 144:6-145:7.

4. Pre-Agreement Financial Modeling and Internal Discussions

Both parties prepared financial models during the negotiation process. Incyte's financial advisor was Goldman Sachs, who "perform[ed] the 'official' financial valuation modeling Incyte used to evaluate . . . potential partnerships, which was then presented to [Incyte's] Board." *See* Novartis's SUMF ¶ 169. Marshall Smith was the senior member of Goldman Sachs's team working on the Incyte-Novartis deal. *See* Ex. 260 ("Smith Dep. Tr.") at 33:8-10.[86] When asked whether Goldman Sachs had discussed any financial assumptions with Incyte, Mr. Smith testified that he did not "recall, but [he] would presume so." *Id.* at 55:10-15.[87] Generally speaking, Mr. Smith stated that analysis of the meaning of the

[86] When asked what role Goldman played during term sheet negotiations, Mr. Smith responded that he did not "recall with great detail, but what is typical and my general recollection is . . . we provide financial analysis to the company . . . . We would make suggestions around adjustments to the set of terms that were being negotiated . . . . And then we would . . . present those suggestions to a counterparty . . . as it relates to [the] . . . negotiations vis-à-vis . . . Novartis." *Id.* at 53:2-22. Mr. Smith added that, as term sheets were exchanged between the parties, he "would presume" that it is the case that Goldman updated its financial analysis. *Id.* at 54:23-55:3.

[87] Mr. Smith also could not recall any instance where Incyte disagreed with financial assumptions made by Goldman, during the course of the Incyte-Novartis negotiations in 2009. *Id.* at 55:24-56:4. Mr. Smith explained that, "[g]enerally" when Goldman Sachs performs financial analysis, the contents of the models are "driven by the input from the client." *Id.* at 37:6-25.

Agreement was "beyond the scope of what [Goldman Sachs] . . . did" and "under the purview of" Mr. Singer "and his team." *Id.* at 163:13-164:3.

The parties' designated experts differ on how to interpret Incyte's internal pre-Agreement models. In short, Incyte's designated expert, Dr. Mohan Rao, opined that the models "are silent on the interpretation of the step-down provision and termination of Incyte's royalties to Novartis," that they did not "specifically implement[] the royalty term provisions as laid out in the Agreement," and that instead, "models from both parties carried forward a calculation of royalty obligations to the end of the modeling period, independent of assumptions about regulatory exclusivity, patent coverage, generic entry, and length of time since commercial sale (all triggers identified in the Agreement that can change royalty obligations)." Ex. 10 ("Rao Rpt.") ¶ 41; *see also id.* ¶¶ 45–46 (similar). Dr. Rao further opined that "the GS Models calculate Reverse Royalties that are not tied to patent rights," that "the GS Models similarly forecast *Novartis's* royalty obligations beyond the apparent loss of exclusivity of Jakavi outside of the United States . . . through to the end of the forecast period," and that "the GS Models through the signing . . . appear to adopt a loss of exclusivity in 2024, even though Incyte was issued a patent . . . that would cover Jakafi through . . . 2027." Ex. 1092 ("Rao Rebuttal Rpt.") at 5–6 (emphasis in original).

In contrast, Novartis's designated expert, Larry Tedesco, opined that Incyte's internal pre-Agreement models "consistently incorporated the concept of Incyte paying Novartis a Reverse Royalty on U.S. sales of Jakafi, starting from the first term sheet that Novartis sent to Incyte," that "[n]one of the GS [Goldman Sachs] Models forecasted a cessation of payment of Reverse Royalties to Novartis prior to the end of the duration of U.S. Jakafi sales being forecasted to be made by Incyte, which often included the period

through 2030. Nor do they reflect any contingency involving Novartis obtaining a hypothetical patent in the future after . . . 2009." Ex. 85 ("Tedesco Rpt.") ¶ 19.[88]

Nor do these models, in Mr. Tedesco's view, "contain or reflect the assumption that Incyte will only pay ten years' worth of Reverse Royalties unless a contingency is achieved;" rather, "the GS Models do not reflect any limitation being imposed on, or scenario testing with respect to, the Reverse Royalty. They reflect that paying a Reverse Royalty well past ten years, and for nearly two decades, was the most likely projected outcome." *Id.* In Mr. Tedesco's opinion, the models do not reflect a 50% reduction to the reverse royalty or the invocation of the stepdown provision "for any period during which Jakafi is being sold in the U.S. by Incyte," nor do they "contain or reflect the assumption that Incyte will be able to reduce the amount of Reverse Royalties owed by 50% in or around 2019." *Id.*[89]

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[88] *See also* Pullan Rpt. at 23–24 (noting that her "review of the Goldman Sachs documents supports that no such change to the duration of the reverse royalty was made (and the latest modeling had reverse royalties continuing for well more than 10 years after launch and until 2029)" and she "agree[s] with [Mr. Tedesco's] conclusions as far as what the financial modeling performed on Incyte's behalf reflects as far as the duration of the reverse royalty"); *id.* at 23 (opining that "[b]oth parties' financial modeling and valuation analyses with respect to the reverse royalty are consistent with an understanding that the reverse royalty would be paid for well more than ten years").

[89] Some of Incyte's models were displayed in board presentations commenting on the deal's financing. Some presentations prepared for Incyte's Board meetings in the fall of 2009 do not reference the royalty stream from Incyte to Novartis on U.S. JAK Sales at all. *See, e.g.*, Novartis's SUMF Response ¶ 1328. For example, one deck prepared in October of 2009—titled an "update on key terms"—did not depict any differentiation in the royalty duration between Novartis's royalties to Incyte and Incyte's royalties to Novartis. *Id.* ¶ 1329. But Novartis argues—and Incyte disputes—that at least some do discuss the royalty stream. For example, Ms. Andrews distributed one slide deck in late June of 2009 marked for the "Incyte Board of Directors," which states as among the "Implications of Nereus Revised Offer" and "Implications of Incyte's Counter Proposal" that there is a "Financing Need – Cash Flow Breakeven Reached in Q3 of 2011E." *See* Ex. 83 at slides 1, 9–10. This slide deck, among other internal Incyte communications, utilizes the phrase "[c]lawback on US sales." *See, e.g.*, *id.* at 31; Ex. 90 at 3 (an email from a Goldman Sachs representative to Ms. Andrews and Mr. Hastings, noting "the clawback"). Mr. Smith testified that the term clawback "seems to be consistent" with a reference to the reverse royalty. *See* Smith Dep. Tr. at 141:8-16; *see also* Ex. 81 ("L. Chardonnet Tr.") at 44–45 (testifying that the term "clawback" referred to "the reverse royalty"). The parties' designated experts disagree on their understanding of the meaning of "clawback" in this context. *See, e.g.*, Ex 48 ("Pullan Rpt.") at 11 (Novartis's designated expert, Dr. Pullan, stating that "the term 'clawback' is used to connote a reimbursement, recoupment/repayment, or recapture of funds or value, including in the royalty context when claiming entitlement to reimbursement of royalty payments in certain delineated circumstances such as a patent challenge," and that "[b]ased on [her] experience in the industry and familiarity with the language used by pharmaceutical licensing deal negotiators, the use of this term suggests an understanding of the reverse royalty as a mechanism for Novartis to get back some of the significant value it was paying to Incyte"); *see also id.* at 12 ("If the reverse royalty is properly viewed through that lens—*i.e.*, as a 'clawback' of some portion of the Novartis royalties being paid to Incyte—then commercial logic would suggest that the 'clawback' would continue for approximately the same length of time that Novartis was continuing to pay royalties to Incyte, consistent with that interrelationship."). *But see* Ex. 1084 ("Lankau Rebuttal Rpt.") ¶ 25 ("disagree[ing]" with that conclusion on the grounds that, first, any use of the term "clawback" in Incyte's internal documents "do[es] not reflect

The parties' designated experts also disagree on the interpretation of Novartis's pre-Agreement financial models. Dr. Rao asserts that Novartis's internal models "did not attempt to predict or forecast when Incyte's royalty obligations would end or step down. Instead, Novartis made simplifying assumptions with respect to the termination of Incyte's royalty obligations that do not attempt to track the royalty term structure outlined in Section 8.3(c)." Rao Rpt. ¶ 42; *see also id.* ¶ 43 (noting that "not one" of Novartis's internal models that he reviewed "has modeled a termination to the reverse royalty, nor any step-down provision;" and that "[g]enerally, while Novartis's financial models do show its own royalty obligations to Incyte dropping to zero upon certain conditions being met, the same is not true for Incyte's royalty obligations to Novartis"); *id.* ("Novartis's models calculate Incyte's projected royalty payments . . . as a percentage of net sales that carry forward to the end of the forecast window (which, in the last model conducted before the deal was through 2029).").

Mr. Tedesco and Dr. Pullan disagree. Mr. Tedesco's view is that "based on [his] professional experience and customary practice with respect to transactional analysis and financial modeling, both sides' financial modeling reflects Novartis' interpretation of Section 8.3(c) of the Agreement and the expectation that the Reverse Royalty would be paid by Incyte to Novartis at the negotiated Incyte Reverse Royalty Rates described in Section 8.3(b)(i), without a 50% reduction, for well more than ten years." Ex. 2 ("Tedesco Rebuttal

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any meeting of the minds of Incyte and Novartis"—an improper legal conclusion not fit for expert testimony; second, "[i]f the parties had intended to reduce Novartis's royalty rate" and "reimburse" Novartis for the royalty it was paying to Incyte, then "it would have been much simpler to reduce the percentages of the Novartis royalty rather than create a complicated mechanism where Novartis pays Incyte and then Incyte partially pays Novartis back;" and third, he disagrees with Dr. Pullan's conclusion that "the royalty from Incyte to Novartis would have to continue for 'approximately the same length of time' as the royalty from Novartis to Incyte" because "the royalty from Novartis to Incyte is not one thing—it is separate royalty streams in each country and could have many different endpoints," and "there are good reasons based on the contributions of each party to the Agreement for the duration of the royalty from Incyte to Novartis").

Rpt.") at 4; *see also id.* (opining that "Novartis' pre-Agreement financial modeling and internal Committee documents . . . reflects that Novartis expected the Reverse Royalty to be paid . . . for well past 10 years and . . . until the expiration of patent protection/market exclusivity in the U.S.");[90] Pullan Rpt. at 23 (opining that "[b]oth parties' financial modeling and valuation analyses with respect to the reverse royalty are consistent with an understanding that the reverse royalty would be paid for well more than ten years").

At least some of Novartis's internal models suggest an understanding that Novartis would achieve "payback" on its investment in Incyte's JAK and c-MET Programs in about a decade from October 2009. *See* Ex. 35 at slide 8.[91] Mr. Goldfus testified that another internal Novartis model shows Novartis's expected royalties from Incyte on U.S. JAK Sales continuing "out through 2027, which [Mr. Goldfus] recall[ed] would be the end of the patent term, patent rights . . . in the U.S. territory." *See* Goldfus Tr. at 340:20-345:5. And Mr. Goldfus stated that "once a breakeven point is . . . reached, if you continue to receive royalties at that point . . . then it's positive cash flow." Goldfus Dep. Tr. at 257:15-258:3.

Mr. Goldfus also testified that Novartis used the patent expiration date as the end point for Incyte's payment of reverse royalties because "[t]hat's the way that the contract was constructed[,] so that the royalties would . . . come to us through the end of the exclusivity, which in this case was written by the compound patent." *Id.* at 345:6-346:3. And when Mr.

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[90] Mr. Tedesco adds that "[t]he majority of . . . Novartis documents selected by Dr. Rao only include projections for metrics generally until 2025 or 2026, which is well before compound patent expiration in the U.S., which . . . was to occur in December 2027," and that in his view, the fact "[t]hat Novartis did not model a scenario in which the Reverse Royalty was terminated after 10 years, or include a 50% reduction at any time, reflects the expectation that it would be receiving the full Incyte Reverse Royalty Rates . . . through patent expiration, which at the time was December 2027 . . . ." *Id.* at 5.

[91] Specifically, the cited slide shows "JAK2 upside & downside scenarios," listing the "Payback" period for the "Upside Case," the "Base Case," and the "Downside Case" as each approximately constituting one decade in "Years from Oct. 2009." *See id.* Incyte objected to Novartis's inclusion of this presentation in its SUMF, arguing that Exhibit 35 was not necessarily "shown to Incyte," that it "does not contain any analysis or forecasting concerning: the duration of Incyte's royalty payments to Novartis, any interpretation of Section 8.3(c)," and disputing whether "the Novartis models have any relevance to Incyte's or Novartis's understanding relating to the duration of Incyte's royalty payments to Novartis, any interpretation of Section 8.3(c)," etc. *See* Incyte's SUMF Response ¶ 224.

Goldfus was asked if the assumption of "how long royalties were paid . . . would . . . be guided by the length of time in which net sales were anticipated to continue, or would it be determined by an analysis of the contractual royalty term clauses," Mr. Goldfus responded that "it could really be either," but "in the case of the . . . Incyte deal, it would have been driven by the contract provisions." B. Goldfus Tr. at 61:11-62:19. Mr. Goldfus stated that if something was "relevant to the financial valuation, you would build it into the model." *Id.* at 49:18-50:12. He added that, if the compound patent's expiration date was not the appropriate end point to use in calculating the royalty duration, that would have been corrected by other members of the deal team—"if anybody on the committees or . . . the team . . . thought that that was not a fair representation of the . . . duration for which we should be receiving those royalties, it would have been objected to. We would have corrected that . . . before we ever got a committee approval." *Id.* at 346:3-347:5.

Mr. Hager testified similarly. D. Hager Tr. at 309:2-310:3 (stating that if Novartis thought that it had to obtain a U.S. patent and license it to Incyte to, in counsel's words, "get the benefit of end point 1 in Section 8.3," then "[t]hat certainly would have been one of the scenarios that was modeled and shown," but "[w]e never modeled that, no"). He added that "there is [a] significant risk that the Novartis side would have chosen not to do the deal" if Incyte had told Novartis that it had to obtain a U.S. patent in this way. *See id.* at 310:4-16. Mr. Goldfus, too, testified that "breaking even is not the point of a business deal," and that in his view, it would have been "very unlikely that we would have done [a] deal" that provides only "1.5 years of positive cash flow and then be done with it . . . ." B. Goldfus Tr. at 258:4-259:15.

Last, beyond the financial models, some materials circulated internally at Novartis in November of 2009 comment, at least implicitly if not explicitly, on Novartis's understanding

of the deal terms at the time.[92] For example, one presentation dated November 2, 2009 (described as "the documentation for the 2 November DRC" meeting) states an assumption of a "LoE" date of 2025. *See* Ex. 33 at 2; *id.* at slide 20. Mr. Goldfus testified that "LoE" stands for "[l]oss of exclusivity," *see* Goldfus Dep. Tr. at 112:12-20, which Mr. Hager defined as "the end of the patent expiry, plus any extensions," noting that "[t]here may be some additional regulatory exclusivity added on to that," Hager Dep. Tr. at 109:20-110:2.[93] The DRC ultimately approved the Agreement on November 2, 2009. Novartis's SUMF ¶ 216.

Other presentations shared internally at Novartis in advance of committee meetings in late November 2009 contained slides summarizing the financial terms of the deal and Novartis's "[b]ase [c]ase assumptions" for the "JAK2 + c-Met P&L." *See, e.g.*, Ex. 1116. One such slide, in a presentation entitled "In-licensing of c-Met & JAK inhibitor programs from Incyte: Request for Finalization," titled for the Pharma Committee's November 23, 2009 meeting depicted "[a]lliance revenue" continuing through 2021, the last year in the slide. *Id.* at slides 1, 12.[94] Another, in a presentation titled for the November 23, 2009 meeting of the Executive Committee of Novartis ("ECN"), reflects the "[p]ayback" period for the "[b]ase [c]ase" scenario as occurring around 2019. *Id.* at slides 1, 8. A presentation dated November 24, 2009, titled for the Novartis Chairman's Committee meeting, stated an

[92] Note that Incyte marked many of Novartis's SUMF propositions on this question as "[d]isputed," insofar as Incyte argues there is no evidence that the exhibits cited were "ever shown to Incyte;" and in Incyte's view, many of the exhibits cited "do[] not contain any analysis or forecasting concerning: the duration of Incyte's royalty payments to Novartis, [or] any interpretation of Section 8.3(c)," etc. *See* Incyte's SUMF Response ¶¶ 218–21, 225.

[93] In addition, an internal Novartis email sent from Mr. Goldfus in late November 2009 states that, in one internal Novartis model, the "NPVs" were "calculated through end of patent life, plus 5 years . . . ." Ex. 104 at 2. Mr. Hager testified that the net present value ("NPV") is "the upper possibility of what you will see" of the value of entering into a deal, whereas the "expected net present value" ("eNPV") "tells you what your expected return is, and you can compare that to the investment that you're making and see if your expected return is sufficient to justify the investment that you're making." D. Hager Tr. at 297:25-298:15.

[94] Mr. Hager testified that "[w]e went back to the [P]harma [C]ommittee again when we had a completed contract for approval because there were some places where the final contract is not . . . the same as the negotiation mandate." D. Hager Tr. at 79:11-81:11. He did "not recall any changes to the contract after final approval by the [P]harma [C]ommittee." *See id.*

assumption of a "LoE" date of 2025. *See* Ex. 35 at slide 7. "The Chairman's Committee was the 'highest level' within Novartis to 'final approval' to 'complete the deal.'" Novartis's SUMF Response ¶ 1350. Mr. Goldfus stated that "[p]resumably," the next step after going through the Chairman's Committee at Novartis would be to sign the deal. *See* Goldfus Dep. Tr. at 316:10-317:4.

For Incyte's part, Incyte's Board approved executing the Agreement with Novartis on November 24, 2009. Novartis's SUMF ¶ 210.

5. The Patents

Prior to executing the Agreement, Incyte had already filed several patent applications, including ones in the U.S. relating to Jakafi. Novartis's SUMF ¶ 246. The compound patent covering Jakafi in the U.S. was issued on October 6, 2009, and it expires on December 24, 2027.[95] Novartis's SUMF Response ¶¶ 1368–69. The last of the eight total patents related to ruxolitinib is set to expire on June 12, 2028.[96] *See* Incyte's SUMF ¶ 1014. Novartis did not bring into the parties' collaboration any patents or patent applications relating to the JAK Program or the c-MET Program when the Agreement was signed. Novartis's SUMF ¶ 261. Nor does Novartis currently own any U.S. patents that cover ruxolitinib alone. *See, e.g.*, Ex. 283 ("Novartis's Request for Admission") Response No. 88 ("Novartis is not currently aware of any existing, valid U.S. patent that was solely

[95] The U.S. Patent and Trademark Office has granted Incyte seven additional patents related to ruxolitinib drug patents, too. *See* Incyte's SUMF ¶ 1014; *see also* Novartis's SUMF Response ¶ 1370 ("Prior to executing the Agreement, Incyte had already filed several patent applications relating to its discovered c-MET and JAK compounds, including patent applications in the U.S. relating to (and that would if issued protect) Jakafi.").

[96] The expiration dates for Jakafi patents owned by Incyte may be extended by 6 months following a contingency concerning a pediatric study. *See* Ex. 1290 at slide 6; Novartis's SUMF Response ¶ 1627; Incyte's SUMF Response ¶ 1627.

obtained by Novartis that covers Jakafi as currently approved and sold in the U.S. as a monotherapy and in tablet form.").[97]

"Incyte expressly reserved the rights to file, prosecute, and maintain the INCY0039 Patent Rights worldwide, including in the U.S." Novartis's SUMF ¶ 262. "Incyte also expressly reserved the rights to file, prosecute, and maintain Secondary JAK Patent Rights in the U.S., defined as 'all JAK Patent Rights and Joint IP Covering the JAK Licensed Compounds and JAK Licensed Products . . . except for the Patent Rights that are designated as INCY0039.'" *Id.* ¶ 263 (citing Agreement §§ 1.107, 7.2(c)).

Last, in the fall of 2009, Incyte raised hundreds of millions of dollars from "the public capital markets." *See* Smith Dep. Tr. at 107:22-108:24; *see also* Hastings Dep. Tr. at 62:9-15; Ex. 264 ("Chardonnet Dep. Tr.") at 27:7-23. This money was raised before Incyte "signed and before the Novartis agreement was made public." Chardonnet Dep. Tr. at 27:7-23.

B. Novartis and Incyte Execute the Final Agreement

The parties executed the Agreement on November 24, 2009. Incyte's SUMF ¶ 1080. The final Agreement establishes separate sales territories: Incyte sells ruxolitinib in the United States as Jakafi, and Novartis sells it everywhere else as Jakavi. *See* Agreement §§ 1.48, 1.82;[98] Novartis's SUMF ¶ 251. The parties issued licenses to each other under the

[97] *See also* Gallagher Dep. Tr. at 61:3-6 ("Q. . . . Novartis never, in fact, obtained US patents covering ruxolitinib, right? A. Not that I'm aware of."); Novartis's SUMF Response ¶ 1110 ("Subject to the Related To Clarification, Novartis does not dispute that it did not bring any patents or patent applications into the parties' collaboration relating to ruxolitinib . . . ."); *see also id.* (clarifying that Novartis owned no patents "that cover[] ruxolitinib alone (as opposed to a patent that includes, refers to, or covers multiple compounds or products including ruxolitinib) and that would cover Jakafi as currently sold in the U.S."); Novartis's SUMF Reply ¶ 565 ("Novartis disputes [any] suggestion that it does not have any Novartis Patent Rights that could potentially be applicable to Incyte's U.S. sales of Jakafi in the future.").

[98] Specifically, Section 1.48 sets forth that "Incyte Territory" "means, with respect to all JAK Licensed Products and JAK Patent Rights, the United States of America and its territories and possessions." *Id.* § 1.48 (underscore in original). Section 1.82 sets forth that "Novartis Territory" "means (a) with respect to c-MET Licensed Products and c-MET Patent Rights, the entire world; and (b) with respect to JAK Licensed Products and JAK Patent Rights, the entire world other than the Incyte Territory . . . ." *Id.* § 1.82 (underscore in original).

Agreement, *see* Novartis's SUMF ¶ 252, including an exclusive JAK license that Incyte granted to Novartis "under Incyte IP," *see* Agreement § 2.1(b). "Incyte IP" is defined in the Agreement as "Incyte Know-How and Incyte Patent Rights," which are, in turn, defined to include "all Know-How" and "all Patent Rights" controlled by Incyte or any of its Affiliates, excluding "Joint IP,"[99] "as of the Effective Date or during the Term" that are "necessary or useful to Develop, manufacture or Commercialize any" Licensed Products or Licensed Compounds under the Agreement. Agreement §§ 1.45–1.47. "Patent Rights" is defined to include "all patents and patent applications in any country in the world . . . ." *Id.* § 1.86.

> The JAK License Grant permits Novartis
>
> to (i) research, Develop, Commercialize, make, have made, use, offer for sale, sell and import JAK Licensed Compounds and JAK Licensed Products in the Novartis JAK Territory in the JAK Field and (ii) research, Develop, make and have made JAK Licensed Compounds and JAK Licensed Products in the Incyte Territory for the sole purpose of using, offering for sale and selling JAK Licensed Products in, and importing JAK Licensed Compounds and JAK Licensed Products into, the Novartis JAK Territory in the JAK Field . . . .[100]

Id. § 2.1(b). Notably, this license excludes Commercialization[101] and sales in the U.S., as those are Incyte-only activities. Novartis's SUMF ¶ 256. The application number listed on the face of the issued Compound Patent[102] is mentioned in Exhibit A-2 to the Agreement. *Id.* ¶ 258. Exhibit A-2 lists "JAK Patent Rights" that the parties had going into the agreement as of its effective date. *See* Agreement § 1.107; *id.*, Ex. A-2 at 4–5 (native).

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[99] Under Section 7.1(b), "All inventions or discoveries made, or information created, jointly by each Party's (or any of its Affiliates') employees, independent contractors or consultants, in the course of conducting activities under this Agreement, together with all Intellectual Property Rights therein, shall be jointly owned by the Parties and are "Joint IP". Agreement § 7.1(b) (underscore in original).

[100] Section 1.59 sets forth that "JAK Field" means "the Hematology Field and the Oncology Field, and includes all forms of administration except topical." *Id.* § 1.59 (underscore in original).

[101] "'Commercialization' or 'Commercialize' means any activities directed to obtaining pricing and/or reimbursement approvals, marketing, promoting, distributing, importing, offering to sell, and/or selling a product (including establishing the price for such product)." *Id.* § 1.19 (underscore in original).

[102] The "Compound Patent" is defined as that covering Jakafi in the U.S. that was issued by the U.S. Patent and Trademark Office on October 6, 2009, pursuant to application number 11/637,545. *See* Novartis's SUMF ¶ 244.

In addition, the Agreement provided that Novartis would pay a portion of costs (some of which were subsequently reimbursed to Incyte) for conducting clinical studies. *See* Agreement § 4.2(c)(i); *see also* Novartis's SUMF ¶¶ 266–67. This included a $60 million milestone payment to Incyte in connection with one of the studies. Novartis's SUMF ¶ 268. "Novartis has reimbursed Incyte for $46 million in 'research and development expenses,' including $10.9 million spent by Incyte prior to the Effective Date of the Agreement." *Id.* ¶ 269. And the Agreement provided that Novartis was to largely financially support at least some of the clinical studies. *See, e.g.*, *id.* ¶ 266.

Under the Agreement's financial provisions, Novartis provided substantial upfront, milestone, and royalty payments to Incyte. *See* Agreement §§ 8.1, 8.2. These include a $150 million upfront "license fee," the "largest upfront" payment of "any deal [that Dr. Pullan] could identify in 2009," as well as over $1 billion in sales, development, and regulatory milestone payments. *See id.* ¶¶ 271–73. In its 10-K for the 2021 fiscal year, Incyte reported receiving a total of $157 million in development milestones, $280 million in regulatory milestones, and $200 million in sales milestones from Novartis under the Agreement—for a sum total of $637 million. *Id.* ¶ 274. This, plus the $60 million "immediate milestone" payment that Novartis made to Incyte in 2010, sums to $697 million that Novartis has paid to Incyte in milestone payments under the Agreement. *Id.* ¶ 275. In addition, Novartis agreed to pay Incyte tiered royalties based on Novartis's sales of JAK Licensed Products outside of the U.S. *See* Agreement § 8.3(a). These payments have summed to over $1.45 billion from Novartis to Incyte on ex-U.S. sales of Jakavi through fiscal year 2021. Novartis's SUMF ¶ 277. And "Novartis has generated more than $7 billion in net sales of Jakavi outside the U.S." Incyte's SUMF Response ¶ 587.[103]

[103] "Through fiscal year 2021, Novartis has made more than $1.45 billion in royalty payments to Incyte on ex-U.S. sales

"Unlike Novartis, Incyte is not obligated to make any upfront or milestone payments to Novartis under the Agreement." Novartis's SUMF ¶ 281. Under the Agreement, Incyte agreed to pay Novartis tiered royalties based on Incyte's own U.S. JAK Sales, at significantly lower royalty rates than those Novartis agreed to pay Incyte on Novartis's ex-U.S. sales. *Compare* Agreement § 8.3(a)(ii) *with id.* § 8.3(b)(i). The Agreement termed the tiered royalty rates applicable to those royalties that Incyte agreed to pay Novartis on U.S. JAK Sales the "Incyte Reverse Royalty Rates." *See id.* § 8.3(b)(i). Under the Agreement, the reverse royalty payments "shall only be payable to Novartis" after Novartis "received reimbursement and pricing approval for the first Indication for a JAK Licensed Product" in at least three particular European countries. *See id.* Novartis's designated expert, Dr. Pullan, testified that "[t]he term '*reverse* royalty' is an industry term understood to describe the scenario where the IP *licensor* is the party who will be paying the royalty to the IP *licensee*." Ex. 48 ("Pullan Rpt.") at 11 (emphases in original).[104]

Section 8.3(b)(ii) of the Agreement provides that: "If Covered by Novartis Improvements, Incyte shall pay to Novartis a royalty of 1% on a JAK Licensed Product by JAK Licensed Product basis on annual Net Sales of (x) topical formulations outside the JAK Field worldwide and (y) non-oral formulations for ophthalmic Indications worldwide." *See* Agreement § 8.3(b)(ii).[105] Relatedly, under Section 2.2, Novartis granted to Incyte "a non-

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of Jakavi under Section 8.3(a) of the Agreement." Novartis's SUMF ¶ 277.

[104] Incyte's designated expert, Mr. Lankau, testified that Dr. Pullan's industry custom opinions—and specifically her opinion that "'the duration of a royalty stream in a pharmaceutical licensing agreement is typically tied to loss of market exclusivity' . . . . assume[s] an 'industry norm' that, in [his] experience, does not exist across all pharmaceutical licensing collaborations . . . ." Ex. 1084 ("Lankau Rebuttal Rpt.") 14 (quoting Pullan Rpt. at 7).

[105] This separate 1% royalty, payable from Incyte to Novartis if Novartis developed "Novartis Improvements" to Incyte IP, did not appear in any of the term sheets. *See* Incyte's SUMF ¶ 1046; Novartis's SUMF Response ¶ 1046 ("Novartis does not dispute that none of the term sheets exchanged between the parties contemplated a separate 1% royalty payable from Incyte to Novartis—untethered from the tiered 'reverse' royalties payable on U.S. sales of Jakafi in the Field—if Novartis elected to and did develop 'Novartis Improvements' to Incyte IP with respect to certain topical or ophthalmic uses outside the Field and, necessarily, outside the scope of the parties' collaboration."). In the Agreement, "'Novartis Improvements' means Novartis Patent Rights that (a) constitute an improvement to the Incyte IP that is made by or on behalf of Novartis or its Affiliates during the Term; (b) are necessary or useful to Develop, manufacture or

exclusive non-transferable . . . license with the right to sublicense. . . under Novartis IP . . . ," *id.* § 2.2(a), and a "non-exclusive non-transferable . . . license, with the right to sublicense . . . under Novartis Improvements . . . ," *id.* § 2.2(b).[106] In this way, the royalty rate that Incyte must pay Novartis varies based on the aggregate annual net sales of a "JAK Licensed Product"—ranging from 2% for the first $100,000,000 in sales to 5% on annual net sales in excess of $300,000,000. *Id.* § 8.3(b). While the rates are relatively low, when applied to a base of sales in the billions, the amount of the annual royalty payments is significant.

The duration of either party's respective royalty obligations, and the circumstances under which a party may reduce the royalty rates to the other, is set forth in Section 8.3(c) of the Agreement. *See id.* § 8.3(c). This section contains two sentences—which the parties have termed the "Royalty Term Clause" and the "Stepdown Provision." *See* Novartis's SUMF ¶¶ 286–87. The first sentence of Section 8.3(c), the Royalty Term Clause, provides that:

> Royalties payable under this Section 8.3 shall be paid by the applicable Party on a Licensed Product-by-Licensed Product and country-by-country basis from the date of First Commercial Sale of each Licensed Product with respect to which royalty payments are due for a period which is the longer of: (i) the last to expire of any Valid Claim of Licensed Patent Rights Covering such Licensed Product in such country; (ii) ten (10) years following the date of First Commercial Sale in such country; and (iii) the expiration of Regulatory Exclusivity for such Licensed Product in such country (each such term with respect to a Licensed Product and a country, a "Royalty Term").

Agreement § 8.3(c).[107] And the second sentence, the Stepdown Provision, provides:

Commercialize any JAK Licensed Compounds; and (c) relate to (i) uses of JAK Licensed Compounds or (ii) methods of manufacturing JAK Licensed Compounds." Agreement § 1.75 (underscore in original).

[106] Incyte characterizes this as "a prospective license from Novartis to Incyte of any U.S. patents Novartis later developed or obtained." Incyte's SUMF Response ¶ 567. Novartis disputes this statement insofar as it may suggest that the Agreement required Novartis to obtain any U.S. patents relating to Jakafi in order to receive reverse royalties for more than ten years. *See* Novartis's SUMF Reply ¶ 567.

[107] "'Valid Claim' means (a) a claim of an issued patent that has not expired or been abandoned, or been revoked, held invalid or unenforceable by a patent office, court or other governmental agency of competent jurisdiction in a final and non-appealable judgment . . . or (b) a claim within a patent application that has not been revoked, cancelled, withdrawn, held invalid or abandoned and which has not been pending for more than seven (7) years from the date of its first filing." *Id.* § 1.112 (underscore in original). And "'Licensed Product" means a c-MET Licensed Product or a JAK Licensed Product. As used in this Agreement, except where not appropriate in context, the Licensed Product also includes the Licensed Compound contained in the Licensed Product." *Id.* § 1.168 (underscore in original).

> Notwithstanding the foregoing, in the event that either (A) the Royalty Term continues solely due to clause (ii) (i.e. in a specific country the Licensed Product is neither Covered by a Valid Claim of Licensed Patent Rights nor is such Licensed Product subject to Regulatory Exclusivity) or (B) Generic Competition exists with respect to a Licensed Product in a country with respect to a royalty -reporting period, then the royalty rates in such country for such Licensed Product (for such royalty-reporting period, if applicable) will be reduced to fifty percent (50%) of the applicable rate in Section 8.3(a) or 8.3(b), based on the weighted average annual royalty rate in the Novartis Territory or the Incyte Territory, as the case may be, beginning on January 1st of the Calendar Year following the first Calendar Year in which there exists a situation described in (A) or (B) of this sentence in the applicable country.

Id. "The parties agree that Generic Competition, as described in (B) of the Step Down, has not existed and does not exist with respect to Jakafi in the U.S." Novartis's SUMF ¶ 287. And the Agreement defines "Licensed Patent Rights," as used in prong (i) of the Royalty Term Clause, as follows:

> "Licensed Patent Rights" means with respect to the Patent Rights licensed to Novartis hereunder, the Incyte Patent Rights and with respect to the Patent Rights licensed to Incyte hereunder, the Novartis Patent Rights. In each case, Patent Rights forming part of the Joint IP shall be included, as applicable, in the Incyte Patent Rights and Novartis Patent Rights.

Agreement § 1.67 (underscore in original).[108]

Last, the Agreement includes an "Entire Agreement" clause, stating that "[t]his Agreement, the Supply Agreement and the Exhibits referred to in this Agreement constitute the entire agreement between the Parties with respect to the subject matter hereof, and supersede all previous arrangements with respect to the subject matter hereof, whether written or oral, including the Prior Confidentiality Agreement." *Id.* § 14.5.

[108] And while in Section 7.2 of the Agreement, Incyte agreed to provide Novartis with "the initial right to file, prosecute, and maintain c-MET Patent Rights and Joint IP that Covers c-MET Licensed Compounds or c-MET licensed Products," *see* Novartis's SUMF Response ¶ 1389; Agreement § 7.2(b), Section 7.2 does not expressly reference the JAK 424 Inhibitor, *see* Agreement § 7.2. Section 7.1 provides that "[t]he Parties, through the JSC and in accordance with § 7.2, shall determine which Party shall be responsible for the filing, prosecution and maintenance of Joint IP on a case-by-case basis." *Id.* § 7.1.

C. Post-Agreement Conduct

"After the Agreement was executed, the parties remained 'committed to ensuring that the relationship [was] as successful as possible.'" Novartis's SUMF ¶¶ 299.[109] And internally, the parties continued to discuss and model the finances of their arrangement. At least two of Incyte's models from the early post-Agreement years provide support for the view that the reverse royalties were expected to continue. For example, Incyte's Thomas Gayer, who worked as Incyte's Senior Director of Finance and prepared revenue forecasting and modeling, examined one of Incyte's spreadsheets last modified in March of 2012. *See* Ex. 273 ("Gayer Dep. Tr.") at 17:15-19:19, 66:3-74:14; Ex. 184. Mr. Gayer testified that this spreadsheet appeared to represent a forecast of projected royalties, and that the forecast depicted reverse royalties continuing through 2022, without apparent invocation of the Stepdown Provision or any forecasted end point in particular. *See* Gayer Dep. Tr. at 66:3-74:14. And he testified that another internal Incyte financial model that he apparently created, last modified in May of 2013, "appears to be . . . a forecast model . . . [o]f the long-range plan that [Incyte] refer[red] to as the strategic plan," the goal of which was "[t]o provide information for decision making." *Id.* at 74:16-76:19;[110] *see also* Ex. 185. He stated that this model appears to depict the payment of reverse royalties through 2028, although "it's just math based off of the sales forecast." *See* Gayer Dep. Tr. at 74:16-80:18.[111]

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[109] For example, the parties' respective alliance managers "scheduled a joint launch meeting to discuss how the collaboration would go forward, to 'understand and align on our business goals,' and the various committees and sub-teams." *Id.* The presentation for this meeting stated that the parties would discuss "level of trust among partners," and a "belief in honest communication," among other things; and Incyte's alliance manager "testified that for collaborations such as that between Novartis and Incyte to be successful, there should be a '[c]ollegial interaction between partners, alignment on clinical development strategy and tactical plans, ability to . . . express issues or any concerns openly with the partner,' and the honest exchange of information— ultimately, a relationship predicated on 'trust.'" *Id.* ¶¶ 299–303 (citation omitted).

[110] Paul Trower, who served as Incyte's Principal Accounting Officer in 2015, added that the purpose of financial models is "[t]o provide executive management of the company with information they need to manage the business," which should be, in counsel's words, "as accurate . . . as possible." Ex. 267 ("Trower Dep. Tr.") at 11:25-12:24, 94:2-25.

[111] And when examining another strategic plan model, Mr. Gayer testified that "as a simplifying assumption I generally use[d] the LOE date in the U.S. to stop sales," defining LOE as "[l]oss of exclusivity." *Id.* at 88:3-20. Specifically, he

In December of 2012, Incyte's Jim Daly emailed Mr. Mikkelson, copying Kevin Harris and Mr. Hastings, asking Mr. Mikkelson to "put together a couple of paragraphs that rationalize the royalty payment we make to [Novartis on U.S. JAK Sales] as 'compensation' for the value they contribute to our US commercial efforts," providing some examples of those contributions. *See* Ex. 143 at 3. Mr. Harris responded, listing further contributions—including "[m]arket research/plans," "[m]utiple rounds of scientific messaging," and "monitoring services on publications"—adding that he "could identify more if needed." *Id.* at 2.

In January of 2014, Herve Hoppenot left Novartis and joined Incyte as its Chief Executive Officer, becoming Chair of the Board in May 2015. Novartis's SUMF ¶ 331.

In late 2014, the parties amended the Agreement; and in the third quarter of 2014, Incyte began paying the reverse royalties on U.S. JAK Sales, and Novartis paid a multimillion-dollar milestone to Incyte in turn. *Id.* ¶¶ 333, 337–38; *see also* Novartis's SUMF Response ¶ 1468. In late September 2014, Incyte's Mr. Hoppenot told Incyte's Mr. Hastings that Novartis agreed to this arrangement, to which Mr. Hastings responded: "Good to get the [multimillion dollars] and we have the capital to pursue the other indications without limitations . . . they are going to [be] writing big checks starting in 2016!" Novartis's SUMF ¶ 338.[112] The parties "entered into Amendment No. 3 to the Agreement as of September 30, 2024," which amended Section 8.2(d) to provide that the parties "deemed to have occurred"

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testified that LOE meant "the composition of matter patent expiration date." *Id.* at 88:21-24.

[112] In addition, an internally distributed slide deck at Novartis dated September 2014 noted that "[r]eceiving Jakafi US royalty and paying [the multimillion-dollar] milestone could have potential upside . . . ." Ex. 145 at 5. The same slide has a chart listing "Sector Revenue (Royalty from Incyte)," with positive values continuing through 2027. *Id.* And an internal Novartis email sent from Mr. Hoppenot on September 17, 2024 stated: "[w]hen the contract was discussed, the goal of this part of the contract was to align payment with the top line (don't pay the milestone before sales can start)." Novartis's SUMF ¶ 334. On September 21, 2014, a Novartis representative replied to Mr. Hoppenot, agreeing "to trigger the [milestone] . . . in Q3 and the corresponding . . . royalties [on U.S. JAK Sales] from Incyte to Novartis," which had not yet commenced because of the absence of a triggering condition in the original Agreement's Section 8.2(d). *See id.* ¶ 337; Agreement § 8.2(d).

the triggering condition for the milestone payment. *Id.* ¶¶ 339–40.[113] Thus, Incyte began paying the reverse royalties on U.S. Jakafi sales as of the date of Amendment No. 3. *Id.* ¶ 342.[114]

In late October 2014, internal Incyte communications—distributed in preparation for Incyte's Q3 2014 investor conference call—proposed a response to a "Frequently Asked Question[]," namely, "[w]hy pay Novartis a royalty?" *Id.* ¶ 344. The answer was: "[w]hen we negotiated the collaboration agreement," Incyte "assessed the split of values" in each party's territory and "made a strategic decision to trade a small piece . . . of net U.S. sales for a larger, meaningful share of ex-U.S. sales . . . ." *Id.* This same proposed response appeared in Incyte's "Q2 2015 Q&A" materials. *See* Ex. 149 at 32.

On August 3, 2015, Incyte's Executive Vice President asked Mr. Mikkelson what the reverse royalty is that Incyte "ha[s] to pay Novartis," to which Mr. Mikkelson responded in part: "'The way we rationalized it back when we did the deal was that US sales would benefit from the [Novartis] glow / sales / marketing Ex-US and so we were ok giving them a piece of US sales." Novartis's SUMF ¶ 329.

D. Parties Negotiate Amendments to the Agreement

In December 2015, the parties began negotiating expanding the "Field" under the Agreement to potentially include graft-versus-host-disease ("GVHD").[115] *Id.* ¶¶ 348–49. One roadblock was Incyte's non-compete clause with another pharmaceutical company. *Id.*

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[113] This amendment also modified Section 8.3(b)'s first paragraph "such that 'Incyte's obligation to pay royalties on Annual Net Sales of JAK Licensed Products in the JAK Field in the Incyte Territory' shall apply with respect to 'all Net Sales of JAK Licensed Products occurring on or after September 30, 2014, irrespective of reimbursement and pricing approvals.'" *Id.* ¶ 341. "With respect to Incyte's payment of royalties to Novartis, the first Calendar Year for purposes of Annual Net Sales was deemed October 1 through December 31, 2014." Novartis's SUMF Response ¶ 1477.

[114] Specifically, the parties amended Section 8.2(d) "to provide that the JAK Regulatory Milestone for the JAK 1st Indication triggering the obligation to make the [multimillion dollar] payment pursuant to Section 8.2(d)(ii)(B) is deemed to have occurred . . . ." Ex. 147 ("Amendment No. 3").

[115] Under the Agreement, "'Field' means the c-MET Field and the JAK Field." Agreement § 1.34 (underscore in original).

¶ 350. An internal Novartis email, sent from Ms. Gallagher, stated that Incyte indicated they expected something in exchange from Novartis for Novartis "[t]o obtain rights to GVHD for the Novartis Territory." Ex. 152 at 2–3. According to Ms. Gallagher, one proposal that Incyte offered concerned the reverse royalty stream: "Herve made clear that he would be open to exchanging relief from the current obligation as part of the financial terms. This is important to Incyte as it has an incremental impact on their EPS." *See id.*;[116] *see also* Novartis's SUMF ¶ 353. Ms. Gallagher "testified that at the December 2015 . . . meeting between the parties, which she attended, Incyte proposed removing Incyte's 'reverse' royalty obligation on U.S. JAK Sales to Novartis altogether." Novartis's SUMF Response ¶ 1486. Novartis representatives prepared an internal presentation, titled "Ruxolitinib: GvHD Ex-US License Opportunity," which stated that the value of Incyte's reverse royalty could be substantial, and included a chart showing "Sector Revenue (Royalty from Incyte)" with positive values continuing through 2028. Ex. 155 at 2–3, 10.[117]

"In connection with 'expand[ing] the scope' of the parties' collaboration 'to include GvHD,' Incyte performed 'some internal analysis . . . related to different ways [Incyte] might be able to structure granting these rights [regarding a potential GVHD program] to Novartis.'" Novartis's SUMF ¶ 356 (citation omitted). These included models prepared by Mr. Gayer, who had joined Incyte in 2010 and has served as Incyte's "Vice President, Financial Planning and Analysis" since 2016. *Id.* ¶ 357. The parties' designated experts disagree on the interpretation of these models.

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[116] "Jennifer Gallagher testified that she understood that Incyte's payment of 'reverse' royalties on U.S. JAK Sales to Novartis 'negatively impacted earnings per share,' which is why Mr. Hoppenot 'repeatedly tried to negotiate [it] out when he went to Incyte' despite having been involved in 'negotiat[ing it] in when he was at Novartis.'" Novartis's SUMF ¶ 389.

[117] Another model, circulated within Novartis in December 2015 (and described by Ms. Sun, in an email, as having been prepared in September 2014), contains a similar chart, showing positive values through 2027 for a row entitled "Sector Revenue (Royalty from Incyte)." *See* Ex. 145 at 2, 5.

Novartis's Mr. Tedesco opined that Incyte's models from this time period (i) "calculate a Reverse Royalty to be paid by Incyte to Novartis through at least 2027;" (ii) "do not contain or reflect an assumption that Novartis 'may' obtain a patent in the U.S. and license it to Incyte, nor do they contain or reflect an assumption that any contingency was considered when projecting" a particular "end date;" and (iii) "are modeling a 'base case' scenario in which the payment of Reverse Royalties through at least 2027 was the most likely outcome." Tedesco Rpt. at 8 (native). He further opined that "Incyte's own valuation analysis assumes a durational period of the Reverse Royalty that is well past ten years and runs at least until compound patent expiration in the U.S. in 2027," and that the models "do not reflect that Incyte expected a 50% reduction in payments to Novartis in Q4 2018 or Q1 2019, or . . . a cessation of Reverse Royalty payments in Q4 2021 or Q1 2022, unless a contingency (such as Novartis obtaining a U.S. Patent) occurred." *Id.* at 8–9 (native).

Incyte's Dr. Rao opined that these models "project[ed] payment of the Reverse Royalty through to the end of the forecast period, whether that forecast period is limited by loss of exclusivity or not." Rao Rebuttal Rpt. at 7 (native). In his view, the models "appear[ed] to adopt a loss of exclusivity of 2027, even though, at the time, the last to expire patent on Jakafi was set to expire [o]n June 12, 2028." *Id.* And he questioned whether at least some of the models "tie[d] the Reverse Royalties (or any step-down provision) to patent rights." *Id.*

Mr. Mikkelson, when questioned about why Incyte was proposing removing the U.S. reverse royalties in exchange for GVHD, responded: "[s]itting in 2015, we d[id]n't know how long the reverse royalties are going to continue because we d[id]n't know if Novartis [was] going to contribute any patents that would potentially extend the reverse royalty term out to the end of a valid claim of a Novartis patent." Mikkelson Dep. Tr. at 205:15-206:11.

He continued, noting that some of the 2015 models depicted hypothetical scenarios: "in 2015 we ha[d] no idea what the revenue forecast [was] going to turn out to be," and "we could have modeled it in different ways," including by "mak[ing] the assumption that we would continue paying royalties on a Novartis patent out until 2027. . . . [B]ut this wasn't an exercise to . . . determine the length of the reverse royalty. It was simply an exercise to say what could a potential value look like from Novartis's perspective."[118] *Id.* at 206:12-207:21. He added that if Novartis was "able to deliver . . . a patent that extends the royalty," then theoretically "the reverse royalties could extend out to 2027." *Id.* 224:10-224:22.

In addition, Mr. Gayer testified that the reverse royalty rates in at least some of his models were not changed or reduced to zero in any given year because "[i]t was a formula that's based off of net sales, so [he] was just going off of the royalty rates listed [in the Agreement]." Gayer Dep. Tr. at 188:21-189:9. Mr. Gayer testified also that the models do not, in counsel's words, "incorporate [Section 8.3(c) of the Agreement] to determine when the royalty term will end," *id.* 190:18-21, and when asked whether "anyone at Incyte rel[ied] on [his] model to determine when the royalty term ends under [Section 8.3(c) of the Agreement]," he said "[n]o" because "[t]hat's not the purpose of [his] model," *id.* 190:22-191:3.[119]

The parties' GVHD discussions continued into 2016. In January, Novartis's Ms. Griffin emailed her colleagues noting that she spoke with Mr. Hoppenot, who "again suggested alternatives" to the GVHD/Eli Lilly issue "that do not hit [Incyte's] P&L,"

[118] And in discussing one valuation analysis in a June 2016 presentation relating to Incyte's potential investment in certain of Novartis's c-MET Program development activities in exchange for relief from its royalty obligation on U.S. sales of Jakafi, Mr. Mikkelson noted that "this was not an exercise to determine the duration of the reverse royalty . . . ." *Id.* at 224:10-225:22.

[119] At the same time, when asked whether one model's "forecast from 2011 through 2022 . . . reflect[ed] the step down at any point," Mr. Gayer responded, "[i]t doesn't appear to." *Id.* at 74:2-7. And when asked "Does this forecast from 2011 through 2022 indicate that reverse royalties would end at any point in time?," he responded "[n]ot in the time frame on this forecast." *Id.* at 74:2-14.

including negotiating Incyte's royalties on U.S. JAK Sales. Novartis's SUMF ¶ 378. Later that month, Ms. Gallagher circulated a slide deck that suggested that, at least as one recommended "[e]ntry . . . [p]osition," the parties should "maintain [the] existing royalty structure." Ex. 1219 at 2–4. Following a mid-March 2016 discussion between a Novartis representative and Mr. Hoppenot,[120] Novartis began to model Incyte's proposal to determine the value of reverse royalties from 2018 to 2020, as compared to the GVHD development costs. Novartis's SUMF ¶ 384.

In an internal email exchange at Novartis, the Senior Director of Global Disease Strategy Lead stated that she "would be very hesitant to swap US royalties against development costs!!" Ex. 172 at 2–3.[121] In the context of discussing the GVHD negotiations, Ms. Gallagher testified that removing the reverse royalty "came up a number of occasions," and that it "was something that Novartis had assessed in terms of what the potential value of it was and whether they would be willing to remove it and determine if it was too valuable for Novartis. So, ultimately, it was not included." Ex. 269 ("Gallagher Dep. Tr.") at 135:9-25; *see also id.* at 149:23-150:8 ("It was my understanding that, yes, Incyte was regularly trying to negotiate in such a way that they could remove or reduce those royalties."). In response to counsel's question about "what the value of this request from

[120] Novartis's SUMF includes an email sent by Ms. Gallagher reportedly summarizing a conversation that this Novartis representative colleague had with Mr. Hoppenot. *See* Novartis's SUMF ¶ 383 (observing that the email stated that Mr. Hoppenot apparently "brought up the royalties again, but this time more specific that he needs to show profits 2018-2020," and sought "relief from royalties during this time") (citing Ex. 171 at 2–3)). This evidence is inadmissible hearsay, notwithstanding that Incyte did not object on that ground.

[121] And an internal Novartis slide deck dated April 4, 2016 included a slide noting that "Incyte Royalty Quid for GvHD Rights could bring *small* near term income benefit . . . , but NVS loses *future loyalty revenue* and cumulative *core income decrease* . . . ." Ex. 173 at 7 (emphasis in original). Novartis's SUMF replaces "loyalty" with "[r]oyalty" and "NVS" with "[Novartis]" in its citation to this exhibit in its SUMF. Novartis's SUMF ¶ 386. Incyte disputes the proposition, arguing—among other things—that Ex. 173 is not "relevant to the parties' understanding or expectations regarding Incyte's royalty payments." Incyte's SUMF Response ¶ 386. Incyte does not dispute that the slide deck was emailed with the as-is quotation above. *See id.*

Incyte would be to eliminate the [reverse] royalty," Ms. Gallagher responded that "[i]t was understood to be a tremendous amount of value." *Id.* at 145:18-146:11.

Mr. Hoppenot, too, testified that he undertook efforts to eliminate the reverse royalty given that the royalties Incyte paid to Novartis on U.S. JAK Sales were "the largest royalties we paid." Ex. 262 ("H. Hoppenot Tr.") at 253:11-254:12. He testified that he "was trying to . . find . . . a way to" "agree on an exchange of value" with Novartis, "in such a way that the P&L for Incyte [would] be improved." *Id.* at 243:13-244:8. Ms. Gallagher testified that she understood that Incyte's payment of reverse royalties "negatively impacted earnings per share. It was something that Herve [Hoppenot] negotiated in when he was at Novartis and repeatedly tried to negotiate out when he went to Incyte." Gallagher Dep. Tr. at 146:12-20. And she testified that 2014 was "the earliest date that [she was] aware of" that Incyte sought to, in counsel's words, "negotiat[e] away the reverse royalty," although she did not "know the earliest date" exactly. *Id.* at 142:9-24.

The parties ultimately agreed to add GVHD indications to the Agreement through Amendment No. 4, entered into as of April 5, 2016. Novartis's SUMF ¶ 392. While Amendment No. 4 did not affect the reverse royalties—"because this 'reverse' royalty was 'too valuable' to Novartis"—Novartis did agree to make additional upfront and GVHD-specific milestone payments to Incyte over time. *Id.* ¶ 393.

Through the summer of 2016, the parties continued considering modifications to the Agreement—now regarding the c-MET Program. This included an internal Novartis email stating that, according to a Novartis representative, one "possibility suggested by Herve [Hoppenot] [was] to give Incyte some relief from Jakavi US royalties from 2019 onward," in exchange for Incyte potentially investing in Novartis's development efforts relating to the c-MET Program. *Id.* ¶ 394. Some internal Incyte presentations from this time appear to

depict the reverse royalty continuing for a number of years, while others indicated that the then-current value of royalties owed totaled a significant sum. *See, e.g.*, Ex. 178 at slides 3–4 (depicting positive values in columns through 2027 in a slide entitled "ENPV of Royalties to Novartis," where the chart's row is entitled "Current Agreement (Reverse Royalty)"); *id.* (showing reductions "starting in 2019" under an "Incyte Proposal"); Ex. 176 at slide 13 (containing a similar chart, distributed internally at Incyte via a June 2016 email from Mr. Mikkelson, with the subject line "c-MET Investment"). Ultimately, "[t]he reverse royalty was not revised based on potential capmatinib revision to our agreement." Mikkelson Dep. Tr. at 226:2-12; *see also id.* at 219:14-23 ("[T]he cMET inhibitor lead compound is known as capmatinib . . . .").

E. Post-Agreement Internal Discussions

Shelley Sun, of Novartis's Oncology BD&L Finance team, testified that when she performed financial modeling after the Agreement was signed in 2009, she used patent expiration dates in calculating the reverse royalty duration because her understanding was that "[b]ased on the contract," Novartis's "royalty will extend all the way until at least" 2027 or 2028, the patent expiration date, given that "patent expiration . . . is the longer of the three conditions for the royalty terms." Ex. 274 ("S. Sun Tr.") at 89:6-25. She testified that she did not know whether the patents that she referred to as expiring in either 2027 or 2028 were Incyte's or Novartis's. *Id.* at 90:5-90:21.[122] She also testified that her models did not take into account mechanisms by which royalty obligations may be reduced. *Id.* at 92:3-92:13.

[122] And when asked if she ever "looked at and [] formed an independent opinion of when the expiration of Incyte's relevant ruxolitinib patents were[,]" she testified that it was not "the function of [her] finance role to do that." *Id.* 91:11-91:18.

An internal Novartis email chain indicates that in January 2011, Novartis conducted one of its annual impairment reviews. Ex. 180 at 2. Ms. Jose testified that an "impairment review" involves Novartis "evaluat[ing] whether the future cash flows will hold the book value of [their] intangible asset." *See* Jose Dep. Tr. at 18:10-14, 23:5-24:9, 52:7-10.[123] An internally distributed slide deck entitled "Incyte (JAK-2) Impairment Evaluation – Year End 2010" listed as among the "[p]arameters used" the "[e]nd of patent life: 2026." Ex. 180 at 2, 6, 12. Ms. Sun circulated internally some potential answers to questions in a document entitled, "Incyte Impairment Review – November 2011 review." Ex. 181 at 2–3. This document stated: "Why do royalties received stop in 2026? . . . Royalty terms stops [*sic*] at patent expiration[.]" *Id.* at 6. In September of 2013, Ms. Jose received a slide deck entitled "Novartis Intangible Impairment Evaluation – 2013," which included a slide marked "INC424 Impairment Evaluation 2013;" this slide stated in the "[e]xecutive summary" that the "[i]mpairment [r]isk [was] assessed as LOW . . . ." Ex. 182 at 2–4.

In looking at a slide deck sent from Mr. Gayer to Mr. Hoppenot and others at Incyte in August 2018, Mr. Gayer observed that the forecast does not, in counsel's words, "reflect Incyte's invocation of a step down at any point from 2018 through 2031," although Mr. Gayer clarified that "that's not really the purpose of this. This is a forecast model." Gayer Dep. Tr. at 102:3-106:14;[124] *see also* Ex. 196. A "[f]orecast" of "reverse royalties for Jakafi" sent from Mr. Gayer to an Incyte colleague on May 9, 2019 included a chart listing, for the years 2019 through 2028, a "fcst" of positive values under the column entitled "Reverse Royalty." Ex. 197 at 3.

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[123] "Ms. Jose testified that a 'low' impairment risk at Novartis meant that 'the value of the intangible asset at the current value, future cash flow value is higher than what is in the book, so there is no risk of writing off any of those value.'" Novartis's SUMF Response ¶ 1543 (citation omitted).

[124] Mr. Gayer continued: "There is nothing else that this is used for. It's a forecast and forecasts change. So it's just a calculation. The reverse royalty is just a formula calculated off of the net sales, and it's just a forecast. There is nothing inferred by that calculation. It's just a simple formula." *Id.*

F. Jakafi Receives FDA Approval

On November 16, 2011, the FDA approved Jakafi for marketing and sale in the United States to treat patients with myelofibrosis, Jakafi's first medical indication. Novartis's SUMF ¶ 308; Incyte's SUMF ¶ 1010. In so doing, the FDA provided to Incyte an orphan drug designation ("ODE") for myelofibrosis, which granted Incyte "a seven year exclusive marketing period in the United States" for the ODE, set to expire November 16, 2018. Novartis's SUMF ¶ 309. Jakafi became Incyte's first commercial drug product, and Incyte reported that the FDA's approval of Jakafi was "based on results from two randomized Phase III clinical trials," one conducted by Incyte and another by Novartis. *Id.* ¶¶ 310–12. The parties agree that the "First Commercial Sale" of Jakafi in the U.S., as defined in the Agreement, happened on November 17, 2011—such that the ten-year anniversary of its first sale under the Agreement was November 17, 2021. *Id.* ¶ 313; Incyte's SUMF ¶ 1103.[125]

Following another clinical trial, jointly conducted by Incyte and Novartis, the FDA approved Jakafi for its second indication—to treat patients with polycythemia vera—on December 4, 2014. Novartis's SUMF ¶¶ 314–16; Incyte's SUMF ¶ 1012. The FDA granted Jakafi additional regulatory exclusivities, including ODE status for the polycythemia vera indication, which expired on December 4, 2021. Novartis's SUMF ¶ 316. "On February 26, 2016, Incyte received a Paragraph IV certification notice regarding an Abbreviated New Drug Application . . . submitted to FDA requesting approval to market a generic version of Jakafi," Novartis's SUMF Response ¶ 1442, which "specifically stated that the generic

[125] The parties also agree that they are unaware of any U.S. patent that was obtained by both Novartis and Incyte that covers Jakafi as currently approved and sold in the U.S. *See* Novartis's Request for Admission Response Nos. 85 and 86 (stating as much and denying "any suggestion that any such Joint IP is necessary for Novartis to continue receiving royalty payments from Incyte at the Incyte Reverse Royalty Rates until the expiration of Incyte's last-to-expire U.S. patent covering Jakafi as sold in the U.S. (at least [through] 2028)"); Incyte's SUMF ¶ 1112 (interpreting the lack of such a patent as suggesting that "[t]here are no, and have never been, patent rights forming part of the Joint IP applicable to Incyte's U.S. Sales of Jakafi® under the Agreement").

manufacturer would not be challenging Incyte's Compound Patent expiring on December 24, 2027," *id.* ¶ 1444.[126] But Incyte's 2016 Form 8-K reported receipt of a notice letter "requesting approval to market a generic version of Jakafi," which "purport[ed] to challenge patents covering ruxolitinib phosphate and its use that expire in 2028." Ex. 1183 at 2 (native).

On May 24, 2019, Jakafi was approved for its third indication, to treat steroid-refractory acute GVHD. Novartis's SUMF ¶ 317; Incyte's SUMF ¶ 1013. This approval was based on clinical trials, some of which were "collaborative" and "Novartis-sponsored;" and it came with additional regulatory exclusivities, including ODE status for the GVHD indication, which expires on May 24, 2026. Novartis's SUMF ¶ 317. The FDA approved Jakafi for its fourth indication, to treat a certain type of chronic GVHD, on September 22, 2021. *Id.* ¶ 318. According to an Incyte press release, this, too, followed a study "co-sponsored by Novartis and Incyte . . . ." *Id.* ¶ 319. And the FDA "granted Jakafi additional regulatory exclusivities, including ODE status expiring seven (7) years after FDA approval, i.e., on September 22, 2028." *Id.* ¶ 318.

One of the patents for the kinase inhibitor was issued on May 13, 2014. *See* Ex. 139.[127] The U.S. Patent and Trademark Office granted this patent application and issued this

[126] As a result, "Incyte elected not to file a lawsuit against that generic manufacturer within the requisite 45-day period as 'to file suit now would not have any meaningful benefit to Incyte in terms of the timing if a generic entrant.'" *Id.* ¶ 1446. And "Incyte has recently advised the SEC, its investors, and the public that to its knowledge, FDA has taken no action with respect to the ANDA referenced by the Generic Approval Request Notice Letter." *Id.* ¶ 1448.

[127] Novartis contends that this patent "cover[s] Jakafi in the United States," Novartis's SUMF ¶ 321, a characterization which Incyte disputes as "not supported by the evidence," Incyte's SUMF Response ¶ 321; *see also* Ex. 139. Incyte does not dispute that this patent, "titled 'Salts of the Janus kinase inhibitor . . . ' was issued on May 13, 2014 . . . ." Incyte's SUMF Response ¶ 321. Incyte also does not dispute a later proposition in Novartis's SUMF regarding this patent, noting that some materials filed "in support of [this patent's] application" were "cited for the proposition that Jakafi was superior to the best available therapies in treating myelofibrosis." *See* Novartis's SUMF ¶ 325; Incyte's SUMF Response ¶ 325.

patent following materials submitted to it that included, among other things, references to clinical trials relating to Jakafi to which Novartis directly contributed. *Id.* ¶¶ 326–27.

G. Regulatory Exclusivity Endpoint and Invocation of the Stepdown

Section 8.4 of the Agreement provides that the royalty-payer must provide to the royalty-receiver a quarterly report describing, among other things, the calculation of the royalties due and the method used to calculate the royalties for that time period. *See* Agreement § 8.4. The royalty-receiver then has fifteen days to issue an invoice for that payment. *See id.*[128]

On February 13, 2019, the parties' Joint Intellectual Property Committee ("JIPC") held a meeting, the agenda for which did not include any express references to the Stepdown Provision or its coming invocation. *See* Ex. 201 at 2–3; Gallagher Dep. Tr. at 218:24-220:15 (testifying that Incyte's potential invocation of this provision was never discussed at any JIPC meeting she attended, nor did she hear of it being discussed at any JIPC meeting she did not attend).[129]

On May 1, 2019, Incyte sent to Novartis its first quarter report for Jakafi royalties, attaching a spreadsheet that listed "Jakafi Net Sales, as reported" and a "Total Due to NVS" sum. *See* Ex. 198 at 2, 4. Novartis then sent an invoice for Q1 2019 reporting the same total owed. *See* Ex. 199 at 2. Incyte then sent to Novartis a revised version of the Q1 2019

[128] Before 2019, neither Novartis nor Incyte invoked a stepdown of either side's royalty payments pursuant to Section 8.3(c). *See* Incyte's SUMF ¶ 1096. Ms. Gallagher testified that she "believe[d that] around th[e] time" of May 2019, Novartis implemented a stepdown of its royalty payments for its ex-U.S. sales "in certain countries," and this was done "after several times of trying to discuss it with Incyte and confirming we had the accurate numbers." *See* Gallagher Dep. Tr. at 199:6-20. After Novartis "rais[ed] the issue of potentially invoking the Step Down" for its own royalty payments "in certain ex-U.S. countries and sending Incyte its 'royalty calculation spreadsheet' in 2019, Novartis representatives continued to follow up with their Incyte counterparts, requesting that Incyte advise if it agreed with Novartis' calculations." *See* Novartis's SUMF Response ¶ 1570. An email exchange from an Incyte representative to Novartis representatives from May 2020 states: "Incyte does not recognize any reductions to current royalties that Novartis purports to make . . . . Nothing in Section 8.3(c) . . . authorizes Novartis to take such action." Ex. 1066 at 4.

[129] *See also* Ex. 202 ("B. Benner Tr.") at 86:3-87:10 (Incyte's alliance manager in 2019 for the Incyte-Novartis relationship, Blake Benner, testifying that he did not recall any committee meeting he attended where the parties discussed the reverse royalty or the Stepdown Provision).

royalty report, disclosing the same amount in "Jakafi Net Sales, as reported," but instead listing a "Total Due to NVS" amount that totaled 50% of the number listed in the earlier report. *Compare* Ex. 200 at 2, 5 *with* Ex. 199 at 2. Incyte's Mr. Trower's cover email, dated May 16, 2019 and attaching this revised report, stated:

> We have been made aware that pursuant to Section 8.3(c) of the [Agreement] . . . , the royalty rates under section 8.3(b)(i) are reduced by 50%. This reduction in royalties is triggered by the expiration of the Regulatory Exclusivity, as described in the Agreement, for Jakafi in the United States which occurred November 2018. Per section 8.3(c), the Royalty Term continues solely due to clause 8.3(c)(ii).

Ex. 200 at 2. On June 17, 2019, Incyte sent the reduced royalty payment to Novartis by wire transfer. Incyte's SUMF ¶ 1085.

Novartis representatives testified to their shock regarding Incyte's invocation of the Stepdown Provision in Q1 2019.[130] Ms. Gallagher, Novartis's alliance manager for the collaboration, "emailed several colleagues at Novartis, describing her surprise in receiving the Revised May 2019 Royalty Report and Step Down Notice and noting the following: 'What I do know is that Herve [Hoppenot] has been trying to get rid of the back royalty in nearly every negotiation we have had – negatively impacts his P&L and we have not been willing to give this up.'" Novartis's SUMF ¶ 438 (citation omitted). Ms. Gallagher emailed her Incyte alliance manager counterpart, Mr. Benner, "noting that Novartis was 'very surprised to see this [correspondence], and the interpretation' of the Agreement set forth by Incyte therein, and requested a call to discuss." *Id.* ¶ 439 (citation omitted).[131]

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[130] *See, e.g.*, Gallagher Dep. Tr. at 67:8-68:21 (testifying that "we were all extremely surprised" after Incyte invoked the stepdown); *id.* at 184:10-22 (testifying that "we were very surprised to receive this e-mail and it was . . . very disappointing because it wasn't in line with the nature of how our relationship was operating for almost a decade"); *id.* at 185:6-21 (commenting on "the absence of any information, any heads up, any discussion in advance in terms of what or why or any rational [*sic*] leading into implementing the stepdown," which "came as a complete surprise and [was] not in the spirit of how our collaboration ha[d] operated for ten years").

[131] Mr. Benner answered "yes" when asked whether he found "out that Incyte invoked the step-down after it already happened;" and he testified that he was not, in counsel's words, "involved in Incyte's decision" to do so. Benner Dep. Tr. at 41:15-41:21.

In June of 2019, Ms. Gallagher emailed her colleagues about "a call [she had taken] with [her] Incyte counter-part and subsequently their Head of [Alliance Management, a/k/a] AM regarding the US royalty situation." Novartis's SUMF ¶ 441 (internal quotation marks and citation omitted). "In the email, Ms. Gallagher explained . . . that she emphasized to the Incyte representatives 'that [Novartis was] very surprised and disappointed by the approach taken, as it was viewed as highly un-collaborative,' and that Incyte's representatives on the call 'apologized for how this played out' and 'indicated this was a finance / legal led initiative, which was done in isolation.'" *Id.* (citation omitted). Ms. Gallagher testified that Novartis was "not happy with the way in which there was no forewarning, no discussion, no ability to have that discussion" regarding Incyte's invocation of the Stepdown Provision. *See* Gallagher Dep. Tr. at 185:22-186:15. She added: "again, it's the nature of cooperation. If there is a major financial change that is going to take place, both parties would have that discussion and bring it forward first." *Id.* at 185:22-186:15. She stated that "[t]he Novartis team would have expected a significant amount of discussion, rationale, courtesy, professional courtesy before implementing something so significant so much earlier than either party had anticipated it would be put forward." *Id.* at 189:19-190:4.

On June 18, 2019, a Novartis representative, Tatjana Pisareva, responded to Mr. Trower's May 16 email, stating that "Novartis respectfully disagrees with the 50% reduction in royalty rates under Section 8.3(b)(i);" and explaining that, "[a]side from patent protection . . . which runs through June 12, 2028 . . . there are multiple unexpired Regulatory Exclusivities under 8.3(c)(iii) covering Jakafi in the U.S." Novartis's SUMF ¶ 443 (internal quotation marks and citation omitted). "Ms. Pisareva stated that Novartis is entitled to continue to 'receive the full royalty rate under 8.3(b)(i).'" *Id.* (citation omitted). Three days later, Mr. Trower responded, "reiterat[ing Incyte's position] that the royalty rates under

section 8.3(b)(i) are reduced by 50%." *Id.* ¶ 444 (quoting Ex. 1064 at 2). Mr. Trower wrote: "we [Incyte] ask that you [Novartis] provide the basis for your view on applicable patent protection under Section 8.3(c)(i). As you know, the royalties due under Section 8.3(c) are based on Patent Rights that are licensed to the other party. As there are no Novartis Patent Rights Covering the Jakafi® product, Section 8.3(c)(i) does not extend the royalty term." Ex. 1064 at 2.

Each party's General Counsel then engaged in discussions in July 2019, in accordance with Section 13.1 of the Agreement; and Novartis escalated the dispute to the Executive Officer level, by correspondence dated August 21, 2019. Novartis's SUMF ¶ 445; *see also* Agreement § 13.1.

Each subsequent quarterly report, from Q2 2019 through Q4 2021, provided by Incyte likewise invoked the 50% reduction in Incyte's reported estimated "Total Due" reverse royalty payments. *See* Exs. 208, 210, 212, 214, 216, 218, 220, 222, 224, 226, 228.[132] For each quarter from Q2 2019 through Q3 2021, Novartis subsequently sent Incyte invoices for royalty payments at the full royalty rates, without any 50% reduction. *See* Exs. 209, 211, 213, 215, 217, 219, 221, 223, 225, 227, 229. The Q4 2021 invoice also reported a very significant sum that Novartis stated that "[a]ccording to [Novartis's] information[, Incyte] owe[s]" them, "which represent[s] Q4 2021 and [all] outstanding" quarters of 2019, 2020, and 2021. *See* Ex. 229 at 2.

Both Jakafi and Jakavi have been highly lucrative over this period. According to Incyte's 10-K forms for the 2011 to 2021 fiscal years, Jakafi sales in the U.S. totaled $2 million in 2011, skyrocketing to $2.135 billion in 2021. *See* Novartis's SUMF ¶ 474. Incyte

[132] For Q4 2021, the royalty report's chart is entitled "Jakafi Net Sales, as reported (1)," where footnote 1 reads "Net sales recorded from October 1, 2021 – November 17, 2021." *See* Ex. 228 at 3.

has paid Novartis over $200 million in royalties on U.S. sales of Jakafi since Q4 2014. *See* Incyte's SUMF ¶ 1104. And Novartis's net sales for Jakavi sum to over $7 billion from 2012 through 2021. *See* Incyte's SUMF ¶ 1106.

On January 18, 2022, an Incyte representative emailed a Novartis representative asserting Incyte's position that "on November 17, 2021, the 10 year anniversary of the first product sale occurred and in accordance with section 8.3(c) of the . . . Agreement, royalties are no longer payable on sales of Jakafi after that date." Ex. 130 at 2.

D. Procedural History

Novartis filed its complaint on January 15, 2020, contending that Incyte had breached the parties' contract, and seeking a declaratory judgment requiring repayment of the "delayed royalty payments," with interest. Dkt. No. 1 ¶ 7; *id.* at 20 (native). On April 20, 2020, Incyte moved to dismiss Novartis's complaint. *See* Dkt. No. 32. On February 18, 2021, the Court issued a memorandum opinion and order on Incyte's motion to dismiss. Dkt. Nos. 50, 52 (the "MTD Ruling").[133] In the MTD Ruling, the Court concluded that (1) "Incyte's 'Regulatory Exclusivity' over Jakafi has expired," *id.* at 14; and (2) "the 'relevant' 'Licensed Patent Rights' are not unambiguously limited to Novartis Patent Rights," *id.* at 19. Thus, "[b]ecause clause (i) of Section 8.3(c) of the Agreement suggests more than one meaning," the Court concluded that "that provision of the Agreement is ambiguous, and Incyte's motion to dismiss must be denied." *Id.* at 24.

On October 21, 2022, Novartis and Incyte filed cross-motions for summary judgment, Dkt. Nos. 175, 176, accompanied by statements of undisputed material fact (referred to herein as each party's "SUMF"), responses/counterstatements thereto (referred to as each party's "SUMF Response"), and responses to the counterstatements (referred to as each party's "SUMF Reply"),

[133] The MTD Ruling was corrected on February 22, 2021, *see* Dkt. No. 52, to "correct[] a single typographical error [that] does not substantively modify the opinion," *see* Dkt. No. 51.

Dkt. Nos. 190, 259, 299, 180, 271, 296. Each motion is fully briefed. *See* Dkt. Nos. 177, 185, 256, 268, 287, 294. On October 10, 2023, the Court upheld an order by the magistrate judge regarding the clawing back of a document originally filed in connection with the motions for summary judgment. *See* Dkt. No. 340. The parties refiled many of their affected materials in turn. *See, e.g.*, Dkt. Nos. 409–10, 412, 415, 421–24.

Each side additionally moved to exclude the proposed expert testimony of four designated experts: Novartis's Dr. Linda Pullan and Larry Tedesco, and Incyte's Peter Lankau and Dr. Mohan Rao. *See* Dkt. Nos. 157, 160, 167, 170. The Court's *Daubert* rulings regarding those four experts is filed contemporaneously with this opinion.

II. LEGAL STANDARD

A. Motion for Summary Judgment

Summary judgment is appropriate when "the movant shows that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(a); *see also Celotex Corp. v. Catrett*, 477 U.S. 317, 322 (1986) ("[S]ummary judgment is proper 'if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law.'" (quoting former Fed. R. Civ. P. 56(c))). A genuine dispute exists where "the evidence is such that a reasonable jury could return a verdict for the nonmoving party," while a fact is material if it "might affect the outcome of the suit under the governing law." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). "Factual disputes that are irrelevant or unnecessary will not be counted." *Id.*

The movant bears the initial burden of demonstrating "the absence of a genuine issue of material fact," and, if satisfied, the burden then shifts to the non-movant to present "evidence sufficient to satisfy every element of the claim." *Holcomb v. Iona Coll.*, 521 F.3d 130, 137 (2d Cir.

2008) (citing *Celotex*, 477 U.S. at 323). To defeat a motion for summary judgment, the non-movant "must come forward with 'specific facts showing that there is a genuine issue for trial.'" *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587 (1986) (quoting former Fed. R. Civ. P. 56(e)). "The mere existence of a scintilla of evidence in support of the [non-movant's] position will be insufficient; there must be evidence on which the jury could reasonably find for the [non-movant]." *Anderson*, 477 U.S. at 252. Moreover, the non-movant "must do more than simply show that there is some metaphysical doubt as to the material facts," *Matsushita*, 475 U.S. at 586 (citations omitted), and she "may not rely on conclusory allegations or unsubstantiated speculation," *Fujitsu Ltd. v. Fed. Express Corp.*, 247 F.3d 423, 428 (2d Cir. 2001) (internal quotation marks and citation omitted).

In determining whether there exists a genuine dispute as to a material fact, the Court is "required to resolve all ambiguities and draw all permissible factual inferences in favor of the party against whom summary judgment is sought." *Johnson v. Killian*, 680 F.3d 234, 236 (2d Cir. 2012) (quoting *Terry v. Ashcroft*, 336 F.3d 128, 137 (2d Cir. 2003)). The Court's job is not to "weigh the evidence or resolve issues of fact." *Lucente v. Int'l Bus. Machs. Corp.*, 310 F.3d 243, 254 (2d Cir. 2002) (citation omitted); *see also Hayes v. N.Y.C. Dep't of Corr.*, 84 F.3d 614, 619 (2d Cir. 1996) ("In applying th[e] [summary judgment] standard, the court should not weigh evidence or assess the credibility of witnesses."). "Assessments of credibility and choices between conflicting versions of the events are matters for the jury, not for the court on summary judgment." *Jeffreys v. City of New York*, 426 F.3d 549, 553 (2d Cir. 2005) (citation omitted).

"When confronted with cross-motions for summary judgment, the Court analyzes each motion separately, 'in each case construing the evidence in the light most favorable to the non-moving party.'" *Peterson v. Kolodin*, No. 13-cv-793, 2013 WL 5226114, at *1 (S.D.N.Y. Sept. 10, 2013) (quoting *Novella v. Westchester Cnty.*, 661 F.3d 128, 139 (2d Cir. 2011)); *see also Morales v. Quintel Entm't, Inc.*, 249 F.3d 115, 121 (2d Cir. 2001) ("[E]ach party's motion must be examined on its own merits,

and in each case all reasonable inferences must be drawn against the party whose motion is under consideration.") (citation omitted). The Court is not required to resolve the case on summary judgment merely because both parties move for summary judgment. *Morales*, 249 F.3d at 121.

B. Contract Interpretation Under New York Law

The Agreement is governed by New York law. Agreement § 14.1. Under New York law, "[w]hen interpreting a contract, our 'primary objective . . . is to give effect to the intent of the parties as revealed by the language of their agreement.'" *Chesapeake Energy Corp. v. Bank of N.Y. Mellon Tr. Co.*, 773 F.3d 110, 113–14 (2d Cir. 2014) (quoting *Compagnie Financiere de CIC et de L'Union Europeenne v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 232 F.3d 153, 157 (2d Cir. 2000)). "The words and phrases in a contract should be given their plain meaning, and the contract should be construed so as to give full meaning and effect to all of its provisions." *Id.* at 114 (quoting *Olin Corp. v. Am. Home Assur. Co.*, 704 F.3d 89, 99 (2d Cir. 2012) (internal quotation marks and brackets omitted)).

As a "threshold question," courts must consider if "the terms of the contract are ambiguous." *Alexander & Alexander Servs., Inc. v. These Certain Underwriters at Lloyd's*, 136 F.3d 82, 86 (2d Cir. 1998) (citations omitted). "Whether or not a writing is ambiguous is a question of law to be resolved by the courts." *Orlander v. Staples, Inc.*, 802 F.3d 289, 294 (2d Cir. 2015) (quoting *W.W.W. Assocs., Inc. v. Giancontieri*, 77 N.Y.2d 157, 162 (1990)). "Ambiguity is determined by looking within the four corners of the document, not to outside sources." *CVS Pharmacy, Inc. v. Press Am., Inc.*, 377 F. Supp. 3d 359, 374 (S.D.N.Y. 2019) (quoting *JA Apparel Corp. v. Abboud*, 568 F.3d 390, 396 (2d Cir. 2009)); *see also Brad H. v. City of New York*, 17 N.Y.3d 180, 186 (2011) ("Ambiguity is determined within the four corners of the document; it cannot be created by extrinsic evidence that the parties intended a meaning different than that expressed in the agreement . . . .").

Courts consider a contract unambiguous when it has "a definite and precise meaning, unattended by danger of misconception . . . and concerning which there is no reasonable basis for a

difference of opinion." *Seiden Assocs., Inc. v. ANC Holdings, Inc.*, 959 F.2d 425, 428 (2d Cir. 1992) (quoting *Hunt Ltd. v. Lifschultz Fast Freight, Inc.*, 889 F.2d 1274, 1277 (2d Cir. 1989)). Conversely, "[a] contract is ambiguous under New York law if its terms could suggest more than one meaning when viewed objectively by a reasonably intelligent person who has examined the context of the entire integrated agreement and who is cognizant of the customs, practices, usages and terminology as generally understood in the particular trade or business." *Orchard Hill Master Fund Ltd. v. SBA Commc'ns Corp.*, 830 F.3d 152, 156–57 (2d Cir. 2016) (quoting *Chesapeake Energy Corp.*, 773 F.3d at 114). "The language of a contract . . . is not made ambiguous simply because the parties urge different interpretations." *Oppenheimer & Co. v. Trans Energy, Inc.*, 946 F. Supp. 2d 343, 348 (S.D.N.Y. 2013) (internal quotation marks omitted) (quotation omitted).

Courts analyze ambiguity using the "normal rules of contract interpretation: words and phrases should be given their plain meaning and a contract should be construed as to give full meaning and effect to all of its provisions." *Orchard Hill*, 830 F.3d at 157 (internal quotation marks omitted) (quoting *Orlander*, 802 F.3d at 295); *see also Brad H.*, 17 N.Y.3d at 185 ("To determine whether a writing is unambiguous, language should not be read in isolation because the contract must be considered as a whole."). But a court applying New York law "may neither rewrite, under the guise of interpretation, a term of the contract when the term is clear and unambiguous, nor redraft a contract to accord with its instinct for the dispensation of equity upon the facts of a given case." *Bank of N.Y. Mellon v. WMC Mortg., LLC*, 12-cv-7096 (DLC), 2015 WL 2449313, at *2 (S.D.N.Y. May 22, 2015) (quoting *Cruden v. Bank of N.Y.*, 957 F.2d 961, 976 (2d Cir. 1992)). Rather, "a written agreement that is complete, clear and unambiguous on its face must be enforced according to the plain meaning of its terms." *MHR Cap. Partners LP v. Presstek, Inc.*, 12 N.Y.3d 640, 645 (2009) (quotation omitted).

In New York, "[w]hile the meaning of a contract is ordinarily a question of law, when a term or clause is ambiguous and the determination of the parties' intent depends upon the credibility of extrinsic evidence or a choice among inferences to be drawn from extrinsic evidence, then the issue is one of fact." *Amusement Bus. Underwriters, a Div. of Bingham & Bingham, Inc. v. Am. Int'l Grp., Inc.*, 66 N.Y.2d 878, 880 (1985); *see also JA Apparel*, 568 F.3d at 397 ("[W]here the contract language creates ambiguity, extrinsic evidence as to the parties' intent may properly be considered." (citing, *inter alia*, *Seiden*, 959 F.2d at 429 (stating that where a contract is ambiguous, "extrinsic evidence may properly be considered in the search for the contracting parties' intent")); *CNH Indus. N.V. v. Reese*, 583 U.S. 133, 139 (2018) (similar). "Where there is such extrinsic evidence, the meaning of the ambiguous contract is a question of fact for the factfinder." *JA Apparel*, 568 F.3d at 397.

Moreover, "a motion for summary judgment may be granted in a contract dispute only when the contractual language on which the moving party's case rests is found to be wholly unambiguous and to convey a definite meaning. Ambiguity here is defined in terms of whether a reasonably intelligent person viewing the contract objectively could interpret the language in more than one way." *Topps Co. v. Cadbury Stani S.A.I.C.*, 526 F.3d 63, 68 (2d Cir. 2008) (citing *Compagnie Financiere*, 232 F.3d at 157–58; *Sayers v. Rochester Tel. Corp. Supplemental Mgmt. Pension Plan,* 7 F.3d 1091, 1095 (2d Cir. 1993)); *see also Seiden*, 959 F.2d at 428 ("When the question is a contract's proper construction, summary judgment may be granted when its words convey a definite and precise meaning absent any ambiguity.").

"Where the language used is susceptible to differing interpretations, each of which may be said to be as reasonable as another, and where there is relevant extrinsic evidence of the parties' actual intent, the meaning of the words become an issue of fact and summary judgment is inappropriate, since it is only when there is no genuine issue as to any material fact that the moving

party is entitled to judgment as a matter of law." *Seiden Assocs.*, 959 F.2d at 428 (citing *Heyman v. Commerce and Industry Co.*, 524 F.2d 1317, 1320 (2d Cir. 1975); *Painton v. Company & Bourns, Inc.*, 442 F.2d 216, 233 (2d Cir. 1971)); *see also Postlewaite v. McGraw-Hill, Inc.*, 411 F.3d 63, 67 (2d Cir. 2005) ("[S]ummary judgment when interpreting a contract may be granted only when 'the intent of the parties can be ascertained from the face of their agreement.' 'However, when the meaning of the contract is ambiguous and the intent of the parties becomes a matter of inquiry, a question of fact is presented which cannot be resolved on a motion for summary judgment.'" (citations omitted)); *Luitpold Pharms., Inc. v. Ed. Geistlich Sohne A.G. Fur Chemische Industrie*, 784 F.3d 78, 87–88 (2d Cir. 2015) ("Because facial ambiguity in a contract will require the factfinder to examine extrinsic evidence to determine the contract's effect, and because such extrinsic evidence is most often mixed, a court generally will not grant summary judgment on a contract claim when the operative language is ambiguous.").

Thus, where a court finds that the contract language is ambiguous, "summary judgment may be granted only if the ambiguities may be resolved through extrinsic evidence that is itself capable of only one interpretation, or where there is no extrinsic evidence that would support a resolution of these ambiguities in favor of the nonmoving party's case." *Topps Co.*, 526 F.3d at 68 (citing *Compagnie Financiere*, 232 F.3d at 158); *see also New York Marine & Gen. Ins. Co. v. Lafarge N. Am., Inc.*, 599 F.3d 102, 115 (2d Cir. 2010) ("Although a determination that a contract is ambiguous ordinarily requires denial of summary judgment, the court may nonetheless grant summary judgment where the extrinsic evidence illuminating the parties' intended meaning of the contract is 'so one-sided that no reasonable person could decide to the contrary.'" (quoting *Compagnie Financiere*, 232 F.3d at 158).

III. DISCUSSION

A. The "Relevant" "Licensed Patent Rights" Are Ambiguous

1. The Meaning of "Licensed Patent Rights"

The Court reiterates its holding in the MTD Ruling that "the term 'Licensed Patent Rights' as used in clause (i) of Section 8.3(c) of the Agreement is ambiguous." MTD Ruling at 24. Both of the parties' proposed constructions of the term impermissibly ask the Court to rewrite the contract where the contract's text is unclear. To recall, below is the text of the relevant portion of Section 8.3(c) of the Agreement:

> Royalties payable under this Section 8.3 shall be paid by the applicable Party on a Licensed Product-by-Licensed Product and country-by-country basis from the date of First Commercial Sale of each Licensed Product with respect to which royalty payments are due for a period which is the longer of: (i) the last to expire of any Valid Claim of Licensed Patent Rights Covering such Licensed Product in such country . . . .

Agreement § 8.3(c). Section 1.67 provides the definition of "Licensed Patent Rights":

> "Licensed Patent Rights" means with respect to the Patent Rights licensed to Novartis hereunder, the Incyte Patent Rights and with respect to the Patent Rights licensed to Incyte hereunder, the Novartis Patent Rights. In each case, Patent Rights forming part of the Joint IP shall be included, as applicable, in the Incyte Patent Rights and Novartis Patent Rights.

Id. § 1.67 (underscore in original). Below is the language from Section 8.3(c), substituting the meaning of the defined term of "Licensed Patent Rights" in its place:

> Royalties payable under this Section 8.3 shall be paid by the applicable Party on a Licensed Product-by-Licensed Product and country-by-country basis from the date of First Commercial Sale of each Licensed Product with respect to which royalty payments are due for a period which is the longer of: (i) the last to expire of any Valid Claim of [[A] *with respect to the Patent Rights licensed to Novartis hereunder,* the Incyte Patent Rights **and** [B] *with respect to the Patent Rights licensed to Incyte hereunder,* the Novartis Patent Rights] Covering such Licensed Product in such country . . . .

Id. § 8.3(c) (with emphases added and demarcations "[A]" and "[B]" added for clarity of discussion).

Novartis asks the Court to excise the italicized portion of the above, such that § 1.67 would effectively define "Licensed Patent Rights" as "the Incyte Patent Rights and . . . the Novartis Patent

Rights." That is, for the two cases demarcated "[A]" and "[B]" in the modified excerpt above, Novartis asks the Court to conclude that the two cases apply simultaneously in relation to Jakafi.

Incyte, in turn, asks the Court to excise the bolded "and" in the above, replacing the conjunctive "and" with a disjunctive "or," such that in the case of U.S. sales of Jakafi, the Stepdown Provision of Section 8.3(c) would be triggered by the expiration of any Novartis Patent Rights, *and not* the expiration of any Incyte Patent Rights.[134] In other words, Incyte asks the Court to find that the two cases demarcated "[A]" and "[B]" are mutually exclusive in relation to Jakafi.

As the Court stated in its ruling on the motion to dismiss:

> The contract does not say that the only Patent Rights relevant to Incyte's U.S. sales of Licensed Products are Novartis Patent Rights. It might have, but it does not. In their absence, Incyte fills those words into the contract based on its stated commercial expectations. Thus, as Novartis argues, Incyte's interpretation of the term "Valid Claim of Licensed Patent Rights," as applied, inserts "additional limitations into Section 8.3(c) that are not set forth in the Agreement."

MTD Ruling at 22 (citation omitted). Attempts to "build in terms that would qualify or modify the term . . . under the Agreement" are improper on summary judgment, as "[t]he Court will not add a qualifying term to the contract." *See Mergers & Acquisition Servs., Inc. v. Eli Glob., LLC*, No. 1:15-CV-3723-GHW, 2017 WL 1157132, at *9 (S.D.N.Y. Mar. 27, 2017) (citing *Riverside S. Plan. Corp. v. CRP/Extell Riverside, L.P.*, 13 N.Y.3d 398, 404 (2009) ("Courts may not 'by construction add or excise terms, nor distort the meaning of those used and thereby make a new contract for the parties under the guise of interpreting the writing.'" (citation omitted)). Nor does the language unambiguously support Novartis's position, which asks the Court to *remove* limitations from Section 8.3(c) as set forth in the Agreement. Both interpretations are plausible; neither is mandated by the

[134] *See* Incyte's Mem. at 3 (arguing that "[i]n the context of a royalty from Incyte to Novartis, the relevant Patent Rights are those licensed to Incyte—the Novartis Patent Rights"). Incyte also may have achieved its desired objective by phrasing the two cases with "(a)" and "(b)" demarcations and a semicolon, as the parties did in defining "Novartis Territory" and "Terminated Program," for example. *See* Agreement §§ 1.86, 1.110; *see also* Dkt. No. 410 ("Novartis's Opp'n") at 15–16 (making this argument). Adopting this construction, the clause could have read: "(i) the last to expire of any Valid Claim of (a) with respect to the Patent Rights licensed to Novartis hereunder, the Incyte Patent Rights; and (b) with respect to the Patent Rights licensed to Incyte hereunder, the Novartis Patent Rights . . . ."

text. *See Bank of N.Y. Mellon*, 2015 WL 2449313, at *2 (noting that courts may not "rewrite, under the guise of interpretation, a term of the contract . . . , nor redraft a contract").[135]

Incyte also argues, as it did at the motion-to-dismiss stage, that its interpretation "is further compelled by the second sentence of Section 1.67," the definition of "Licensed Patent Rights." *See* Incyte's Mem. at 16. This sentence again reads:

> In each case, Patent Rights forming part of the Joint IP shall be included, as applicable, in the Incyte Patent Rights and Novartis Patent Rights.

Agreement § 1.67. Incyte argues that "[i]n each case" and "as applicable" "both indicate context-dependent conditions, meaning that the parties contemplated separate cases . . . ." Incyte's Mem. at 16. But these phrases do not unambiguously suggest that the two cases are mutually exclusive, or that only one can be applicable at any given time. In addition, as the Court stated in its ruling on the motion to dismiss:

> The word "any" is important in the analysis of [Section 8.3(c)] as well. Here, too, it means all. But with respect to this provision, that meaning of the word supports Novartis's interpretation of the Agreement. Again, clause (i) refers to "*any* Valid Claim of Licensed Patent Rights *Covering such Licensed Product in such country*." The reference to "any" Valid Claim does not unambiguously support Incyte's position that only one of the two cases ([A] and [B]) embedded in the definition of "Licensed Patent Rights" can apply at any time. Instead, the word can be read to support Novartis's position that Section 8.3(c) should be read to require the expiration of the last of "any" Valid Claim—whether that be a Valid Claim of Incyte Patent Rights or Novartis Licensed Patent Rights

MTD Ruling at 23 (citation omitted).

Nor does Incyte's argument pertaining to "[t]he use of similar grammatical structures elsewhere in the Agreement" suggest an unambiguous interpretation of Section 8.3(c). Incyte's

[135] Incyte further argues that Novartis "could have written Section 8.3(c)(i) to [support its theory] without the need for a unique defined term" by, for example, using "plain language stating that a royalty continues for 'as long as there is market exclusivity' . . . ." Incyte's Mem. at 14. But Incyte could have written the provision to supports its own theory in clearer language, too. That either party "could have" drafted the provision more clearly to support its position in this litigation is evident—but the Court cannot rewrite the contract now. *See, e.g.*, *Eli Glob.*, 2017 WL 1157132, at *9.

Mem. at 17. Here, Incyte looks to the definitions of "Novartis Territory" and "Terminated Program." First, "Novartis Territory" is defined as:

> "Novartis Territory" means (a) with respect to c-MET Licensed Products and c-MET Patent Rights, the entire world; and (b) with respect to JAK Licensed Products and JAK Patent Rights, the entire world other than the Incyte Territory (the "Novartis JAK Territory").

Agreement § 1.82 (underscore in original). Incyte argues that this definition, too, establishes two cases, and that they "are necessarily mutually exclusive, because 'Novartis Territory' cannot mean both the whole world and the whole world except the U.S. at the same time." Incyte's Mem. at 17. But this has no meaningful bearing on the interpretation of Section 8.3(c). Notably, Section 1.82 was structured with the cases clearly demarcated and separated by a semicolon—a grammatical structure differing from that employed in Section 1.67, defining "Licensed Patent Rights." And the substantive argument that these particular two cases—the U.S. and the world beyond the U.S.—are mutually exclusive turns on the substance of the two cases at issue in Section 1.82, not the way in which the section was grammatically structured.

Second, Incyte points to the definition of "Terminated Program" in Section 1.110 of the Agreement—which presents the same analytical issue, and is not sufficiently analogous to the definition of "Licensed Patent Rights" to compel the conclusion that the cases *there* are mutually exclusive, too. *See* Agreement § 1.110 (""Terminated Program' means (a) with respect to the termination of this Agreement with respect to a Program pursuant to Sections 9.2(a), 9.2(b) or 9.2(d), the Program subject to such termination; and (b) with respect to termination of this Agreement in its entirety, both Programs." (underscore in original)).

Nor does Section 7.3(a) of the Agreement render Section 8.3(c) unambiguous. Incyte argues that this provision, which states that "[e]ach shall promptly provide the other Party with written notice reasonably detailing any known or alleged infringement by a Third

Party of *Joint IP, Incyte IP or any Novartis IP*, ... ," should be read to suggest that the parties knew how to "pool" their IP, had done so elsewhere in the Agreement, and could have adopted the same language in Section 8.3(c) if that was the intended effect. *See* Agreement § 7.3(a) (emphasis added); Incyte's Mem. at 18. But the grammatical construction of "Licensed Patent Rights" could have intended to accomplish *either* pooling, as Novartis argues, *or* non-pooling, as Incyte argues. The text simply is not clear one way or the other. Additionally, as Novartis correctly observes in its opposition, "Section 7.3(a) concerns infringement by a '*Third Party*' outside the collaboration and identifies three categories of IP . . . that could be infringed."[136] Dkt. No. 410 ("Novartis's Opp'n") at 18.[137]

Incyte next argues that "[e]ven if . . . 'Licensed Patent Rights' pools the patent rights of both 'cases,' there are still no 'Licensed Patent Rights' that relate to Incyte's Jakafi® product in the U.S." because "the Incyte Patent Rights 'licensed to Novartis hereunder' are limited in scope" and "do not include Jakafi® in the U.S." Incyte's Mem. at 19. Incyte bases this argument on its reading of Section 2.1(b), the "JAK License Grant," which states that:

> . . . Incyte hereby grants Novartis . . . an exclusive (even as to Incyte and its Affiliates), royalty-bearing, non-transferable . . . license, with the right to . . . , under Incyte IP and Incyte's and its Affiliates' interests in Joint IP, to
>
> (i) research, Develop, Commercialize, . . . sell and import JAK Licensed Compounds and JAK Licensed Products in the Novartis JAK Territory in the JAK Field and
>
> (ii) research, Develop, make and have made JAK Licensed Compounds and JAK Licensed Products in the Incyte Territory *for the sole purpose* of using, offering for sale and selling JAK Licensed Products in, and importing JAK Licensed Compounds and JAK Licensed Products into, *the Novartis JAK Territory* in the JAK Field; provided . . .

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[136] "'Third Party' means any Person other than a Party or any of its Affiliates." Agreement § 1.111 (underscore in original).

[137] Novartis also persuasively argues that the use of the word "any" prior to "Novartis IP," but not prior to "Incyte IP," in Section 7.3(a) further confirms Novartis's theory of the purpose of the Agreement—namely, that Incyte "was the party expected to contribute its 'IP' to the collaboration, whereas Novartis would dedicate substantial funds and make a myriad of other significant contributions." Novartis's Opp'n at 18 n.16.

> that Novartis may not . . . conduct Clinical Trials . . . in the Incyte Territory without the prior approval of the JSC.

Agreement § 2.1(b) (line breaks between "(i)" and "(ii)" inserted for clarity of discussion, and emphasis added). Incyte reads the italicized portions of the above to suggest that Incyte granted a limited license to Novartis, under Incyte's patents, "for the sole purpose of" selling Jakafi "in the Novartis JAK Territory," which is outside of the U.S. *See* Incyte's Mem. at 19–20. Incyte reasons that "[b]ecause the limited license does not authorize sales by Novartis in the U.S., there are no Licensed Patent Rights relating to Incyte's U.S. Jakafi® product," and there are therefore no "Licensed Patent Rights" consisting of the "Novartis Patent Rights" "licensed to Incyte." *See id.* at 20.

But the license is not so limited—at least, not by the text. Novartis compellingly argues its position that it "received a license to utilize and rely upon Incyte's U.S. patents provided it was not commercializing in the U.S.," Novartis' Opp'n at 15, because Incyte granted to Novartis an exclusive JAK License under "Incyte IP," which is defined as "Incyte Know-How and Incyte Patent Rights," *see* Agreement § 1.45. "Incyte Patent Rights," in turn, is defined (in relevant part) as "all Patent Rights that (a) are Controlled by Incyte or any of its Affiliates . . . ; and (b) are necessary or useful to Develop, manufacture or Commercialize any of . . . JAK Licensed Compounds and JAK Licensed Products." Agreement § 1.47. And "Patent Rights" is itself broadly defined as "all patents and patent applications in any country in the world . . . ." *Id.* § 1.86. Thus, the text plausibly suggests that Incyte Patent Rights licensed to Novartis *may* include the U.S. patents covering Jakafi, but it also plausibly suggests that they may *not*. Again, the text mandates neither party's interpretation of Section 8.3(c).

Thus, there is a "reasonable basis for a difference of opinion" in how to properly construe Section 8.3(c). *See Seiden*, 959 F.2d at 428. The meaning of "Licensed Patent

Rights" in this section "could suggest more than one meaning when viewed objectively by a reasonably intelligent person who has examined the context of the entire integrated agreement and who is cognizant of the customs, practices, usages and terminology as generally understood in the particular trade or business." *Orchard Hill*, 830 F.3d at 156–57.

2. The Meaning of "Cover"

Although the Court concludes that the term "cover" is itself unambiguous, a "reasonable basis for a difference of opinion" remains regarding the interpretation of Section 8.3(c)(i), as far as the relevant "Valid Claim[s] of Licensed Patent Rights Covering such Licensed Product" are concerned. Incyte asserts that even if Incyte's patents are included in the "Licensed Patent Rights" that relate to Incyte's U.S. sales, Incyte's patents "do not 'Cover' Incyte's U.S. sales of Jakafi® under Section 1.23's definition of 'Cover.'" Incyte's Mem. at 10. *See* Novartis disagrees. Novartis's Opp'n at 20. The Agreement defines the term as follows:

> "Cover", "Covering" or "Covered" with respect to a product, technology, process or method, means that, *but for a license* granted to a Person under a Valid Claim included in the Patent Rights under which such license is granted, the Development, manufacture, Commercialization and/or other use of such product or the practice of such technology, process or method, by such Person *would infringe* such Valid Claim (or, in the case of a Valid Claim that has not yet issued, would infringe such Valid Claim if it were to issue).

Agreement § 1.23 (underscores in original, italics added).

The parties' dispute in the briefing turns largely on the italicized language above. Incyte argues that this language—"but for a license" and "would infringe"—suggests that Jakafi in the U.S. is not "Covered" by any Valid Claims because Incyte's commercialization of Jakafi would not infringe any Valid Claims "but for a license." *See* Incyte's Mem. at 21–22. This is because, in Incyte's view, "Incyte is the owner of all of the Incyte Patent Rights relevant to that product and, therefore, Incyte does not have or need a license under any Incyte Patent Rights to commercialize Jakafi® without infringing its own patents." *Id.* at 22. Under this reading, none of Incyte's own activities with respect to Jakafi could infringe

Incyte's own patents, and thus no "Licensed Patent Rights" would "Cover" Jakafi. *Id.* Novartis argues, instead, that the term "Covering," in context, "concerns whether a non-party outside the collaboration, who is not the owner or licensee of a Valid Claim under the Agreement, 'would infringe' such protective claim when taking certain actions." *See* Novartis's Opp'n at 20.

Though it makes a clever argument, Incyte is wrong: the term "Cover," when read in context and in conjunction with its other usages throughout the Agreement, unambiguously includes *both* the parties *and* third parties within its scope. First, the text provides that a product would be "Covered" if, "but for a license granted to *a Person* . . . the . . . use of such product . . . by such *Person* would infringe such Valid Claim . . . ." Agreement § 1.23 (emphases added). The Agreement defines "Person" as "any natural person, general or limited partnership, corporation, limited liability company, limited liability partnership, firm, association or organization or other legal entity." Agreement § 1.88. The Agreement also includes defined terms for "Party" and "Third Party": "'Party' means Novartis or Incyte," *id.* § 1.85 (underscore in original), and "'Third Party' means any Person other than a Party or any of its Affiliates," *id.* § 1.111 (underscore in original). Had the parties intended to limit the scope of this provision to Novartis and Incyte alone, they could have substituted the word "Person" for "Party." Likewise, had they intended to limit it to non-parties alone, they could have just as easily used the term "Third Party" in lieu of "Person." But they did not do that; and "Person" means "Person." This interpretation gives "full meaning and effect to all of [the contract's] provisions." *Orchard Hill*, 830 F.3d at 157 (internal quotation marks omitted) (quoting *Orlander*, 802 F.3d at 295).

Second, as Novartis compellingly argues, the term "Cover" must be read in context and consistently with its other usages throughout the Agreement. *See* Novartis's Opp'n at 20

(citing, *inter alia*, *Lafarge N. Am., Inc.*, 599 F.3d at 116 (stating that a term must be interpreted in the "appropriate context" in which it is used (citing *JA Apparel*, 568 F.3d at 405 (stating that in examining a contract, the court considers "the context of the entire integrated agreement"))).

In making this persuasive argument, Novartis cites a number of other provisions in the contract. For example, Section 1.107 of the Agreement defines "Secondary JAK Patent Rights" as "all JAK Patent Rights and *Joint IP Covering* the JAK Licensed Compounds and JAK Licensed Products . . . ." Agreement § 1.107 (emphasis added). As Novartis points out, "Incyte's reading of 'Covering' cannot possibly work here because neither Novartis nor Incyte would require a license to use 'Joint IP Covering' a JAK Licensed Product. Indeed, 'Joint IP' is 'owned jointly by Incyte and Novartis,' with each having the 'right to use' it." Novartis's Opp'n at 20 n.21 (quoting Agreement § 7.1(b)). Section 7.2(b) is similar. *See* Agreement § 7.2(b) (providing that Novartis has "the initial right to file, prosecute and maintain c-MET Patent Rights and Joint IP that Covers c-MET Licensed Compounds or c-MET Licensed Products . . . ," but again, Novartis does not need a license to its own patent rights that "Cover" a c-MET Licensed Product).[138]

The interpretation of "Cover" as inclusive of third parties is further supported by the Court's understanding of "the customs, practices, usages and terminology as generally understood in the particular trade or business." *Orchard Hill*, 830 F.3d at 156–57. Novartis cites to Dr. Pullan's expert report, which opined in relevant part:

> Th[e] pattern of including all relevant IP in calculating royalty duration is common in a territorial split agreement, as the parties want to have all IP in the agreement so no IP owned by one party or the other blocks either party from maximizing the product opportunity . . . . This is also consistent with the definition of the word "Covering,"

[138] Novartis also cites Section 8.3(b)(ii) of the Agreement, which presents a similar situation: the provision provides that Incyte shall pay a separate royalty to Novartis "[i]f Covered by Novartis Improvements . . . ." *See* Novartis's Opp'n at 20 n.21 (quoting Agreement § 8.3(b)(ii)).

> . . . which is a commonplace definition used in the industry and would be interpreted by pharmaceutical industry professionals . . . as meaning that the applicable patent protects the product from market competition by a third party that is not party to the agreement. Necessarily, the U.S. composition of matter patent Incyte had obtained relating to Jakafi in October 2009 would fall within the scope of "Licensed Patent Rights," as would any other U.S. patents Incyte obtained.

Pullan Rpt. at 9–10.

Incyte's designated expert, Mr. Lankau, testified differently. He opined that "a person having knowledge of and experience with business norms and expectations in the pharmaceutical industry . . . would understand that . . . Jakafi is not . . . *Covered* by any Licensed Patent Rights . . . ." Lankau Rpt. ¶ 121 (emphasis in original). He opined that "anyone versed in the drafting and interpretation of agreements (especially a person having knowledge of, and experience with, business norms and expectations in the pharmaceutical industry . . .) knows that capitalized terms are defined terms and that the definitions (rather than common parlance or industry-customary usage) control," stating his disagreement with Dr. Pullan's viewpoint because, in Mr. Lankau's view, Dr. Pullan's opinion "bears no resemblance to the actual definition [of "Covering"] in the Agreement . . . ." Lankau Rebuttal Rpt. ¶ 16.[139] He also "disagree[d] that Dr. Pullan's definition is 'commonplace' or an 'industry standard' definition, or that any such definition would be relevant here in place of the actual definition in the Agreement." *Id.* ¶ 17.

In any case, for the reasons described above, the actual definitions support the view that either parties *or* third parties are the intended "Persons" within the scope of the definition of "Cover."[140] Thus, the Court concludes that the "four corners" of the text indicate that

[139] Mr. Lankau also made many of the same arguments that Incyte does in his report, looking to the text of the Agreement and opining that "as the owner of the patents . . . for Jakafi, Incyte does not need a license to those patents in order to sell Jakafi," because "one cannot infringe its own patents." *See* Lankau Rpt. ¶¶ 125–26.

[140] To be clear, the Court reaches this conclusion without undertaking any assessment of either parties' designated expert's credibility and without weighing the evidence. *See Lucente*, 310 F.3d at 254; *Hayes*, 84 F.3d at 619. The Court's determination that "Cover" unambiguously includes third parties is reached by "looking within the four corners of the document, not to outside sources." *CVS Pharmacy*, 377 F. Supp. 3d at 374. The Court cites the experts' conflicting

"Cover" unambiguously includes both the parties and third parties. *See JA Apparel*, 568 F.3d at 396, 405; *Brad H.*, 17 N.Y.3d at 186.

Of course, this does not render the meaning of "any Valid Claim of Licensed Patent Rights Covering such Licensed Product" itself unambiguous. *See* Agreement Section 8.3(c)(i). This term, still, "could suggest more than one meaning when viewed objectively by a reasonably intelligent person who has examined the context of the entire integrated agreement and who is cognizant of the customs, practices, usages and terminology as generally understood in the particular trade or business." *Orchard Hill*, 830 F.3d at 156–57.

3. The Agreement as a Whole

Last, the parties' arguments regarding the Agreement as a whole do not compel a finding that Section 8.3(c)'s royalty duration provision is unambiguous on its face.

Beyond reiterating the arguments previously disposed of, Incyte reasonably argues that consideration of the Agreement as a whole mandates Incyte's interpretation because it is the most "commercially reasonable" outcome, and Novartis's interpretation, in Incyte's view, "would offend commercial logic." *See* Incyte's Mem. at 22–24. This is because, in Incyte's view, "Novartis's interpretation would give Section 8.3(c)(i) the perverse effect of penalizing an innovative royalty-paying party by extending its own payments based on the patents that party obtained, a commercially illogical result." *Id.* at 24. Incyte argues that here, "that would mean Incyte would end up paying extra royalties based solely on inventions that Incyte discovered and patented on its own." *Id.*[141]

opinions on this topic merely to underscore that it is "cognizant of the customs, practices, usages and terminology as generally understood in the particular trade or business," *Orchard Hill*, 830 F.3d at 156–57; the Court does not pick between or weigh the experts' respective views of those customs or practices.

[141] The parties agree that "Incyte is not infringing its own valid U.S. patents by selling Jakafi in the U.S.," and that "Incyte does not require a license to its own valid U.S. patents to sell Jakafi in the U.S." *See* Novartis's SUMF Reply ¶ 573.

Novartis, too, reasonably argues that the Agreement as a whole compels its own interpretation of Section 8.3(c): Novartis argues that it made significant contributions to Incyte "in connection with the development and commercialization of Jakafi in the U.S.," and that in turn, "Novartis expected to and should share in the upside of Jakafi's U.S. success as that was part of the agreed-upon return for Novartis' significant contributions." Novartis's Opp'n at 22–23. Novartis argues that this interpretation "defies commercial logic because it would lead to an unjustifiable windfall" for Incyte. *Id.* at 24.[142]

Again being "cognizant of the customs, practices, usages and terminology as generally understood in the particular trade or business," *Orchard Hill*, 830 F.3d at 156–57, the Court observes that the parties' experts offer competing opinions here. Unsurprisingly, Novartis's experts support its litigation position, and Incyte's experts support its own. *See, e.g.*, Pullan Rpt. at 12 ("If the reverse royalty is properly viewed . . . as a 'clawback' of some portion of the Novartis royalties being paid to Incyte—then commercial logic would suggest that the 'clawback' would continue for approximately the same length of time that Novartis was continuing to pay royalties to Incyte, consistent with that interrelationship."); *id.* at 20 ("There is no commercially rational basis to limit 'Licensed Patent Rights' to exclude Incyte's patents protecting Jakafi in the U.S."); *id.* at 23 ("It would not be commercially logical to limit the duration of the reverse royalty to ten years, with the last three years of reverse royalty payments reduced by 50%, while Incyte maintains its protected market position

[142] Novartis also points to the "Novartis Improvements" contingency that appears elsewhere in the Agreement but not in Section 8.3(b)(i), arguing that "[h]ad the parties intended to impose such a contingency, the contract could have said so, but it does not." Novartis's Mem. at 23, 32. Incyte argues that "'Novartis Improvements' are relevant only to the *initiation* of [a] separate royalty, not its *duration*." Incyte's Opp'n at 9 (emphases in original). Novartis responds that this argument "confirms Novartis' point—*i.e.*, where the parties intended for Novartis' receipt of royalty payments to be predicated on a contingency like Novartis obtaining a patent, they expressly said so. The tiered "reverse" royalty has no such contingency tied to it." Novartis's Reply at 6–7. Again, both readings on this point are reasonable; neither parties' interpretation is mandated by the text of clause (i).

. . . .").[143] Again, both interpretations are reasonable, and the Court cannot find for either party at summary judgment on the basis of the text of the Agreement alone. *See Seiden*, 959 F.2d at 428.

Because clause (i) of Section 8.3(c) of the Agreement suggests more than one meaning, such that "a reasonably intelligent person viewing the contract objectively could interpret the language in more than one way," Section 8.3(c) is ambiguous. *See Topps Co.*, 526 F.3d at 68 (citation omitted); *see also Orchard Hill*, 830 F.3d at 156–57 (citations omitted). The Court therefore considers whether "the ambiguities may be resolved through extrinsic evidence that is itself capable of only one interpretation, or where there is no extrinsic evidence that would support a resolution of these ambiguities in favor of the nonmoving party's case." *Id.*

B. A Genuine Dispute of Material Fact Exists Regarding the Parties' Intent

Because the extrinsic evidence in this case is not "itself capable of only one interpretation," and there is "extrinsic evidence that would support a resolution of these ambiguities in favor" of each party's case, *see id.*, summary judgment is denied. The contemporaneous extrinsic evidence in this case, offered to explain the parties' intent at the time the contract was entered into, consists of (1) the term sheet negotiations, (2) the financial models, (3) evidence regarding the parties' post-Agreement conduct, which is offered to illuminate credibility issues regarding the parties' positions, as manifested when the contract was negotiated, and (4) testimony from fact witnesses involved in the process of negotiating and/or drafting the Agreement. In addition, both parties proffered expert witnesses, who offered opinions regarding what is "typical" or "consistent with" industry

[143] *See also* Lankau Rebuttal Rpt. ¶ 82 ("In my opinion and experience, royalties paid by the licensor to its licensee are rare. In such situations, especially for a product as far along in development as ruxolitinib was in 2009, it would not make any commercial sense for the licensor to pay a royalty on its own patents. Indeed, the licensor would need a good reason to pay such a royalty—something akin to the licensee providing value in the form of a patent that could extend the commercial life of the product."); *id.* ¶ 83 ("Had there been no reverse royalty at all, this deal still makes commercial sense for Novartis.").

custom and practice, as well as opinions seeking to explain and interpret the parties' financial models.[144] Upon reviewing this evidence, the Court concludes that a genuine dispute of material fact exists regarding the parties' intended meaning of Section 8.3(c).

1. The Admissibility of the Financial Models and Post-Agreement Conduct

At the outset, the Court concludes that the parties' financial models and the post-Agreement conduct evidence described below are not categorically inadmissible for purposes of the Court's evaluation of this motion. Incyte lodges three main objections to the admissibility of this material—arguing that it is (1) "irrelevant," (2) improper to admit evidence of a party's internal, uncommunicated subjective intent, and (3) improper to admit evidence of post-Agreement conduct. *See* Incyte's Mem. at 32 (native); Dkt. No. 256 ("Incyte's Opp'n") at 25–29 (native). The Court addresses each argument in turn.

a. The "Relevance" Argument

First, Incyte's "relevance"-based argument for the inadmissibility of the financial models and related communications holds no water. Incyte argues that the financial models (both pre- and post-Agreement) are "irrelevant and thus inadmissible under Rule of Evidence 402" because, in its view, Incyte's pre- and post-Agreement financial models "are not built to predict—and so cannot indicate anyone's intent regarding—when Incyte's royalty would end." Incyte's Mem. at 32 (native); *see also* Incyte's Opp'n at 25–29 (native). Though framed as a "relevance" issue, Incyte's argument essentially asks the Court to choose "between conflicting versions of events," which is not the Court's role on summary judgment. *See Jeffreys*, 426 F.3d at 553.

The financial models and related communications—namely, the email exchanges and slide decks sharing the models—are proper for the Court to consider for purposes of this motion. The

[144] The Court refers to its *Daubert* decision, filed contemporaneously with this opinion, for rulings on the admissibility of the expert testimony offered in this case.

models drafted by the parties in the course of deal evaluation may be probative of the parties' understandings of the royalty term, and whether the models meaningfully speak to the duration of that term is a question of fact for the jury. It may be, as Incyte posits, that the models do not speak *at all* to the issue of duration insofar as they do not expressly model invocation of Section 8.3(c)'s 50% Stepdown Provision in any given year. *See, e.g.*, Incyte's Opp'n at 25–29 (native); Dkt. No. 294 ("Incyte's Reply") at 19–20 (native). A jury may also reasonably conclude, as Novartis posits, that the models speak to the issue of the reverse royalty's duration *because* they do not expressly model invocation of the 50% Stepdown Provision—that is to say, perhaps the parties expected that the 50% stepdown would not be invoked within the course of any given modeling period. *See, e.g.*, Novartis's Opp'n at 32–35 (native) (making this argument); Dkt. No. 412 ("Novartis's Reply") at 15–19 (native). Again, "choices between conflicting versions of the events are matters for the jury, not for the court on summary judgment." *Jeffreys*, 426 F.3d at 553. It is for the jury, not the Court, to choose among inferences to be drawn from the disputed material facts of what the parties' respective pre- and post-Agreement financial models show. *See id.*

Accordingly, the Court will not deem the financial models (and related communications described above) inadmissible, at least for purposes of evaluating this motion, on the basis of Incyte's "relevance" objection.

b. The Internal and Post-Agreement Communications and Conduct

Nor does Incyte's argument regarding the internal and post-Agreement communications and conduct evidence move the Court. Incyte argues that certain internal and/or post-Agreement evidence, including "(1) Incyte's proposal to 'reduce or eliminate' Incyte's royalty on Jakafi, and (2) the '[t]he circumstances in which Incyte invoked the Step Down' of its royalty payments in 2019," should not be considered because, generally speaking, courts should not consider evidence of a party's internal, uncommunicated

subjective intent, nor should courts admit evidence of post-contract conduct. *See* Incyte's Opp'n at 29–31 (native) (citations omitted).

Specifically, Incyte argues that the post-Agreement financial models "were not part of either party's performance of the Agreement's royalty requirements or any other obligation—they were internal business planning documents—and so they were not 'course of performance' evidence;" that "Incyte's aims in negotiating amendments to the Agreement are unrelated to the manner in which Incyte performed its royalty obligations, and so are not 'course of performance' evidence of § 8.3(c)'s meaning;" and that "the fact that Incyte notified Novartis when the contract required it to do so," in 2019, "is not 'course of performance' evidence" of the provision's meaning. *Id.* Incyte also takes issue with the parties' financial models insofar as they were prepared and distributed internally and therefore, Incyte argues, cannot be "evidence of the parties' *mutual* intent or agreement because the models were never shared" with the other party. *Id.* at 26–27 (native) (emphasis in original).

Generally, "[t]he evidence considered on summary judgment must . . . be admissible evidence." *LaSalle Bank Nat. Ass'n v. Nomura Asset Cap. Corp.*, 424 F.3d 195, 205 (2d Cir. 2005) (citations omitted). And where a contract is ambiguous, "it is proper to consider extrinsic evidence in interpreting the ambiguous terms . . . ." *Topps Co.*, 526 F.3d at 69. "[W]here a contract's terms are unambiguous, courts will not allow a party's unexpressed subjective intention to raise an ambiguity;" and "where a contract is ambiguous and one or both parties to the contract seek to introduce their own unexpressed subjective intentions, courts will not rely on such evidence to *resolve* that ambiguity." *Chesapeake Energy Corp. v. Bank of New York Mellon Tr. Co.*, 957 F. Supp. 2d 316, 341 (S.D.N.Y. 2013), *rev'd and remanded on other grounds*, 773 F.3d 110 (2d Cir. 2014) (collecting cases) (emphasis added).

Some courts in this Circuit have concluded that "[b]y contrast, in the rare situation in which both parties in a contract dispute have a contemporaneous understanding that, although unexpressed, is harmonious, that understanding may inform the meaning of an ambiguous contract." *Id.* (collecting cases); *see also* 2 E. ALLAN FARNSWORTH, FARNSWORTH ON CONTRACTS § 7.9 (3d ed. 2004) ("Though it is generally safe to say that a party's 'secret intention' will not carry the day, this is not a safe assertion if it happens that both parties shared the same 'secret intention.'"). Others disagree. *See, e.g.*, *Dreni v. PrinterOn Am. Corp.*, No. 1:18-cv-12017-MKV, 2021 WL 4066635, at *9 (S.D.N.Y. Sep. 3, 2021) ("[W]hen considering extrinsic evidence to determine the intended meaning contracting parties assigned to ambiguous language, evidence of a party's unexpressed, or uncommunicated, subjective intent should not be considered." (citing 28 N.Y. PRAC., CONTRACT LAW § 9:35 (collecting cases)).

In support of the latter view, Incyte cites *Nycal Corp. v. Inoco PLC*, which concluded that "when resolving disputes concerning the meaning of ambiguous contract language, unexpressed subjective views have no proper bearing. Only the parties' objective manifestations of intent are considered." Incyte's Mem. at 34 (native) (quoting *Nycal Corp. v. Inoco PLC*, 988 F. Supp. 296, 302 (S.D.N.Y. 1997), *aff'd*, 166 F.3d 1201, 1998 WL 870192 (2d Cir. 1998) (internal quotation marks omitted). In support of this proposition, the *Nycal* Court cited to a New York Court of Appeals case, which said only that "[u]ncommunicated subjective intent alone cannot create an issue of fact where otherwise there is none." *Wells v. Shearson Lehman/American Express, Inc.*, 72 N.Y.2d 11, 24 (1988).

The Second Circuit, in affirming *Nycal* in an unpublished opinion, aptly observed that "*Wells* does not, however, appear to address the admissibility of subjective extrinsic evidence in cases such as this, in which the district court found the contract ambiguous and

thus required extrinsic evidence to interpret the contract." 1998 WL 870192 at *4; *id.* ("We note that the proposition of law that the district court drew from *Wells* . . . , regarding the admissibility of evidence concerning subjective as opposed to objective intent in interpreting contracts, may not be as clearly settled in New York as the district court indicates."). It continued, noting that "[w]e need not decide whether this issue is clear under New York law," given that the court determined that the testimony in that case "must be excluded from consideration on relevancy and competency grounds in deciding the summary judgment motion." *Id.*

In a more recent case, the First Department held that evidence of "corroborative written documents and communications made during negotiations" was admissible. *China Privatization Fund (Del.), L.P. v. Galaxy Entm't Grp. Ltd.*, 187 A.D.3d 596, 598 (1st Dep't 2020) (collecting cases) (citations omitted).[145] Here, the financial models and other internal communications from the time of negotiations may be corroborative of the parties' mutual contemporaneous communications; and the question of whether they do in fact support Novartis's (or Incyte's) position in this litigation is a factual issue for the jury. *See Jeffreys*, 426 F.3d at 553 ("[C]hoices between conflicting versions of the events are matters for the jury, not for the court on summary judgment.").

As for whether the parties' post-Agreement conduct is relevant to the question of the parties' intent at the time of entering into the Agreement, the "[c]onduct of the parties provides another important source for deriving their intent as to the meaning of the . . . contracts at issue. . . . '[T]here is no surer way to find out [the intent of the parties to a

[145] Incyte attempts to distinguish *China Privatization Fund* by arguing that "[h]ere, the parties' confidential, internal models are the opposite" of "corroborative . . . 'communications made during negotiations;'" "they are the poker cards a negotiator holds close to his chest—and were never shared between the parties to reveal their respective assessment of the deal's financials." Incyte's Opp'n at 27 (native) (quoting *China Privatization Fund*, 187 A.D.3d at 598).

contract] . . . than to see what they have done."' *New York Marine & Gen. Ins. Co. v. Lafarge N. Am., Inc.*, 599 F.3d 102, 119 (2d Cir. 2010) (quoting *Am. Home Prods. Corp. v. Liberty Mut. Ins. Co.*, 565 F. Supp. 1485, 1503 (S.D.N.Y. 1983)) (some internal quotation marks omitted).[146] And although Incyte claims that Novartis's use of "course of performance" evidence is improper, *see* Incyte's Opp'n at 29–31 (native), because that category of evidence "is not an umbrella for any post-execution act of a party, but rather concerns a party's objective conduct in the performance of the specific contractual obligations at issue," *id.* at 29 (native), that argument is a strawman. As Novartis points out: "The term 'course of performance' is mentioned nowhere in [Novartis's] [m]otion outside of a single parenthetical case quotation, and Novartis makes abundantly clear that the extrinsic evidence it presents concerns the parties' post-Agreement *conduct* and their practical interpretation of the Agreement." Novartis's Reply at 18 (native) (emphasis in original); *see also* Novartis's Mem. at 25 n.12 (native) (including a quote from *China Privatization Fund* in a parenthetical, which references "the parties post-contract course of performance").

[146] *But see LaSalle*, 424 F.3d at 208 (noting that "it is not clear to us that the extrinsic evidence on which the court relied—including 'letters exchanged [postdating contract formation]'—was in any event relevant to the determination of the parties' intent at the time they entered into the [contract], nearly three years earlier" (internal citation omitted)). The cases cited by the *LaSalle* Court in support of this view involve situations where one party's post-contract interpretation supports its own litigation position in the case—different from the situation at issue here, where Novartis argues that Incyte's post-Agreement communications and conduct support Novartis's litigation position. *See Murray Walter, Inc. v. Sarkisian Bros., Inc.*, 183 A.D.2d 140, 146 (3d Dep't 1992) (concluding that the plaintiff's counsel's letter, "sent well after contract formation" and supporting the plaintiff's position in the litigation, "was not admissible extrinsic evidence of the parties' mutual intent in entering into their agreement, but merely a unilateral expression of one party's postcontractual subjective understanding of the terms of the agreement and, therefore, was not probative as an aid to the interpretation of the contract"); *Ingersoll Milling Mach. Co. v. M/V Bodena*, 619 F. Supp. 493, 506 (S.D.N.Y. 1985) (similar). Other courts have concluded that "[w]here a contract is ambiguous, the practical interpretation of a contract by the parties manifested by their conduct subsequent to its formation for any considerable length of time before it becomes a subject of controversy, is entitled to great, if not controlling, weight in the construction of the contract." *Disney Enterprises, Inc. v. Finanz St. Honore, B.V.*, No. 13CV6338NGSMG, 2016 WL 7174650, at *6 (E.D.N.Y. Dec. 7, 2016) (internal quotation marks and citations omitted); *see also China Privatization Fund*, 187 A.D.3d at 598 (rejecting one party's "contention that certain . . . testimony and 'internal' documents relied on by the trial court constituted inadmissible expressions of '[u]ncommunicated subjective intent,'" given that "the voluminous evidence before the court, taken as a whole, overwhelmingly reflects an intent communicated and shared among the parties"); *Waverly Corp. v City of New York*, 48 A.D.3d 261, 265 (1st Dep't 2008) ("The best evidence of the intent of parties to a contract is their conduct after the contract is formed.").

Accordingly, the parties' post-Agreement conduct at issue here is properly considered on summary judgment. *See, e.g.*, *Lafarge N. Am., Inc.*, 599 F.3d at 119; *Cap. Ventures Int'l v. Verenium Corp.*, No. 09 CIV 4261 GBD, 2011 WL 70227, at *6 (S.D.N.Y. Jan. 4, 2011) (considering the parties' "course of conduct" and, specifically, post-contract "internal" documents); *Disney Enterprises, Inc. v. Finanz St. Honore, B.V.*, No. 13CV6338NGSMG, 2016 WL 7174650, at *6 (E.D.N.Y. Dec. 7, 2016) (considering one party's post-agreement conduct over a six-week period and stating that "the practical interpretation of a contract by the parties manifested by their conduct subsequent to its formation for any considerable length of time before it becomes a subject of controversy, is entitled to great, if not controlling, weight in the construction of the contract" (internal quotation marks and citations omitted)); *In re Holocaust Victim Assets Litig.*, 256 F. Supp. 2d 150, 154 (E.D.N.Y. 2003) ("There is no better way of ascertaining the meaning and construction of a written contract than to look at the acts and conduct of the parties under it." (internal quotation marks and citation omitted)); *id.* ("[T]he subsequent conduct of the parties may be used to indicate their intent." (quoting *Gordon v. Vincent Youmans, Inc.*, 358 F.2d 261, 264 (2d Cir. 1965) (internal quotation marks omitted)).

In any case, as explained below, the parties' motions for summary judgment would be denied with or without consideration of the parties' financial models, internal communications, and/or post-Agreement conduct. In considering the parties' internal financial modeling and related communications and post-Agreement conduct—or not—the Court would not find the evidence to be "so one-sided" in either party's favor that summary judgment would be warranted. *See Lafarge N. Am., Inc.*, 599 F.3d at 115 (citation and internal quotation marks omitted).

2. The Admissible Evidence is Capable of Multiple Reasonable Interpretations

The admissible evidence is not "itself capable of only one interpretation," *see Topps Co.*, 526 F.3d at 68, nor is it "so one-sided that no reasonable person could decide" summary judgment for only Novartis or only Incyte, *see Lafarge N. Am., Inc.*, 599 F.3d at 115 (citation and internal quotation marks omitted). In particular, genuine issues of material fact exist as to the parties' understandings of (1) the intent of the parties at the time of negotiations in 2009, based on the recollections of the negotiators, alliance managers, and members of the deal teams; (2) the evolution of the terms of the deal, regarding the reverse royalty provision, from the Final Term Sheet to the Agreement; and (3) what the parties' internal communications, financial modeling, and post-Agreement conduct showed regarding the parties' expectations vis-à-vis the interpretation of Section 8.3(c)(i).

a. The Deal Team Members' Testimony

The deal team members' testimony regarding their respective understandings of the parties' intent in 2009 raises a genuine issue of material fact that precludes summary judgment. For example, the parties' representatives testified to different recollections of the page-turn meeting held on September 23, 2009. Novartis's Mr. Hager testified to his recollection of having discussed with Incyte's Mr. Singer that the term "[L]icensed [P]atent [R]ights" "would cover those patent rights related to the [c]-Met and JAK compounds held currently by Incyte, and that if there were any held by Novartis, they would be added to the group." Hager Dep. Tr. at 270:13-18; *see also id.* at 317:3-11 (testifying that, when he asked Mr. Singer "whether there was any meaning associated with" the draft agreement's use of the term "[L]icensed [P]atent [R]ights" in lieu of "[L]icensed IP," as used in the Final Term Sheet, he was told that Mr. Singer "had replaced the term 'IP' with '[P]atent [R]ights' because practically[,] there was absolutely no difference between the two definitions. And therefore, .

. . we didn't necessarily need to change the language that he used because it had the identical meaning as had been used in the term sheet."); Harwich Decl. ¶ 8 (corroborating this understanding).

Mr. Singer, in turn, testified that he was "not aware of any discussions between Incyte and Novartis regarding" the topic of removing the term "Licensed IP" from the Final Term Sheet and adding "Licensed Patent Rights," Singer Dep. at 127:8-18, and he did not "recall at the time what the purpose" of adding the latter term into the draft "might have been," *id.* at 167:8-21. In addition, many of the members of Novartis's deal team testified that it was their understanding at the time that the reverse royalty would continue many years beyond Incyte's invocation of the Stepdown Provision—without any need for Novartis to secure its own patents in order to do so.[147]

Although many of the members of Incyte's deal team testified that they did not recall discussing the reverse royalty team (or its duration) with members of Novartis's team,[148]

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[147] *See, e.g.*, MacLaughlan Tr. at 405:18-406:10 ("Incyte communicated to us what we should use for modeling purposes in terms of patent life, and it was always clear and [*sic*] every discussion we had that the [royalty] term that we were modeling went into 2025 or beyond."); Hager Dep. Tr. at 202:11-25 (testifying that "our [Novartis's] expectations were that the [royalty] term would be until the end of the loss of exclusivity"); *id.* at 207:21-209:9 (testifying that his "understanding then and [his] understanding today is that the period of payment of the reverse royalty, as we agreed to it, was that we would receive payments from Incyte until the loss of exclusivity"); *id.* at 269:2-25; Goldfus Dep. Tr. at 37:23-25, 38:2-11 (testifying that he "understood that this was a collaboration in which the two parties would have access to a pool . . . of patent rights, 'pool' meaning any rights that were contributed by either party"); Griffin Dep. Tr. at 249:18-250:8 (testifying that it was "absolutely" her understanding in 2009 that the terms "Licensed Patent Rights" as used in the agreement, and "Licensed IP" as used in the term sheets, had the same substantive meaning); Harwich Decl. ¶ 7 (stating that "[a]s it related to Incyte IP, Novartis did not intend the term 'Licensed Patent Rights' to have a new or different meaning or effect than 'Licensed IP' in the Final Term Sheet"); MacLaughlan Dep. Tr. at 420:8-421:24 (testifying that "at the time that [he] was there" at Novartis (through May 2009), he understood that "as long as you have . . . at least one valid claim in the United States, then the royalty is due from Incyte to Novartis"); *id.* at 170:7-172:8; *id.* at 173:10-25 (testifying that his understanding was that, at the term sheet stage, "there is no obligation for Novartis . . . to develop IP," but if such IP was developed, "then it would fall under the [L]icensed IP"); M. Litchman Tr. at 62:20-65:15 (testifying that, in his view, Novartis's rationale for requesting the royalty from Incyte on U.S. JAK Sales was "certainly" communicated to Incyte); D. Hager Tr. at 207:21-209:9 (testifying that Novartis "never heard from Incyte anything about . . . their view being that we needed to have a patent at any time to support the maintenance of the reverse royalty").

[148] *See, e.g.*, Andrews Dep. Tr. at 99:24-25, 100:2-16, 103:6-10; Hastings Dep. Tr. at 18:22-19:2, 178:10-25; Maravei Dep. Tr. at 135:5-22; Mikkelson Dep. Tr. at 138:8-12. Nor did many of them recall any discussions regarding whether Novartis would have to acquire its own U.S. patents if it sought to "extend" the reverse royalty's duration. *See, e.g.*, Friedman Dep. Tr. at 14:22-25, 15:2-12, 98:18-99:23; Maravei Dep. Tr. at 265:19-266:5, 267:2-8.

some testified to their own understanding of the parties' intentions at the time. These understandings are at odds with those of Novartis's team. This includes Incyte's Mr. Mikkelson, who testified that the Incyte team internally "discussed that . . . the duration or royalty term should include some of the prongs that are traditional in a . . . royalty term, which would be regulatory exclusivity, . . . or that there would be some Novartis patents that could also extend the royalty term out to the end or expiry of a valid claim related to a Novartis patent." Mikkelson Dep. Tr. at 130:21-131:25. He also testified that he did not recall the definition of "Licensed Patent Rights" "ever changing" after Incyte first proposed it, *id.* at 132:18-133:13, 134:9-22; and that his "understanding in 2009" was that the "Licensed [P]atent [R]ights definition in the agreement is substantially different from the definition of [L]icensed IP in the term sheet," *id.* at 138:13-22; *see also id.* 132:2-133:6 (testifying that "we clearly communicated this concept to Novartis" and that "[i]t was clearly outlined in the draft contract that we submitted to Novartis").

Accordingly, the parties' negotiators' and deal team members' testimony regarding their respective understandings in 2009 raises a genuine issue of material fact, which precludes summary judgment. *See Celotex*, 477 U.S. at 322.

b. The Deal Terms' Evolution

The way in which the reverse royalty term evolved, from the Final Term Sheet to the Agreement, is another genuine issue of material fact—about which both sides present reasonable, conflicting versions of events for the jury to assess. *See id.* Novartis argues that "Licensed IP," as used in the term sheets, substantively evolved into "Licensed Patent Rights," as used in the Agreement. *See, e.g.*, Novartis Mem. at 20–23 (native); Novartis's Opp'n at 25–26 (native); Griffin Dep. Tr. at 249:18-250:8 (testifying that it was "absolutely" her understanding that these terms had the same substantive meaning); B. Goldfus Tr. at.

225:11-227:10 (testifying that he, at least at the time of his deposition, was "not sure of a distinction between" the phrase "Licensed IP" and "Licensed Patent Rights"); Hager Dep. Tr. at 270:2-25, 316:6-317:11 (testifying about his page-turn meeting conversation with Mr. Singer); Harwich Decl. ¶ 7 ("As it related to Incyte IP, Novartis did not intend the term 'Licensed Patent Rights' to have a new or different meaning or effect than 'Licensed IP.'"); *id.* ¶ 9.

Incyte instead argues that "Licensed IP" in the term sheets "[b]ecame 'Incyte IP,'" not "Licensed Patent Rights," in the first draft of the Agreement. *See* Incyte's Opp'n at 20–22 (native). Specifically, Incyte contends that "[s]ubstituting the Section 1.35 and 1.36 'Incyte Know-How' and 'Incyte Patent Rights' definitions results in the composite 'Incyte IP' definition." *See* Incyte's SUMF Response ¶ 552; *see also* Incyte's Opp'n at 20–22 (native) (arguing that "the wording" of the definition of "Licensed IP" in the term sheets and "Incyte IP" in the July 27 Draft "is almost identical," and that "[b]oth set forth the same concept: patents and know-how that Incyte controls as of the Effective Date or that Incyte obtains during the Term necessary for the development or commercialization of the Licensed Products"); *id.* at 21–22 (native) (arguing that "[t]his is confirmed by the license grant that substituted 'Incyte IP' for 'Licensed IP'").

Incyte points to the grammatical structure of "Incyte Know-How" and "Incyte Patent Rights" as appears in the July 27 Draft and the Agreement, which Incyte argues "have the same grammatical structure as 'Licensed IP' in the term sheets." *See* Incyte's Opp'n at 19–20 (native) (citing Ex. 42 at 1 (native) (defining "Licensed IP" as "Any Patent or proprietary know-how owned or controlled *by Incyte or its affiliates* as of the Effective Date or that is acquired or developed during the Term that is necessary or useful for the researching, developing, making, using, selling, offering for sale and importing of Compounds or

Licensed Products" (emphasis added by Incyte)); July 27 Draft at 5 (native) (defining "Incyte Know-How" as "Know-How Controlled by Incyte or its Affiliates as of the Effective Date *or that is acquired or developed during the Term* . . . ," and defining "Incyte Patent Rights" as "those Patent Rights Controlled by Incyte or its Affiliates as of the Effective Date *or that are acquired or developed during the Term* . . . ." (emphases added by Incyte)).

Incyte also cites to Mr. Mikkelson's testimony that his understanding in 2009 was that the "Licensed [P]atent [R]ights definition in the agreement is substantially different from the definition of [L]icensed IP in the term sheet." *See* Incyte's SUMF Response ¶ 551 (citing Mikkelson Dep. Tr. at 138:13-22). And Mr. Mikkelson testified that—although he did not think this was ever discussed with Novartis, in his view, "[a]s it relates to the contract, we have Incyte IP, we have Novartis IP. Those are the somewhat analogous IP definitions to licensed IP in the term sheet. . . . . The [L]icensed [P]atent [R]ights . . . is very different from the definition of [L]icensed IP in the term sheet." Mikkelson Dep. Tr. at 139:11-140:19.

The evolution of the parties' deal terms, insofar as it informs the parties' intent regarding how to interpret the reverse royalty's duration under Section 8.3(c), presents another genuine issue of material fact for the jury to decide. *See Topps Co.*, 526 F.3d at 68. It is for the jury, not the Court, to pick among the "conflicting versions of events" that explain this evolution; and it is the jury's role to infer what this means for the parties' intended meaning of Section 8.3(c). *See Jeffreys*, 426 F.3d at 553.

c. The Internal Communications and Financial Modeling

As discussed above, the parties' internal communications and financial modeling are capable of multiple reasonable interpretations, raising yet another genuine issue of material fact for the jury. *See id.* Again, the parties' designated experts differ in their interpretations

of both parties' pre- and post-Agreement financial models—with Incyte's experts, in short, opining that Incyte's models are "silent" on the issue, and Novartis's experts arguing that the models assume Incyte's payment of reverse royalties well past Incyte's invocation of the Stepdown Provision. *See supra* at 48–54 (citing, *inter alia*, Rao Rpt. ¶¶ 41–46; Rao Rebuttal Rpt. at 5–6; Tedesco Rpt. ¶ 19; Tedesco Rebuttal Rpt. at 4; Pullan Rpt. at 23–24). The parties' fact witnesses, too, offer different perspectives on how to interpret the parties' respective models. *See, e.g.*, Goldfus Tr. at 340:20-345:5, 346:3-347:5; D. Hager Tr. at 309:2-310:3; Gayer Dep. Tr. at 74:16-80:18; Mikkelson Dep. Tr. at 205:15-207:21, 224:10-224:22. The inferences to be drawn from the financial models present another genuine issue of material fact for the jury to decide. *See Topps Co.*, 526 F.3d at 68.

The same is true of the parties' internal conversations regarding the GVHD amendment: it is for the jury to infer whether Incyte's efforts to potentially renegotiate the reverse royalty, *see, e.g.*, Novartis's SUMF Response ¶ 1486; Novartis's SUMF ¶ 378, as Novartis argues, "reflect[ed] that Incyte understood that its obligation to pay such royalties continued for much longer than ten years," Novartis's Mem. at 28 (native), *or* whether these efforts were "valuable simply to abate a royalty with five years left running," Incyte's Opp'n at 30 (native).

d. The Experts' Testimony on Industry Custom and Practice and "Commercial Logic"

Last, a genuine issue of material fact exists regarding how to apply industry custom and practice, or "commercial logic," to understand the parties' intentions in crafting Section 8.3(c)—an issue which the parties' designated experts, once again, duke out. *See, e.g.*, *supra* at 59, 93–96 (citing, *inter alia*, Pullan Rpt. at 12, 20, 23; Lankau Rebuttal Rpt. ¶¶ 82–83). In sum, Novartis argues that "[i]ndustry custom and practice for complex pharmaceutical collaborations . . . is that financial terms and payments thereunder, including royalties, are

premised on different contributions brought to the collaboration." Novartis's Mem. at 32 (native). In particular, Novartis argues that "[i]ndustry custom and practice is that the term, or duration, of a royalty stream is tied to loss of market exclusivity in the applicable geographic market," and that "[c]ustom and practice dictates that if a party is going to deviate from the industry standard, that deviation would have been discussed, negotiated, and readily apparent." *Id.* at 32–33 (native) (citing L. Pullan Rpt. at 7–10 (native)).[149] And Novartis argues that "commercial logic" dictates Novartis's interpretation of Section 8.3(c), because of Novartis's "significant contributions . . . to the commercial success of Jakafi in the U.S.," *see id.* at 33 (native), as well as "the structure of the parties' deal, which front-ended value for Incyte and back-ended value for Novartis," *see id.* at 34 (native). Moreover, Novartis argues that "Incyte's interpretation . . . would lead to an unjustifiable windfall . . . ." *Id.* at 35 (native).

Incyte, in turn, argues that "under industry custom and practice, . . . a licensee pays royalties based on IP that it receives from a licensor." Incyte's Mem. at 30 (native) (citing Rao Rpt. ¶¶ 26–33; Lankau Rpt. ¶¶ 138–40; Pullan Rpt. at 11 (native)); *see also id.* at 31 n.15 (arguing that "[t]he concept of 'pooling' patents . . . is not inconsistent with the commercial logic and economic principles of IP licensing"). On the windfall idea, Incyte argues that "Novartis's position not only rewards Novartis for failing to contribute any patents, but it also imposes a financial penalty on Incyte for bringing valuable patents to the table—patents that Incyte obtained without any contribution from Novartis." *Id.* at 5 (native); *id.* at 23 (native) ("Commercial considerations make clear that Section 8.3(c)(i)'s purpose is to create a commercially logical exchange: if a royalty-receiving party (here, Novartis) obtains new

[149] Novartis also argues that "[i]ndustry custom and practice is that parties use term sheets to negotiate and agree on financial terms prior to drafting the contract," and that "[t]he duration of time over which royalties will be paid is a financial term . . . as it impacts deal valuation." *Id.* at 33 (native).

patents to license to the other (here, Incyte), adding patent protection to that party's product (here, Jakafi®), that contribution is rewarded with a longer royalty.").

The parties' designated experts again offer competing perspectives that respectively support each side's view. Dr. Pullan supports Novartis's argument. *See, e.g.*, Pullan Rpt. at 3–13 (native) (opining that (a) "[t]he duration of a royalty stream in a pharmaceutical licensing agreement is typically tied to loss of market exclusivity, including patent protection; as such, if the duration of the reverse royalty was going to somehow deviate from the norm, that would have been clearly reflected in the parties' Agreement;" (b) "shorthand, terms of art, and other language used by the parties in communications between each other and in internal communications discussing the royalties reflect a commercial understanding that each party's royalties would be paid at the full negotiated royalty rates until the loss of market exclusivity in the applicable country, consistent with industry custom and practice;" and (c) "it would be expected that any attempt by Incyte to shorten or condition the duration of the reverse royalty following the final term sheet and in the contract drafting stage would have been the subject of extensive discussion . . ."); *id.* at 19–23 (native) (opining on what would "make[] commercial sense" under an arrangement like the Novartis-Incyte deal); Pullan Rebuttal Rpt. at 13 (explaining her disagreement with Mr. Lankau's "custom and practice" opinions).

And Mr. Lankau supports Incyte's argument. *See, e.g.*, Lankau Rpt. ¶ 109 (opining that "[t]ypically, where parties intend to pool the IP . . . , they use the type of language reflected in Section 7.3, rather than including the directional phrases . . . that are used in the definition of Licensed Patent Rights"); *id.* ¶ 110 (opining that "[i]n [his] experience, when parties create a specially defined term for a specific provision in the Agreement, it means that the term has a distinct meaning that is not—and cannot be—covered by the existing

defined terms or ordinary language"); *id.* ¶ 133 (opining that it would be "inconsistent with industry practices and customs to provide Novartis with . . . a windfall"); *id.* ¶ 138 (opining that "it would be highly unusual for a party that has out-licensed its rights to pay a royalty on its own IP, especially where . . . the in-licensing party has not contributed intellectual property that serves to protect that market exclusivity," and that he did "not recall ever seeing any such type of licensing arrangement in [his] career"); *id.* (opining on which approach is "more consistent with industry norms").[150]

Ultimately, the factual conclusions to be drawn from the experts' conflicting opinions on industry custom and practice and "commercial logic" are matters for the jury to decide. *See Jeffreys*, 426 F.3d at 553 ("Assessments of credibility and choices between conflicting versions of the events are matters for the jury, not for the court on summary judgment.").

Accordingly, summary judgment is denied: in considering all of the admissible evidence, the ambiguity regarding Section 8.3(c) may not "be resolved through extrinsic evidence that is itself capable of only one interpretation," and there is "extrinsic evidence that would support a resolution of these ambiguities in favor of" either party's case. *See Topps Co.*, 526 F.3d at 68. Taken together, the extrinsic evidence in this case is not "so one-

[150] *See also* Lankau Rebuttal Rpt. ¶ 12 (opining that parties in the industry may define terms in their agreements "in ways that are different from their customary usage," and that the words of a given agreement "should not be ignored in favor of some nonspecific, one-size-fits-all notion of what 'industry custom and practice' purportedly looks to . . . "); *id.* ¶ 19 (disagreeing with Dr. Pullan's "assum[ption]" that "some hypothetical standard agreement exists where all royalty terms extend until loss of market exclusivity," and disagreeing with Dr. Pullan's "premise" more generally "because it assumes an 'industry norm' that, in [his] experience, does not exist across all pharmaceutical licensing collaborations . . ."); *id.* ¶ 24 (opining that "individuals having knowledge of . . . business norms and expectations" in this industry "would know that . . . there is no 'default' template or 'customary rules and terms' for" agreements like these, given that "contractual terms . . . are uniquely negotiated in each agreement"); *id.* ¶ 52 (opining that "there is no customary meaning for royalty termination provisions"); *id.* ¶ 54 (opining that "no industry custom and practice exists regarding royalty termination provisions").

sided that no reasonable person could decide" in favor of one party or the other. *See Lafarge N. Am., Inc.*, 599 F.3d at 115 (quoting *Compagnie Financiere*, 232 F.3d at 158).

C. The Declaratory Judgment Claim

Each party's motion for summary judgment on Novartis's declaratory judgment claim is denied. Novartis moved for summary judgment on its claim for "declaratory relief that Novartis' construction of Section 8.3(c) of the Agreement is correct for future royalties, which are projected to amount to at least many hundreds of millions cumulatively over the next several years." Novartis's Mem. at 1. Novartis argues that it was "entitled to summary judgment on . . . [this] claim . . . because the extrinsic evidence so overwhelmingly supports Novartis' construction of Section 8.3(c) in the Agreement that no reasonable jury could decide to the contrary." *Id.* at 14. Incyte, in turn, asked the Court to "grant summary judgment dismissing Novartis's declaratory judgment claim, which seeks only a declaration of Novartis's theory of breach, as '[c]ourts routinely dismiss requests for declaratory judgment that duplicate breach of contract claims' under New York law." Incyte's Mem. at 10 (quoting *Target Corp. v. RichRelevance, Inc.*, 2017 WL 590316, at *10 (S.D.N.Y. Feb. 13, 2017)).

At the outset, Novartis's declaratory judgment claim is not duplicative of its breach of contract claim because the two claims seek distinct relief; any ruling on the breach of contract claim would resolve the question of outstanding reverse royalties, but not that of any future royalties. The decision on whether to grant declaratory relief is subject to the court's discretion, which turns on the following considerations: "(1) whether the judgment will serve a useful purpose in clarifying or settling the legal issues involved; and (2) whether a judgment would finalize the controversy and offer relief from uncertainty." *Duane Reade, Inc. v. St. Paul Fire & Marine Ins. Co.*, 411 F.3d 384, 389 (2d Cir. 2005) (citation omitted). Courts

reject declaratory judgment claims "when other claims in the suit will resolve the same issues," because, under such circumstances, a declaratory judgment will not serve any useful purpose. *EFG Bank AG v. AXA Equitable Life Ins. Co.*, 309 F. Supp. 3d 89, 99 (S.D.N.Y. 2018). Accordingly, where a claim for declaratory judgment "seeks a declaration of the same rights as will be determined under [a claimant's] action for breach of contract," it is duplicative and may be dismissed. *Lorterdan Props. at Ramapo I, LLC v. Watchtower Bible & Tract Soc'y of N.Y., Inc.*, No. 11-CV-3656 (CS), 2012 WL 2873648, at *9 (S.D.N.Y. July 10, 2012) (citation omitted).

Conversely, where "a claim for declaratory judgment 'seeks distinct relief from' a breach of contract claim, then notwithstanding some overlap between the two claims, it is not duplicative." *Personal Watercraft Prod. SARL v. Robinson*, No. 16-cv-9771 (AJN), 2017 WL 4329790, at *11 (S.D.N.Y. Sept. 1, 2017) (citation omitted). In other words, where the plaintiff's rights will be adjudicated through another claim in the litigation, the plaintiff's declaratory judgment claims will be dismissed. *See Com. Lubricants, LLC v. Safety-Kleen Sys., Inc.*, No. 14-CV-7483 (MKB), 2017 WL 3432073, at *17 (E.D.N.Y. Aug. 8, 2017) ("Thus, courts in this Circuit routinely dismiss requests for declaratory judgment when the parties' rights will be adjudicated through a breach of contract claim in the same action.") (collecting cases); *Sofi Classic S.A. de C.V. v. Hurowitz*, 444 F. Supp. 2d 231, 249 (S.D.N.Y. 2006) ("Plaintiffs' declaratory judgment claim seeks resolution of legal issues that will, of necessity, be resolved in the course of the litigation of the other causes of action. Therefore, the claim is duplicative in that it seeks no relief that is not implicitly sought in the other causes of action.").

Here, the breach of contract claim, as Novartis notes, "seeks damages for Incyte's failure to pay full 'reverse' royalties from Q1 2019 through Q4 2021 and any 'reverse'

royalties thereafter and through the date of this filing," whereas "the declaratory judgment claim requests a determination as to Incyte's obligation to make 'reverse' royalty payments in the future." *See* Novartis's Opp'n at 9 (native) n.6 (citing *RJ Cap., S.A. v. Lexington Cap. Funding III, Ltd.*, No. 10 CIV.24 PGG, 2011 WL 3251554, at *15 (S.D.N.Y. July 28, 2011)). Like in *RJ Capital*, any decision here "on Plaintiff's breach of contract claim will settle the controversy only with respect to" the reverse royalty payments of the earlier period, "and not with respect to future distributions" of the reverse royalty. *See RJ Cap.*, 2011 WL 3251554, at *15. The claims "seek[] distinct relief," so they are not duplicative. *See Robinson*, 2017 WL 4329790, at *11 (internal quotation marks and citation omitted).

Nonetheless, summary judgment on the declaratory judgment claim is denied because a genuine issue of material fact exists regarding the parties' intended meaning of Section 8.3(c), for the same reasons described above in ruling on the breach of contract claim.

IV. CONCLUSION

The term "Licensed Patent Rights" as used in clause (i) of Section 8.3(c) of the Agreement is ambiguous, and a genuine dispute of material fact exists regarding the parties' intended meaning of Section 8.3(c). As a result, Novartis's and Incyte's motions for summary judgment are DENIED.

The Court will hold a teleconference on August 9, 2024 at 3:00 p.m. to discuss next steps in this case. The parties are directed to the Court's Individual Rules of Practice in Civil Cases, which are available on the Court's website. Rule 2 of the Court's Individual Rules contains the dial-in number for the conference and other relevant instructions. The parties are specifically directed to comply with Rule 2(C) of the Court's Individual Rules.

The Clerk of Court is directed to terminate the motions pending at Dkt. Nos. 175, 176.

SO ORDERED.

Dated: July 29, 2024
New York, New York

GREGORY H. WOODS
United States District Judge