EFiled: Apr 8 2011 2:23PM EDT
Transaction ID 36939602
Case No. 5589-VCP

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

MESO SCALE DIAGNOSTICS, LLC, MESO SCALE TECHNOLOGIES, LLC, Plaintiffs, v. ROCHE DIAGNOSTICS GMBH., ROCHE DIAGNOSTICS CORP., ROCHE HOLDING LTD., IGEN INTERNATIONAL, INC., IGEN LS LLC, LILLI ACQUISITION CORP., BIOVERIS CORP., Defendants.	)	C.A. No. 5589-VCP

MEMORANDUM OPINION

Submitted: December 10, 2010
Decided: April 8, 2011

Collins J. Seitz, Jr., Esq., Arthur G. Connolly, III, Esq., Ryan P. Newell, Esq., CONNOLLY BOVE LODGE & HUTZ, LLP, Wilmington, Delaware; Mark C. Hansen, Esq., Michael J. Guzman, Esq., Christopher J. Walker, Esq., KELLOGG, HUBER, HANSEN, TODD, EVANS & FIGEL, P.L.L.C., Washington, D.C.; *Attorneys for Plaintiffs Meso Scale Diagnostics, LLC and Meso Scale Technologies, LLC.*

Andre G. Bouchard, Esq., Sean M. Brennecke, Esq., BOUCHARD MARGULES & FRIEDLANDER, P.A., Wilmington, Delaware; Nancy J. Sennett, Esq., Paul Bargren, Esq., Eric L. Maassen, Esq., FOLEY & LARDNER, LLP, Milwaukee, Wisconsin; *Attorneys for Defendants.*

PARSONS, Vice Chancellor.

This case arises out of a series of agreements between the parties to this action relating to, among other things, license rights to use electrochemiluminescence ("ECL") technology. After losing its original nonexclusive license to use this technology, Defendant Roche Holding Ltd. ("Roche")[1] sought to reacquire an ECL license from then-patent holder, Defendant IGEN International, Inc. ("IGEN").[2] In 2003, as part of a complicated transaction comprised of a dozen or so contemporaneously executed agreements (the "Transaction"), Roche obtained a second nonexclusive license from IGEN. Plaintiffs, Meso Scale Diagnostics, LLC ("MSD") and Meso Scale Technologies LLC ("MST") (together with MSD, "Plaintiffs"), explicitly consented to that Transaction. As part of the Transaction, Roche acquired IGEN, but before it did so, IGEN transferred all of its intellectual property assets, subject to outstanding license rights, to a newly-created public corporation, Defendant BioVeris Corporation ("BioVeris"). Later, in 2007, Roche acquired BioVeris in a reverse triangular merger in which BioVeris was the surviving entity.

In 2010, Plaintiffs filed their Complaint in this action accusing Roche and a number of its affiliates of breaching provisions in two agreements related to the Transaction based on, among other things, Roche's acquisition of BioVeris without

---

[1] Plaintiffs named as Defendants a number of other Roche affiliates, including Roche Diagnostics GmbH, Roche Diagnostics Corp., IGEN, IGEN LS LLC, and Lili Acquisition Corp. Verified Compl. (the "Complaint") at Introduction. As Plaintiffs do in their Complaint, I refer to these entities collectively as "Roche," but differentiate among them when necessary.

[2] *Id*. ¶ 9.

Plaintiffs' consent. Roche denies these allegations and has moved to dismiss the Complaint. For the reasons discussed below, I deny Roche's motion.

I. BACKGROUND

A. The Parties

MST was founded by Jacob Wohlstadter for the purpose of, among other things, commercializing his invention of a new application of ECL that enhances its versatility and cost-effectiveness.[3] MSD was formed in 1995 as a joint venture between MST and IGEN. It employs approximately 350 employees and manufactures, markets, and sells instruments and kits utilizing its proprietary Multi-Array® ECL technology, particularly in the spheres of biological research and drug development. MSD also manufactures, markets, and sells instruments and consumables to the U.S. military for biodefense testing.

IGEN was a Delaware corporation in the business of developing and marketing biological detection systems based on its proprietary ECL technology. Its ECL-based products were used in a number of applications, including pharmaceutical research and development, life science research, biodefense testing, and testing for food safety and quality control. As part of the Transaction, Roche purchased IGEN. Roche is a

---

[3] *Id*. ¶ 9. Unless otherwise noted, all facts recited in this Memorandum Opinion are drawn from the Complaint and accepted as true for purposes of Defendants' motion to dismiss.

preeminent research-focused healthcare conglomerate, which employs approximately 75,000 people worldwide and operates in the pharmaceuticals and diagnostics space.

As discussed further *infra*, in connection with Roche's acquisition of IGEN, BioVeris was created, and it contemporaneously acquired certain of IGEN's ECL-related intellectual property as well as IGEN's rights and obligations as licensor of certain patents to MSD. Roche acquired BioVeris in 2007.

B. Facts

1. A brief note on ECL

ECL uses electricity, chemistry, and light to detect and measure the presence of specific molecules in a test sample, including, for example, blood and other bodily fluids. It is useful to detect and measure amounts of select proteins in these biological samples and can be used for human patient diagnosis, clinical trials, drug research, and other similar applications.

2. The 1992 License

In 1992, IGEN entered into a license agreement with Boehringer Manheim GmbH, a company acquired by Roche in 1998 (the "1992 License").[4] This license granted Roche an exclusive, but narrow, right to use IGEN's ECL technology in blood banks, hospitals, and clinical reference laboratories. Plaintiffs claim that this license did not authorize Roche to use ECL technology in contexts involving patient contact, such as in physicians' offices.

---

[4] For purposes of this Memorandum Opinion, I include Boehringer Manheim GmbH in the term "Roche."

3. The MSD License

In 1995, IGEN and MST entered into a joint venture and formed MSD "to be the vehicle for developing the venture partners' ECL-related intellectual property."[5] MST licensed to MSD certain intellectual property regarding, for example, selection techniques, multi-array tests, and disposable electrodes, as well as contributed the services of Wohlstadter. For its part, IGEN entered into a licensing agreement with MSD (the "MSD License Agreement"), which granted MSD "an exclusive, worldwide, royalty-free license to practice the IGEN Technology to make, use and sell products or processes . . ." (the "MSD License").[6] IGEN granted that license based on the rights it retained to make commercial use of all fields of ECL outside the limited field it had licensed to Roche in the 1992 License.

The MSD License Agreement granted MSD exclusive rights to certain broadly-defined ECL fields. They included: (i) various "selection and screening methods;" (ii) "disposable electrodes;" and (iii) multi-array diagnostic[s]."[7] Importantly, the MSD

---

5 Compl. ¶ 18.

6 *Id*. ¶ 19 (citing MSD License Agreement § 2.1). The parties allegedly granted MSD exclusive rights to make commercial use of ECL products and processes. MST and IGEN agreed in their Joint Venture Agreement ("JVA") that neither "shall market directly, or license others to market, products that compete with MSD with respect to [products, processes, and services MSD developed].")*. See* Compl. ¶ 18 (citing JVA § 4.1).

7 *Id*. ¶ 21 (citing JVA § 1.11). The exclusive technologies "specifically include, but are not limited to, monolayers, molecular assemblies . . . multi-array and/or multi-specific surfaces, electrochromics, microelectrodes," and other technologies. *See id*.

License Agreement provides that these license rights could expand over time in at least two respects. In particular, MSD's ECL rights would expand as and to the extent MSD conducted new research[8] and in the event that any of IGEN's previous third-party ECL exclusive licenses were terminated or became nonexclusive. In the latter case, the effected rights would be licensed to MSD, and not revert to IGEN.[9]

4. The Fourth Circuit litigation

In 1997, IGEN brought suit in the United States District Court for the District of Maryland, alleging, among other things, that Roche violated the field restrictions in the 1992 License from IGEN.[10] While the details of this suit are not germane here, its consequences are. After trial, the jury returned a special verdict in favor of IGEN on each of its claims, including that Roche had materially breached the 1992 License, and awarded IGEN compensatory and punitive damages.[11] In 2003, the Court of Appeals for the Fourth Circuit significantly reduced the damages award, but affirmed the jury's finding that Roche breached the 1992 License by marketing ECL-based products outside

---

8 *See id*. The parties provided that the MSD License would be perpetual and survive the termination of the JVA. *See id*. ¶ 19 (citing JVA § 6.1).

9 Section 2.1 of the MSD License Agreement states, "in the event any such exclusive license terminates, or IGEN is otherwise no longer restricted by such license from licensing such technology to MSD, such technology shall be, and hereby is, licensed to MSD pursuant hereto."

10 For the factual and procedural history of this case, see *IGEN Int'l, Inc. v. Roche Diags. GmbH,* 335 F.3d 303 (4th Cir. 2003).

11 *See id.* at 308. The district court denied Roche's post-trial motions for judgment as a matter of law, a new trial, and reduction of the punitive damages award. *Id*.

of its permitted field.[12] As a result, the court permitted IGEN to terminate the 1992 License and Roche's rights to use IGEN's ECL technology thereunder.

5. The Transaction

Faced with the imminent loss of its ECL license rights upon the Fourth Circuit's ruling, Roche sought to reacquire those rights so as not to disrupt its immunoassay business, for which ECL technology is a necessary component. Consequently, within two weeks of the appellate ruling, Roche arranged a solution to preserve its ability to use IGEN's ECL technology. Specifically, Roche purchased IGEN for $1.25 billion and, in addition, it, along with IGEN, MSD, and MST, entered into the Transaction, which is embodied in a series of contemporaneous agreements (the "Transaction Agreements").[13]

Importantly, Roche did not seek to purchase IGEN's full portfolio of ECL patents nor its interest in the MSD joint venture. Rather, it sought a license to use ECL technology in a limited field of individual patient human diagnostics. In fact, the parties excluded IGEN's ECL-related patents and interest in MSD from Roche's purchase of IGEN. In addition, they created "BioVeris, a publicly traded company not affiliated with Roche and which had the same management and owners as IGEN, to obtain IGEN's ECL

---

[12] *IGEN Int'l, Inc.*, 335 F.3d at 315.

[13] *See* Compl. Ex A, the Global Consent Agreement ("Global Consent"), § 1.01.

intellectual property, its rights to the Roche License, its rights to the MSD License, and its obligations under the Joint Venture."[14]

The mechanics of the Transaction worked as follows. IGEN provided a license to IGEN LS LLC (the "Roche License" or "License"), a wholly-owned subsidiary of IGEN created solely to obtain that license. IGEN then assigned to BioVeris the remainder of its assets, rights, and interests, including its ECL patents, as well as its contractual rights and obligations as a member in and licensor to MSD. BioVeris also acquired IGEN's rights and obligations as licensor of the 2003 Roche License. Roche then indirectly acquired IGEN LS LLC, the licensee under the Roche License, by acquiring IGEN, its parent, in exchange for $1.25 billion. The net effect of these steps was that Roche obtained its limited-field license and BioVeris obtained the remainder of IGEN's intellectual property assets, including its ECL patents and licensor rights and obligations under the Roche and MSD Licenses.

As noted, the parties executed numerous subsidiary agreements in order to implement the Transaction. Of them, the most relevant to this action are the Roche License and the Global Consent. I address each of those documents in turn.

6. The Roche License

Through the Roche License, Roche obtained "only for use in the Field, an irrevocable, perpetual, Non-Exclusive, worldwide, fully-paid, royalty-free right and

---

[14] Compl. ¶ 28. As the Complaint notes, BioVeris, MST, and MSD agreed to terminate the Joint Venture. *Id*. at n.6. In December 2004, MST exercised its right to purchase BioVeris's share of MSD. *Id*.

license under the Licensed ECL Technology, to develop . . . use, . . . sell, . . . and otherwise commercially exploit Products."[15] Because the license is nonexclusive, the licensor, IGEN and then BioVeris, "may during the Term of [the Roche License] exercise the licensed rights itself in the licensee's field or grant non-exclusive licenses in the licensee's field to a third party, or retain for itself any non-exclusive license rights."[16] The License defined the term "Field" to mean "the analyzing of specimens taken from a human body, including without limitation, blood, bodily fluid or tissue, for the purpose of testing, with respect to that human being, for a physiological or pathological state, a congenital abnormality, safety and compatibility of a treatment or to monitor therapeutic measures."[17]

The Roche License limited severely Roche's ability to market ECL products outside the Field. Indeed, IGEN LS LLC, and indirectly Roche, covenanted that it would "not, under any circumstances, actively advertise or market the Products in fields other

---

15 Compl. Ex. B, Roche License Agreement, § 2.1. "Products" is defined as "ECL instruments, service for ECL instruments and spare parts; and ECL Assays." *Id*. § 1.13.

16 *Id*. § 1.10.

17 *Id*. § 1.7(a). The Roche License limits the Field by stating that, "Notwithstanding [subsection (a)], the Field shall not include analyzing for (A) life science research and/or development, including at any pharmaceutical company or biotechnology company, (B) patient self testing use; (C) drug discovery and/or drug development . . . including clinical research or determinations in or for clinical trials or in the regulatory approval process for a drug or therapy, or (D) veterinary, food, water, or environmental testing or use." *Id*. § 1.7(b) (inconsistent punctuation in original).

than those in the Field."[18] In addition, § 2.5(a) of the Roche License contemplated that a neutral third party would monitor Roche's sales, at least annually, to track its compliance with its obligations regarding marketing its products within the Field.[19] Section 2.5(b) provided some teeth to this prohibition by requiring Roche to pay to the licensor, within 30 days of having received a notice from the licensor that it is operating outside of the Field, "65% of all undisputed revenues [it] earned through out-of-field sales of Products for the prior year."[20] The License, however, provided that this revenue penalty would be the licensor's "exclusive remedy" for out-of-field sales by Roche and that the licensor has "no right to terminate" the Roche License for such sales.[21] Furthermore, if a dispute should arise between the parties that cannot be resolved in good faith out of court, Article 6 prescribes arbitration as the sole means of dispute resolution.[22]

Notably, § 14.11 of the License states that, with certain limited exceptions, "nothing [in the Roche License] is intended to confer upon any person other than the Parties hereto and their respective successors and permitted assigns, any benefit, right or

---

18 *Id*. § 2.6. Moreover, Roche, through IGEN LS LLC, was required to market and sell its products to customers it "reasonably believe[d], based on prior knowledge of and experience with such customer . . . without a duty to inquire or investigate, will use the Products solely in the Field . . . ." *Id*. § 2.5(c).

19 *Id*. § 2.5(a).

20 *Id*. § 2.5(b).

21 Roche License Agreement § 2.5(b).

22 *Id*. §§ 6.1-6.3.

remedy under or by reason of [the Roche License]."[23] The License explicitly designates IGEN and IGEN LS LLC as the sole "Parties" to the agreement.[24] But, immediately following the signature page, Plaintiffs MSD and MST signed a form entitled "CONSENT BY MESO SCALE DIAGNOSTICS, LLC AND MESO SCALE TECHNOLOGIES, LLC" (the "Meso Consent").[25] That document indicates that together, Plaintiffs

> consent[ed] to the [Roche License] . . . and . . . consent[ed] to and join[ed] in the licenses granted to [Roche] in the [Roche License]. . . . Furthermore, MSD and MST . . . represent[ed] and warrant[ed] to [Roche] that each of them . . . waive[d] any right that either of them may have to in any way restrict or limit [Roche]'s exercise of the licenses granted in the [Roche License] during the Term thereof.[26]

Plaintiffs contend that Roche sought Plaintiffs' consent at a price of $37.5 million because Roche was concerned that IGEN, by virtue of the rights it previously granted to MSD through the MSD License, might not be able to grant unilaterally the rights Roche sought under the Roche License without violating the MSD License.[27] Indeed, Plaintiffs

---

[23] *Id*. § 14.11.

[24] *Id*. at 1.

[25] *Id*. at Meso Consent (following signature page).

[26] *Id*.

[27] Pls.' Opp. to Defs.' Mot. to Dismiss ("PAB") 10-11. Similarly, I refer to Defendants' opening brief as "DOB" and their reply brief as "DRB."

Plaintiffs allege in their brief that MSD's rights under the MSD License had expanded since 1995 because, among other things, MSD received Roche's rights to market Products in the field described in the 1992 License, pursuant to MSD's argue that, pursuant to § 4.1 of the JVA, IGEN could not have licensed Roche to compete with MSD, as the Roche License purports to permit, absent the consent of MSD and MST. Moreover, they assert that Roche also needed MSD to consent affirmatively to the rights offered to Roche under the Roche License based on the springing nature of the MSD License, under which MSD's rights could expand by, for example, the acquisition of rights licensed to Roche under the 1992 License that were to revert to MSD upon its termination.[28] Thus, according to Plaintiffs, Roche chose to pay Plaintiffs to consent to and join in the Roche License. Plaintiffs assert that Roche received the benefit of MSD and MST having waived potential claims that the Roche License violated the scope of the MSD License or their rights under the JVA. In exchange, they aver that MSD and MST received a cash payment and meaningful protection in the form of § 2.5 and other provisions in the Roche License that confined Roche to operating in the Field so as to avoid encroaching on MSD's exclusive use of ECL technology in other fields.

7. The Global Consent

Also as part of the Transaction, Plaintiffs, Roche, IGEN, and BioVeris entered into a Global Consent and Agreement (the "Global Consent"), which, among other things, provided that the parties consented to the "Transaction Agreements and the

---

"springing rights," when that agreement was terminated following the Fourth Circuit's ruling in 2003. *See id*. at 9-10 (citing Compl. ¶¶ 26, 38). It is unclear, however, from the allegations in the Complaint whether the Transaction, including the new Roche License, actually closed before the 1992 License was terminated.

28 Transcript of Dec. 15, 2010 Argument ("Tr.") 52-53.

consummation of the Transactions" and "grant[ed] all waivers and consents which are necessary under the MSD Agreements to permit the consummation of the Transactions and the performance by [IGEN, BioVeris], and each Consenting Party of their obligations under the Transaction Agreements in accordance with their terms."[29] Specifically, the parties consented to the aspect of the Transaction whereby BioVeris was created to obtain IGEN's assets subject to the license rights held by Plaintiffs.[30] The recitals reflect that the parties simultaneously were entering into a number of separate but related agreements, including the Merger Agreement, pursuant to which a Roche affiliate merged with IGEN, and a Restructuring Agreement, under which IGEN transferred its remaining intellectual property assets to BioVeris.[31]

---

[29] Global Consent § 3.01.

[30] BioVeris initially was named IGEN Integrated Healthcare, LLC and was referred to throughout the Global Consent as "Newco." Global Consent 1; Compl. ¶ 28. In addition, the parties mutually released each other from any and all past claims arising out of, among other things, contracts, covenants, and agreements up to the effective time of the merger between IGEN and Roche's subsidiary. *See* Global Consent § 4.1.

[31] Global Consent 1. Section 1.01 of the Global Consent defines "Transactions" as the "transactions contemplated by [the Global Consent] and the other Transaction Agreements." *Id*. § 1.01. The "Transaction Agreements" are defined to include: (1) the Global Consent and Agreement; (2) the Merger Agreement; (3) the Restructuring Agreement; (4) the Post-Closing Covenants Agreement; (5) the Tax Allocation Agreement; (6) the Ongoing Litigation Agreement; (7) the Release and Agreement dated July 24, 2003; (8) the Roche License Agreement; (9) the Improvements License Agreement; (10) the Covenants Not to Sue; (11) the PCR License Agreement; and (12) the PCR Services Agreement. *Id*.

As to the asset transfer from IGEN to BioVeris, IGEN assigned all of its assets to BioVeris, including its ECL patents, production facilities, and contract rights and obligations. The latter category included the MSD License, the JVA, and IGEN's interest in the Roche License granted to IGEN LS LLC.[32] Each party to the Global Consent, including MST and MSD, "consent[ed] to and accept[ed] the assumption by [BioVeris] of all the rights, obligations, duties and Liabilities . . . of [IGEN] under the MSD Agreements . . . and agree[d] to perform [their] obligations, duties, [and] Liabilities . . . under the MSD Agreements in accordance with their terms in favor of [BioVeris]."[33] Schedule A lists a number of subsidiary agreements that comprise the "MSD Agreements," including the JVA and the MSD License.[34] Section 3.02(e) provides that, except for the rights of IGEN LS LLC (*i.e.*, Roche) under the Roche License, BioVeris will own "all right, title and interest in and to any and all intellectual property and other proprietary and confidential information or materials owned by [IGEN] as of the date hereof."[35]

In addition, the Global Consent contains a nonassignment clause that is a focal point of this dispute. Section 5.08 provides:

> Neither this Agreement nor any of the rights, interests or obligations under [it] shall be assigned, in whole or in part, by

---

32 *See id*. §§ 3.01-3.02.

33 *Id*. § 3.02(b).

34 *Id*. at Schedule A; Compl. ¶ 36.

35 Global Consent § 3.02(e).

> operation of law or otherwise by any of the parties without the prior written consent of the other parties; *provided*, *however*, that the parties acknowledge and agree that the conversion of [BioVeris] in accordance with Section 2.01 of the Restructuring Agreement and the continuation of [BioVeris] as a result thereof shall be deemed not to be an assignment and shall not require any consent of any party. Any purported assignment without such consent shall be void. Subject to the preceding sentences, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.[36]

As discussed further *infra*, Plaintiffs allegedly were concerned that "Roche might someday seek to purchase BioVeris and its ECL-related intellectual property in an attempt to expand its ECL activities beyond the Field."[37] According to Plaintiffs, they negotiated for the right under § 5.08 to consent to any purchase of BioVeris going forward to protect them from this threat.

8. Roche's acquisition of BioVeris in 2007

After the Transaction closed in 2004, a dispute arose between Roche and BioVeris concerning allegations that Roche was selling ECL-based products outside of its Field. According to Plaintiffs, Roche believed its violation of the Field restrictions amounted to only a few million dollars for the years 2004 and 2005, and offered to pay these amounts as royalty fees to BioVeris. BioVeris allegedly believed, however, that Roche's violations amounted to a figure "on the order of hundreds of millions of dollars."[38] In

---

36 *Id*. § 5.08 (emphasis in original).

37 Compl. ¶¶ 35-36.

38 *Id*. ¶ 43.

November 2006, BioVeris demanded full payment of royalties owed and invoked its contractual right for an accounting of Roche's activities by a neutral monitor, PriceWaterhouseCoopers. Within a few weeks, Roche approached BioVeris with an offer to purchase the company. The two entities then began approximately five months of negotiations, culminating in an April 2007 announcement of a transaction whereby Roche would acquire a 100% interest in BioVeris in exchange for $21.50 per share in cash, a total deal value of approximately $600 million (the "BioVeris Merger").[39]

The BioVeris Merger was effected pursuant to the "Agreement and Plan of Merger dated as of April 4, 2007 among Roche Holding Ltd., Lili Acquisition Corporation ["LAC"], and BioVeris Corporation" (the "BioVeris Merger Agreement").[40] The mechanics of this reverse triangular merger worked as follows. Roche Holding Ltd. created LAC as a wholly-owned subsidiary, which then merged into BioVeris, with BioVeris as the surviving corporation.[41] BioVeris stockholders were paid cash for their shares and, as a result of the Merger, Roche became the sole stockholder of BioVeris. The effect of the Merger was that "all properties, rights, privileges, powers and franchises of [BioVeris] and [LAC] [vested] in [BioVeris], and all claims, obligations, debts,

---

39 The BioVeris Merger closed on June 26, 2007. *Id*. ¶ 50.

40 Compl. Ex. E.

41 BioVeris Merger Agreement §§ 1.1, 1.4.

liabilities and duties of [BioVeris] and [LAC] [became] the claims, obligations, debts, liabilities and duties of [BioVeris]."[42]

Plaintiffs allege that Roche purchased BioVeris solely to obtain the latter's ECL-related intellectual property rights, including its ownership rights under the Roche and MSD Licenses. They further assert that, within months of the BioVeris Merger, Roche laid off all of its approximately 200 employees, vacated the BioVeris facility in Maryland, and notified existing customers that BioVeris's product lines were being discontinued, leaving BioVeris as nothing more than a holding company for its intellectual property and license rights.

C. Procedural History

On June 22, 2010, Plaintiffs filed their Complaint alleging two counts for breach of contract as to (1) the Global Consent and (2) the Roche License. On September 2, 2010, Defendants moved to dismiss. After full briefing, I heard argument on December 15, 2010 (the "Argument"). This Memorandum Opinion constitutes my ruling on Defendants' motion.

D. Parties' Contentions

Count I of the Complaint accuses Defendants of breaching § 5.08 of the Global Consent. Plaintiffs contend that, pursuant to § 3.02(e) of that agreement, BioVeris owned any and all property IGEN owned before its acquisition by Roche in the Transaction. They assert that, pursuant to § 5.08, BioVeris could not assign this property, by operation

---

[42] *Id*. § 1.4.

of law or otherwise, without the written consent of MSD and MST. Essentially, according to Plaintiffs, these provisions required Roche and BioVeris to obtain written consent from MSD and MST to permit any assignment by BioVeris to Roche of its rights, interests, and obligations in or to IGEN's intellectual property, including the Roche and MSD Licenses. Thus, they argue that Defendants breached § 5.08 because they did not obtain the consent of MSD or MST when Roche acquired BioVeris in a transaction that Plaintiffs contend constituted an assignment of BioVeris's intellectual property by operation of law or otherwise.

Count II alleges that Roche breached provisions of the Roche License. In particular, it alleges that, notwithstanding Roche's acquisition of BioVeris in 2007, Roche's covenants to MSD and MST under the Roche License precluded it from marketing and selling ECL-based products outside of the Field.

Roche contends that Plaintiffs have failed to state a claim on both Counts. As to Count I, Roche asserts that § 5.08 does not apply to the patents and licenses BioVeris obtained from IGEN in the Transaction and, even if it does, Roche's acquisition of BioVeris through a reverse triangular merger was not prohibited by that provision because no property was assigned from BioVeris to Roche. As to Count II, Roche argues that Plaintiffs cannot prevail on their claims under the Roche License if they do not prevail on Count I. Regardless, Roche avers that Plaintiffs cannot state a claim for breach of the Roche License for two additional reasons: (1) neither Plaintiff was a party to that license nor obtained third party rights thereunder so they have no standing to assert its breach; and (2) even if Plaintiffs had rights under the Roche License, its Field limitations ceased to be of effect once Roche acquired BioVeris and the latter's ECL patents and other intellectual property.

Plaintiffs vigorously dispute Roche's characterizations of the Complaint and contend that they have sufficiently stated a claim under each of the challenged counts.

II. ANALYSIS

A. Standard for a Motion to Dismiss

When considering a motion to dismiss under Rule 12(b)(6), a court must assume the truthfulness of the well-pleaded allegations in the complaint and afford the party opposing the motion "the benefit of all reasonable inferences."[43] But, the court need not accept inferences or factual conclusions unsupported by specific allegations of fact.[44] Consequently, to survive a Rule 12(b)(6) motion, a complaint must allege facts sufficient to support a reasonable inference of actionable conduct, not simply a conclusion to that effect.[45] In line with the standard articulated by the United States Supreme Court in *Bell Atlantic v. Twombly*,[46] the court must determine whether the complaint offers sufficient facts plausibly to suggest that the plaintiff ultimately will be entitled to the relief she

---

43 *Superwire.com, Inc. v. Hampton*, 805 A.2d 904, 908 (Del. Ch. 2002) (citing *In re USACafes, L.P. Litig.*, 600 A.2d 43, 47 (Del. Ch. 1991)).

44 *Ruffalo v. Transtech Serv. P'rs Inc.*, 2010 WL 3307487, at *10 (Del. Ch. Aug. 23, 2010).

45 *Desimone v. Barrows*, 924 A.2d 908, 928-29 (Del. Ch. 2007).

46 *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555-56 (2007).

seeks.[47] "If a complaint fails to do that and instead asserts mere conclusions, a Rule 12(b)(6) motion to dismiss must be granted."[48]

B. Application to Counts I and II

1. Applicable principles of contract interpretation

The interpretation of a contract is a question of law and, in many cases, is suitable for determination on a motion to dismiss.[49] When interpreting a contract, the Delaware courts strive to determine the parties' shared intent, "looking first at the relevant document, read as a whole, in order to divine that intent."[50] As part of that review, the court interprets the words "using their common or ordinary meaning, unless the contract

---

47 *Desimone*, 924 A.2d at 928-29.

48 *Ruffalo*, 2010 WL 3307487, at *10 (citing *Desimone*, 924 A.2d at 929). In considering a motion to dismiss for failure to state a claim, a court generally may not consider matters beyond the complaint. *See Robotti & Co. v. Liddell*, 2010 WL 157474, at *5 (Del. Ch. Jan. 14, 2010). A court may consider, however, a document beyond the complaint on a motion to dismiss if the proponent establishes that such document is either "[1] integral to, and incorporated within, the plaintiff's complaint; or . . . [2] not being relied upon for the truth of [its] contents." *Id.*; *see also Vanderbilt Income & Growth Assocs., L.L.C. v. Arvida/JMB Managers, Inc.*, 691 A.2d 609, 613 (Del. 1996); *Liddell*, 2010 WL 157474, at *5; *Addy v. Piedmonte*, 2009 WL 707641, at *6 (Del. Ch. Mar. 18, 2009). Consistent with those principles, I have considered on Defendants' motion the Roche License Agreement, the Global Consent, and the BioVeris Merger Agreement because they are integral to and incorporated in the Complaint.

49 *See, e.g.*, *Schuss v. Penfield P'rs, L.P.*, 2008 WL 2433842, at *6 (Del. Ch. June 13, 2008); *OSI Sys., Inc. v. Instrumentarium Corp.*, 892 A.2d 1086, 1090 (Del. Ch. 2006).

50 *Schuss*, 2008 WL 2433842, at *6.

clearly shows that the parties' intent was otherwise."[51] Moreover, when interpreting a contractual provision, a court should attempt to reconcile all of the agreement's provisions when read as a whole, giving effect to each and every term. In doing so, this Court applies the well-settled principle that "contracts must be interpreted in a manner that does not render any provision 'illusory or meaningless.'"[52]

If the contractual language at issue is "clear and unambiguous," the ordinary meaning of the language generally will establish the parties' intent.[53] To demonstrate that a contract is ambiguous, a litigant must show that the language "in controversy [is] reasonably or fairly susceptible of different interpretations or may have two or more different meanings."[54] Furthermore, on a motion to dismiss, a trial court cannot choose between two different reasonable interpretations of an ambiguous document.[55] Thus,

---

51 *Cove on Herring Creek Homeowners' Ass'n v. Riggs*, 2005 WL 1252399, at *1 (Del. Ch. May 19, 2005) (quoting *Paxson Commc'ns Corp. v. NBC Universal, Inc*., 2005 WL 1038997, at *9 (Del. Ch. Apr. 29, 2005)).

52 *Schuss*, 2008 WL 2433842, at *6 (internal citation omitted).

53 *Brandywine River Prop., LLC v. Maffet*, 2007 WL 4327780, at *3 (Del. Ch. Dec. 5, 2007).

54 *Pharmathene, Inc. v. Siga Techs., Inc.*, 2008 WL 151855, at *11 (Del. Ch. Jan. 16, 2008) (internal citations omitted). Ambiguity does not exist simply because the parties do not agree on a contract's proper construction. *United Rentals, Inc. v. Ram Hldgs., Inc*., 2007 WL 4496338, at *15 (Del. Ch. Dec. 21, 2007).

55 *See Appriva S'holder Litig. Co. v. EV3, Inc.*, 937 A.2d 1275, 1289 (Del. 2007).

where potential ambiguity exists, "'[d]ismissal is proper only if the defendants' interpretation is the only reasonable construction as a matter of law.'"[56]

2. Count I: Breach of § 5.08 of the Global Consent

Defendants argue that Plaintiffs failed to state a claim for breach of § 5.08 of the Global Consent. They contend that, by its express terms, § 5.08 does not apply to BioVeris's patents and licenses, and even if those patents and licenses were covered, no assignment in violation of § 5.08 occurred. I address each of these points in turn.[57]

a. Are rights, interests, or obligations relating to BioVeris's intellectual property subject to § 5.08 of the Global Consent?

In pertinent part, § 5.08 states:

> Neither this Agreement nor any of the rights, interests or obligations **under this Agreement** shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties without the prior written consent of the other parties; *provided, however,* that the parties acknowledge and agree that the conversion of [BioVeris] in accordance with Section 2.01 of the Restructuring Agreement and the continuation of [BioVeris] as a result thereof shall be deemed not to be an assignment and shall not require any consent of any party. . . .[58]

Relying on the opening phrase of the Global Consent, which begins, "GLOBAL CONSENT AND AGREEMENT (this 'Agreement')," Roche argues that the parties

---

56 *Id*. (quoting *Vanderbilt Income & Growth Assoc. v. Arvida/JMB Managers, Inc.*, 691 A.2d 609, 613 (Del. 1996)).

57 In doing so, I note that Delaware law governs the construction of the Global Consent. Global Consent § 5.06.

58 *Id*. § 5.08 (italics in original, bold emphasis added).

defined the term "Agreement" to be the Global Consent. From that, it extrapolates that the plain meaning of "under" in the phrase "under this Agreement" is that the Global Consent's nonassignment clause applies only to the rights, interests, and obligations created or established under the Global Consent, not those created or established under other contracts. To support this construction, Roche notes that § 5.08 makes no mention of BioVeris's patents or licenses and asserts that nothing suggests those intellectual property rights came into being or otherwise arose "under" the Global Consent.[59] Moreover, Roche contends that just because certain provisions in Article 3 of the Global Consent reference intellectual property rights and interests does not mean those rights and interests arose under the Global Consent.[60]

Essentially, Roche argues that, under the plain meaning of § 5.08, for the rights, interests, and obligations in BioVeris's patents and licenses to be deemed to be "under" the Global Consent, they must have been created by the Global Consent.[61] Because

---

59 Roche argues that BioVeris obtained its intellectual property assets from IGEN before the Global Consent was executed, and Roche obtained its license in the separately executed Roche License Agreement. Furthermore, those assets were not transferred from IGEN to BioVeris under the Global Consent; rather, they were transferred pursuant to the separately executed Restructuring Agreement.

60 For example, Roche asserts that, under § 3.02(b), the parties to the Global Consent agreed to transfer certain assets from IGEN to BioVeris so that the "right" created under that provision was the right to transfer those interests, not the interests themselves. DOB 18.

61 Roche contends that the term "under" is unambiguous and, therefore, objects to Plaintiffs' attempted use of extrinsic evidence about their subjective understanding of its meaning. *Id*. at 20-22.

rights, interests, and obligations relating to those assets arose from contracts executed earlier or contemporaneously, and not from the Global Consent, Roche asserts that § 5.08 does not restrict assignment of BioVeris's patents and licenses. According to Roche, if Plaintiffs wanted to limit the ability of BioVeris to assign its intellectual property assets, they could have used that language in § 5.08, but chose not to do so.

Assuming, without deciding, that Roche's construction is reasonable,[62] to succeed on its motion, Roche must demonstrate that its construction of § 5.08 is the only reasonable interpretation.[63] Plaintiffs argue that giving the term "under" its common and ordinary meaning, § 5.08's prohibitions on assignment are not limited to rights "created

---

62 Plaintiffs contend that Roche's construction is unreasonable because it would render § 5.08 meaningless, making it a nullity. PAB 20-21 (citing *O'Brien v. Progressive N. Ins. Co.*, 785 A.2d 281, 287 (Del. 2001)). They aver that, per Roche's construction, § 5.08 would cover only Plaintiffs' consent to the acquisition of IGEN, the creation of BioVeris and transfer of IGEN's assets to it, and Plaintiffs' covenant not to interfere with those transactions. According to Plaintiffs, if these were the only rights, interests, or obligations that arose "under" the Global Consent, they would become irretrievable upon the closing of the Transaction and Plaintiffs would have no right to consent thereafter. As such, § 5.08 would be a dead letter after the closing and, therefore, virtually meaningless.

At this preliminary stage, I am not convinced that Roche's construction would render § 5.08 meaningless. The Transaction Agreements defined in § 1.01 of the Global Consent were executed in July 2003, but the Transaction did not close until February 2004. Thus, according to Roche, § 5.08 prevented the parties from assigning their rights under the Global Consent in the interim. At least arguably, therefore, § 5.08's prohibition on unauthorized assignment would have some meaning, although it would be of marginal importance.

63 *See Pharmathene, Inc. v. Siga Techs., Inc.*, 2008 WL 151855, at *11 (Del. Ch. Jan. 16, 2008) (noting that a contract is ambiguous where the language at issue is reasonably susceptible to two or more different interpretations.).

by" or that "arose" under the Global Consent alone. Rather, Plaintiffs argue that "under" means "within the grouping or designation of."[64] Using this interpretation, they contend that § 5.08 incorporates by reference all of the rights, interests, and obligations concerning the acquisition of IGEN and the formation of BioVeris. Citing references in Article 3, Plaintiffs aver that rights, interests, and obligations created by other contemporaneous Transaction documents also would come "under" the Global Consent's umbrella.[65] Otherwise, according to Plaintiffs, Roche's construction would render the term "global" in "Global Consent" meaningless. Finally, Plaintiffs argue that only their construction comports with their intended purpose in negotiating for § 5.08: to prevent Roche from interfering with their rights under the MSD License and to prevent transfer of the ownership of that license to another company.

Roche has not shown that Plaintiffs' construction of the term "under" is unreasonable. Section 5.08 prevents the assignment, absent consent, of rights, interests, and obligations "under" this agreement. It does not, as Roche suggests, contain an express statement that it is limited to those rights, interests, and obligations that were "created" by or "arose" under the Global Consent. Hence, although Roche's construction may be reasonable, it is not the only reasonable one. Section 3.01 of the Global Consent

---

64 PAB 18 (citing WEBSTER'S THIRD NEW INT'L DICTIONARY 2487 (2002)).

65 At the Argument, Plaintiffs asserted that the Global Consent "knit[s] together those 12 transaction agreements, and get[s] our consent to it, in essence. It doesn't, within its four corners, create any rights on its own whatever. It's a consent." Tr. 62.

confirms that, by signing that document, each party was providing a global consent to each of the multiple Transaction Agreements and the consummation of each Transaction.[66] Under § 1.01, these defined terms include in their purview the twelve subsidiary agreements that make up the overall Transaction, including the Global Consent.[67] Thus, the term "under" reasonably could encompass rights, interests, and obligations that were created under one or more of the other eleven agreements. As such, a reasonable reading of § 5.08 of the overarching Global Consent is that rights and interests in IGEN's intellectual property, including ownership of the MSD License, which subsequently were transferred to the newly-formed BioVeris in 2003, would be covered by § 5.08's prohibition against unauthorized assignments.

The proviso in § 5.08 further supports this conclusion. It states, in pertinent part: "*provided*, *however*, that the parties acknowledge and agree that the conversion of [BioVeris] in accordance with Section 2.01 of the Restructuring Agreement and the continuation of [BioVeris] as a result thereof shall be deemed not to be an assignment and shall not require any consent of any party."[68] Plaintiffs credibly assert that the carve-out from § 5.08's consent provision of the transfer of assets from IGEN to BioVeris in the Restructuring Agreement shows that § 5.08 reasonably could apply to actions authorized by other Transaction Agreements. The source of the rights, interests, and

---

66 Global Consent § 3.01.

67 *Id*. § 1.01.

68 *Id*. § 5.08 (emphasis in original).

obligations concerning the creation of BioVeris was the Restructuring Agreement, not the Global Consent. Yet, the parties explicitly agreed in § 5.08 that BioVeris's transition from an LLC to a publicly traded corporation would not be deemed an assignment by operation of law or otherwise. It is plausible, therefore, that rights or interests created under other Transaction Agreements, including the Roche License, would be subject to the requirements in § 5.08 that they not be assigned without Plaintiffs' consent.

Because § 5.08 is fairly susceptible to more than one reasonable construction, it is ambiguous. Moreover, this Court cannot resolve that ambiguity in the context of a motion to dismiss.[69]

b. Did the BioVeris Merger constitute an assignment "by operation of law"?

Roche contends that even if the Court finds that BioVeris's patents and licenses are "rights, interests, or obligations [that fall] under" § 5.08's nonassignment clause, the Court still could dismiss Count I because no assignment in violation of that provision occurred. According to Roche, a change in control of a continuing corporation, as occurred here, is not an assignment by operation of law or otherwise. In particular, Roche argues that BioVeris did not assign anything to Roche in the BioVeris Merger. BioVeris retains today the licenses and intellectual property it received from IGEN in the Transaction; the only thing that changed is the ownership of BioVeris.

---

69 *See Appriva S'holder Litig. Co. v. EV3, Inc.*, 937 A.2d 1275, 1289 (Del. 2007) (noting that a motion to dismiss may not be granted for failure to state a claim if the defendants' interpretation is not the only reasonable construction as a matter of law).

It is plausible that § 5.08 does not require Plaintiffs' consent for all changes in ownership or control of BioVeris. The relevant language states: "Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be **assigned**, in whole or in part, **by operation of law or otherwise** by any of the parties without the prior written consent of the other parties . . . ."[70] This language, on its face, covers "assignments" and does not expressly prohibit a change of "control" or "ownership" of BioVeris.[71] Nevertheless, the absence of a "change of control provision" in the Global

---

[70] Global Consent § 5.08 (bold emphasis added).

[71] Anti-assignment provisions generally provide that the rights and interests under a contract may not be assigned without the consent of the counterparty to the contract. *See* E. THOM RUMBERGER, JR., ET AL., THE ACQUISITION AND SALE OF EMERGING GROWTH COMPANIES: THE M&A EXIT, § 5:6 (2d ed. 2009). A typical "anti-assignment" provision states that an "Agreement may not be assigned by either party without the prior written consent of the other party." *See id*. (emphasis in original omitted). "A 'change in control' provision, on the other hand, typically provides that the counterparty may terminate the contract if target experiences a change in control in its ownership." *Id*. Such a provision might state: "Licensor may terminate this Agreement upon thirty calendar days' written notice if Licensee experiences a Change in Control. A 'Change in Control' shall mean (i) an acquisition of Licensee by means of a merger, consolidation, share exchange, or other similar transaction or series of related transactions resulting in the exchange of the outstanding shares of Licensee's capital stock such that the stockholders of Licensee prior to such transaction do not own, directly or indirectly, at least fifty percent of the voting power of the surviving entity in the same proportions, relative to other stockholders, as they did prior to such transaction, or (ii) the disposition by sale, license or otherwise of all or substantially all of the assets of Licensee." *Id*. (emphasis in original omitted). Thus, when a contract includes this sort of language, third party consent is necessary if the entity is being sold outright or is selling substantially all of its assets. *Id*.

Consent does not necessarily mean that the BioVeris Merger falls outside the scope of § 5.08.

Section 5.08 prohibits, sans consent from MSD and MST, an assignment of BioVeris's rights and interests *by operation of law or otherwise*. That is, if the BioVeris Merger properly is found to be an assignment by operation of law, it would violate § 5.08, even if that provision did not expressly prohibit unauthorized mergers generally. Although both Plaintiffs and Roche characterize the term "by operation of law" in § 5.08 as unambiguous, they advance quite different constructions of it. One major difference relates to whether a reverse triangular merger ("RTM") could ever be viewed as an assignment by operation of law. No Delaware case squarely has addressed that issue.

Roche contends that acquisitions of companies owning technology licenses that are effected by RTMs do not involve assignments "by operation of law." It argues that the mere acquisition of a corporation does not involve the assignment by operation of law of the rights and obligations of that corporation, so long as the corporation's form and contractual responsibilities are preserved. Roche begins by emphasizing that the BioVeris Merger was effectuated through the use of an RTM, whereby BioVeris became a wholly-owned subsidiary of Roche by having another Roche subsidiary merged into it. Then, analogizing to cases involving stock acquisitions, Roche contends that the effect on the surviving entity in an RTM is similar to the effect on an entity whose stock is purchased in a stock acquisition; that is, the identity of the owners change, but none of the entity's contractual responsibilities are varied, or, by implication, assigned.

Triangular mergers are common and have a myriad of legitimate justifications.[72] In an RTM, a parent corporation creates a wholly-owned merger sub and then causes it to merge into the target. The outstanding shares of the sub, which are owned by the parent, are converted into shares of the target and the outstanding shares of the target are converted into shares of the parent or some other consideration.[73] An advantage of this structure is that the target becomes a wholly-owned subsidiary of the parent without incurring any change in its corporate existence.[74] Consequently, "the rights and obligations of [the target] . . . are not transferred, assumed, or affected. For example, obtaining consents for the transfer of . . . licenses may not be necessary, absent a provision to the contrary in the license[] . . . since the license[] will continue to be held by the same continuing corporation."[75]

In making its argument, Roche combines these principles with Delaware's stock acquisition jurisprudence. In a number of cases, courts in this State and elsewhere have held that "[w]here an acquiror purchases the stock of a corporation, that purchase does

---

72 *See Lewis v. Ward*, 2003 WL 22461894, at *4 & n.18 (Del. Ch. Oct. 29, 2003), *aff'd*, 852 A.2d 896 (Del. 2004).

73 1 R. Franklin Balotti & Jesse A. Finklestein, *The Delaware Law of Corporations and Business Organizations* § 9.8, at 9-11-12 (3d ed. 1998).

74 *Id*.

75 *Id*. Pursuant to 8 *Del. C.* § 259(a), the effect of a merger is that all "the rights, privileges, powers and franchises of each of [the constituent] corporations, and all property, real, personal and mixed, and all debts due to any of said constituent corporations on whatever account . . . shall be vested in the corporation surviving or resulting from such merger or consolidation." 8 *Del. C.* § 259(a).

not, in and of itself, constitute an 'assignment' to the acquiror of any contractual rights or obligations of the corporation whose stock is sold."[76] This is so because "a purchase or change of ownership of such securities (*again, without more*) is not regarded as assigning or delegating the contractual rights or duties of the corporation whose securities are purchased."[77]

As some commentators have noted, the effect of an RTM is closer to that of a stock acquisition than it is to a forward triangular merger ("FTM"), where the target company is not the surviving entity and its rights, interests, and obligations vest in the surviving entity.[78] Like in a stock acquisition, the surviving entity in a typical RTM

---

[76] *See*, *e.g.*, *Baxter Pharm. Prods., Inc. v. ESI Lederle Inc.*, 1999 WL 160148, at *5 (Del. Ch. Mar. 11, 1999); *Branmar Theatre Co. v. Branmar, Inc.*, 264 A.2d 526, 529 (Del. Ch. 1970) ("Defendant suggests that since 'the Rappaports' could not assign the lease without its consent they should not be permitted to accomplish the same result by transfer of their stock. But the rule that precludes a person from doing indirectly what he cannot do directly has no application to the present case. The attempted assignment was not by the Rappaports but by plaintiff corporation, the sale of stock by its stockholders. Since defendant has failed to show circumstances to justify ignoring the corporation's separate existence reliance upon the cited rule is misplaced.").

[77] *Baxter Pharm. Prods., Inc.*, 1999 WL 160148, at *5 (emphasis added).

[78] *See* Elaine D. Ziff, *The Effect of Corporate Acquisitions on the Target Company's License Rights*, 57 BUS. LAW. 767, 788 (2002) ("A reverse subsidiary merger is arguably more analogous to a sale of stock than it is to a forward subsidiary merger where the target company disappears. In a reverse subsidiary merger, when the 'dust cleared,' nothing has changed but the ownership of the licensee. Cases involving the effect of stock sales on the target company's license rights have . . . overwhelmingly found that no transfer has occurred.") (footnotes omitted); *cf. In re Inergy L.P.*, 2010 WL 4273197, at *11 (Del. Ch. Oct. 29, 2010) ("In the corporate context, a parent corporation can acquire a target corporation by setting up a subsidiary to merge with the target—a practice frequently referred to as a

emerges from the transaction with the same contractual rights and obligations as it had before the transaction. That is, the target is still the entity obligated to perform under its existing executory contracts, even after the RTM is completed.

The stock acquisition cases do not establish, however, that the term "by operation of law" must be construed as Roche contends as a matter of law. First, stock acquisitions, though similar in some respects, are not RTMs, the transaction structure at issue here. Hence, stock acquisition cases are not controlling.[79] But, they do exemplify a situation in which a mere change of ownership, without more, does not constitute an assignment as a matter of law. Yet, here, unlike in *Baxter*,[80] for example, Plaintiffs have alleged more than a mere change in BioVeris's ownership status as a result of the BioVeris Merger. They allege that within months of that transaction, Roche laid off all

---

triangular merger. The subsidiary usually has no assets other than the merger consideration to be paid to the target. The effect of this arrangement is that the parent does not become a constituent to the merger between the target and the subsidiary.").

79 *Cf. Baxter Pharm. Prods., Inc.*, 1999 WL 160148, at *5 n.19 (noting that the "significant differences between" stock acquisitions and mergers "render the merger cases inapposite here.").

80 In *Baxter*, the court noted that "[e]xcept for the name change, BPP [the subject of the stock acquisition f/k/a OPP] is essentially the same company as the former OPP. BPP sells and markets the same product line, it maintains the same corporate policies, and it employs a large majority of the same sales force and administrative personnel as did OPP. BPP also continues to operate the same facility in New Jersey." *Baxter Pharm. Prods.*, 1999 WL 160148, at *5.

of BioVeris's 200 employees, vacated BioVeris's Maryland facility, and notified BioVeris's existing customers that its product lines were being discontinued.[81]

While Roche's construction of "by operation of law" is reasonable, it has cited no Delaware case that holds that an RTM in circumstances comparable to this case cannot constitute an assignment by operation of law. In addition, Plaintiffs have alleged specific facts in support of their allegation that more than a mere change of ownership occurred with regard to BioVeris as a result of the Merger. Thus, while I find Roche's construction reasonable, it is not necessarily the only reasonable interpretation.

For their part, Plaintiffs construe an assignment "by operation of law" as including mergers, regardless of their kind. For support, they rely on two principal sources: (1) Delaware cases suggesting that, in the context of FTMs, a merger would constitute an assignment by operation of law;[82] and (2) a California federal court's holding that an RTM results in an assignment by operation of law.[83]

As to the FTM cases, Plaintiffs rely on *Tenneco Auto Inc.* for the proposition that, "[a]s a general matter in the corporate context, the phrase 'assignment by operation of

---

81 Compl. ¶ 57. Plaintiffs allege that these actions converted BioVeris into a mere holding company for its intellectual property assets. *Id*.

82 PAB 23-25 (citing, among other cases, *Tenneco Auto Inc. v. El Paso Corp.*, 2002 WL 453930, at *2 (Del. Ch. Mar. 20, 2002), and *Star Cellular Tel. Co., v. Baton Rouge CGSA, Inc.*, 19 Del .J. Corp. L. 875 (Del. Ch. 1993), *aff'd*, 647 A.2d 382 (Del. 1994)).

83 PAB 28-29 (citing *SQL Sol'ns Inc. v. Oracle Corp.*, 1991 WL 626458 (N.D. Cal. Dec. 18, 1991)).

law' would be commonly understood to include a merger."[84] In that case, NNS I and El Paso entered into an insurance agreement with an anti-assignment clause similar to § 5.08 here.[85] Then, in an FTM, NNS I merged into NNS II, a wholly-owned subsidiary of Northrup. El Paso claimed that this FTM violated the anti-assignment clause with regard to rights NNS I had under the insurance agreement. Vice Chancellor Noble explained that, in isolation, he would read the phrase "by operation of law" in § 8.6 of the insurance agreement "to preclude a transfer of rights under the Insurance Agreement by merger absent prior consent from the other parties . . . ."[86] He also noted that "the Delaware Supreme Court has equated an assignment 'by operation of law' with a merger" and that "this Court has suggested that the phrase 'transfer by operation of law' would, again in the corporate context, be understood to include a merger."[87]

The Court found that term ambiguous because of its relationship to other language in § 8.6 and looked to the analysis in *Star Cellular* for guidance. There, this Court observed that:

> where an antitransfer clause in a contract does not explicitly prohibit a transfer of property rights to a new entity by a

---

84 *Tenneco Auto. Inc.*, 2002 WL 453930, at *2.

85 The relevant provision in *Tenneco* states in pertinent part: "8.6 *Successors and Assigns.* Except as otherwise expressly provided herein, no party hereto may assign or delegate, whether by operation of law or otherwise, any of such party's rights or obligations under or in connection with this Agreement without the written consent of each other party hereto." *Id*. at *1.

86 *Id*. at *2

87 *Id*. (internal citations omitted).

> merger, and where performance by the original contracting party is not a material condition and the transfer itself creates no unreasonable risks for the other contracting parties, the court should not presume that the parties intended to prohibit the merger.[88]

The Court in *Tenneco* determined that because ongoing interactions between the contracting parties were limited and El Paso faced few adverse consequences as a result of the FTM, the challenged merger was not prohibited by the nonassignment clause.[89]

Tenneco and *Star Cellular*, another case cited by Plaintiffs that arose in the FTM context, are instructive here because they considered whether an FTM triggers a nonassignment clause. Nevertheless, as with the cases involving stock acquisitions, they are not controlling because they did not address whether an RTM also would trigger such a provision.[90]

Plaintiffs have cited one case, however, in which a California federal court found that an RTM did constitute an assignment by operation of law in violation of a governing contract's nonassignment clause.[91] In *SQL Solutions, Inc.*, the federal district court for

---

88 *Id*. at *3.

89 *Tenneco Auto. Inc. v. El Paso Corp.*, 2002 WL 453930, at *4 (Del. Ch. Mar. 20, 2002).

90 In that regard, some commentators have observed that "[w]hile forward subsidiary mergers are commonly viewed as violative of anti-assignment provisions in the disappearing company's contracts, the same conclusion does not necessarily follow with respect to reverse subsidiary mergers." *See* Elaine D. Ziff, *supra* note 78, at 187.

91 *SQL Sol'ns, Inc. v. Oracle Corp.*, 1991 WL 626458, at *3 (N.D. Cal. Dec. 18, 1991). In *SQL Solutions*, Oracle and D&N executed a software licensing agreement. Thereafter, SybaseSub, a wholly-owned subsidiary of Sybase Inc.

the Northern District of California explained that "California courts have consistently recognized that an assignment or transfer of rights *does* occur through a change in the legal form of ownership of a business."[92] The court held that, under California law, a transfer of the target's rights under the software agreement in question occurred when the merger sub merged into the target in an RTM to form a wholly-owned subsidiary of the acquiring company.[93] This case deserves only limited weight, however, for several reasons. First, as a decision from another jurisdiction, it is not binding on this Court. Second, the status of the *SQL Solutions* opinion as an unreported federal district court case renders it nonbinding in California courts, as well, the state whose law was relevant to the court's analysis.[94] And, in any event, the court's reasoning is open to question.

Nevertheless, at this preliminary stage, I am not convinced that Plaintiffs' construction of § 5.08 as requiring their consent in the circumstances of this case is unreasonable. First, I know of no Delaware case directly addressing whether an RTM

---

merged into D&N in an RTM. *Id*. at *1 (D&N was renamed SQL Solutions after the RTM.) SQL filed a suit for declaratory relief, among other things, when Oracle threatened to terminate the software agreement because D&N allegedly breached the nonassignment clause in that agreement when it transferred its rights thereunder to SQL Solutions. *Id*.

92 *Id*. at *3-4 (noting that a transfer of rights is no less a transfer because it occurs by operation of law in a merger).

93 *Id*. at *4.

94 *See Former S'holders v. Browning-Ferris Indus.*, 2005 WL 2820594, at *5 (Cal. Ct. App. Oct. 28, 2005) ("Plaintiffs rely most heavily on *SQL Solutions* . . . an unreported federal district court opinion. Obviously *SQL Solutions* has no precedential value.").

violates a contractual provision preventing the unauthorized assignment "by operation of law" of an asset held by the target. Delaware, like many of its sister states, apparently has not yet confronted this issue.[95] Second, as discussed *supra*, to the extent Roche relies on various stock acquisition cases for the proposition that an RTM does not trigger an assignment of the rights held by the entity whose stock is acquired because all that has happened is a mere change of legal ownership, the facts of this case arguably are distinguishable. Here, Plaintiffs aver that BioVeris not only experienced a change in its ownership, but also essentially was gutted and converted into a shell company for Roche's benefit. Thus, if BioVeris entered an RTM which resulted in more than a mere change in control, as alleged, there could be an issue of fact as to whether the parties intended to require Plaintiffs' consent in this situation by using the term "by operation of law or otherwise" in § 5.08. Additionally, Plaintiffs plausibly argue that "by operation of law" was intended to cover mergers that effectively operated like an assignment, even if

---

95 *See, e.g.*, Shannon D. Kung, Note, *The Reverse Triangular Merger Loophole and Enforcing Anti-Assignment Clauses*, 103 NW. U. L. REV. 1037, 1053 (2009) ("Delaware courts have not addressed the applicability of anti-assignment clauses in the context of reverse triangular mergers."); Joshua G. Graubart, Note, *Unintended Consequences: State Merger Statutes and Nonassignable Licenses*, 2003 DUKE L. & TECH. REV. 25, at *1 (2003) (noting that inconsistency among the states has fostered continuing confusion regarding the efficacy of anti-assignment clauses when confronted with the merger of parties); Kingsley L. Taft, et al., *Introduction to Patents and M&A*, 931 PLI/PAT 211, 222-23 (2008) ("A reverse triangular merger is generally thought to present the best argument that no assignment has occurred as part of the merger, because the party to the license agreement has not changed. However, there is countervailing case law, notably *SQL Solutions* . . . .") (internal citation omitted).

it might not apply to mergers merely involving changes of control.[96] Therefore, because the parties offer two competing, but reasonable, constructions of the term "by operation of law," I also find that term of the Global Consent to be ambiguous.

c. Harm to Plaintiffs

Finally, while the parties disputed whether the FTM cases, including *Star Cellular* and *Tenneco*, support Plaintiffs' construction of "by operation of law," they agreed at the Argument that, under those cases, if the Court finds the nonassignment clause ambiguous as to whether it applies to a merger, the Court should consider whether the nonmerging party suffered harm as a result of the transaction in analyzing whether consent to a merger was required.[97] In *Tenneco*, after finding the nonassignment provision ambiguous, Vice Chancellor Noble looked to the presumption articulated in *Star Cellular*, which states that:

---

[96] In reaching this conclusion, I am cognizant of the well-settled law of independent legal significance and the respect for separate corporate entities traditionally afforded by Delaware law. These principles may prove important in the ultimate resolution of this dispute. At this early stage of the litigation, however, where the factual record has not been developed, the Court lacks sufficient evidence to choose between two reasonable constructions of a contract.

[97] Tr. 33 (Roche: "what Star Cellular and Tenneco really mean is when the meaning of the assignment language is unclear, it is ambiguous, you then can look -- the Court can then look to see if there was any harm."), 58 (Plaintiffs: "The cases also say, Tenneco and Star Cellular, if you are ambiguous and don't use the "by operation" and want to make it clear, you undertake a harms analysis."); PAB 29 ("Any ambiguity as to the applicability of the Global Consent's prohibition of assignments cannot be resolved on a motion to dismiss. This Court has, in construing non-assignment clauses in such circumstances, required inquiry into whether the substance of the transaction harmed the non-consenting party.").

> Where an antitransfer clause in a contract does not explicitly prohibit a transfer of property rights to a new entity by a merger, and where performance by the original contracting party is not a material condition and the transfer itself creates no unreasonable risks for the other contracting parties, the court should not presume that the parties intended to prohibit the merger.[98]

The potential relevance of any adverse consequences of the BioVeris Merger to Plaintiffs provides a further reason to deny Defendants' motion to dismiss. Neither *Star Cellular* nor *Tenneco* were decided at the motion to dismiss stage. Indeed, the *Star Cellular* court looked first to extrinsic evidence concerning the parties' intent in using the term "transfer" in a nonassignment provision, which it found unhelpful, before invoking the presumption outlined above.[99] Procedurally, this action is at a much earlier stage.

I note, however, that Plaintiffs' Complaint alleges that they will suffer significant harm as a result of the BioVeris Merger. For example, the parties agreed in § 5.09(a) of the Global Consent that "irreparable damage would occur in the event that any of the

---

98 *Tenneco Auto. Inc. v. El Paso Corp.*, 2002 WL 453930, at *3-4 (Del. Ch. Mar. 20, 2002) (noting that the Court looks to whether the nonmerging party would suffer "any adverse consequences" as a result of the merger).

99 *Star Cellular Telephone Co. v. Baton Rouge Cgsa, Inc.*, 1993 WL 294847, *reprinted in* 19 Del. J. Corp. L. 875, 890 (Del. Ch. Aug. 3, 1993) ("To summarize, the inquiry into the "plain meaning" of the Agreement and the extrinsic evidence uncovers nothing which compels the view that the contracting parties intended "transfer" to have the broad meaning that the plaintiffs advocate. Nor, by the same token, does it compel the more restrictive interpretation urged by the defendants. That being the case, the Court, in attempting to ascertain the contracting parties' intent, may consider applicable legal doctrines, including presumptions. . . . That analytical step brings into focus the objectives that parties to an antiassignment clause are generally presumed to be seeking to achieve.").

provisions of this Agreement [*i.e.*, § 5.08's prohibition on unauthorized assignment] were not performed in accordance with their specific terms or were otherwise breached."[100] This Court has upheld similar contractual stipulations in otherwise enforceable contracts.[101] Plaintiffs also allege that due to Roche acquiring and then dismantling BioVeris, Plaintiffs lost their bargained-for protection from BioVeris's independent watchdog role in preventing encroachment into their "contractually defined and protected lines of business."[102] The threat of such harm is heightened, according to Plaintiffs, by Roche's assertion that the Field limitations in the Roche License ceased to be of any legal effect once Roche acquired BioVeris.

Thus, the Complaint alleges sufficient facts plausibly to infer that Plaintiffs were harmed by Roche's conduct in proceeding with the BioVeris Merger without Plaintiffs' consent. The possibility of such harm in the context of a dispute over the purported ambiguity of § 5.08 further indicates that Count I of the Complaint cannot be resolved on a motion to dismiss.[103]

---

100 Global Consent § 5.09(a).

101 *See True N. Commc'ns Inc. v. Publicis S.A.*, 711 A.2d 34, 44 (Del. Ch. 1997) (finding the irreparable harm element of the injunction standard established by a contractual stipulation).

102 *See* Compl. ¶¶ 61-63; Global Consent § 2.5.

103 In the alternative, Defendants also seek a partial dismissal of Count I to the extent that it seeks to rescind the BioVeris Merger. In particular, they argue that it would be impractical as a matter of law to unwind a consummated merger involving publicly traded corporations whose shares were held by numerous stockholders, and that such relief also is barred by laches, given that several years have passed

3. Count II: Breach of the Roche License[104]

Roche argues that Plaintiffs failed to state a claim as to Count II, which accuses Roche of breaching the Roche License by selling ECL-based products outside of the Field, for two reasons: (1) as nonparties to that agreement, Plaintiffs lack standing to enforce it; and (2) even if Plaintiffs do have standing, the Field limitations in the agreement "ceased to be of any effect once Roche acquired BioVeris."[105] Plaintiffs dispute Roche's characterization of the Complaint but argue, as a threshold matter, that Count II must be submitted to arbitration pursuant to §§ 6.2 and 6.3 of the Roche License. In this regard, Plaintiffs initiated an arbitration in New York on the same day

---

since the Merger was consummated. DOB 31-33; DRB 20 (arguing that Delaware courts can dismiss particular requests for relief, even if the plaintiff has stated a claim for relief of some other kind). Although the possibility of rescission-based relief appears remote in the circumstances of this case for some of the reasons stated by Defendants, I consider it premature to rule it out at this early juncture. *See Chaffin v. GNI Group, Inc.*, 1999 WL 721569, at *7 (Del. Ch. Sept. 3, 1999) ("On a motion to dismiss all that need be decided is whether a claim is stated upon which any relief could be granted. If that question is answered in the affirmative, the nature of that relief is not relevant and need not be addressed. In this case the defendants do not challenge the legal sufficiency of the duty of care claims, only the availability of one specific remedy. At this stage, to decide whether rescission relief is (or is not) feasible would not only go beyond the scope of a motion to dismiss, but also would be imprudent, because the issue is fact driven and cannot be decided in the absence of an evidentiary record."). The decision about what relief, if any, Plaintiffs may be entitled to, therefore, should be made in the context of a more fully developed record.

104 New York law governs the construction of the Roche License. Roche License Agreement § 6.4.

105 Roche also argues that Count II is dependent upon Count I in the sense that a dismissal of Count I would require dismissal of Count II as well.

they filed this action in Delaware. Alternatively, Plaintiffs' Complaint seeks an order compelling Roche to arbitrate their claim under Count II.[106]

For many of the same reasons it asserts Plaintiffs failed to state a claim under Count II, Roche opposes arbitration of that Count. Its primary argument is that the Roche License's arbitration provisions apply only to "Parties," the definition of which does not include MST or MSD, and, therefore, Plaintiffs do not have standing to request arbitration as to Count II. Consistent with that argument, on August 27, 2010, Roche petitioned the New York Supreme Court to stay the arbitration Plaintiff initiated in June 2010.[107]

Thus, before considering the merits, I must address the threshold issues of whether Plaintiffs are entitled under the Roche License Agreement to demand that Count II be arbitrated and whether that issue should be decided by this Court or the arbitrator.[108] To

---

106 Compl. ¶¶ 5, 77(a). Roche appears to urge denial of Plaintiffs' request to arbitrate Count II because they have not formally moved to compel arbitration in this Court and, instead, demanded arbitration in New York. DRB 21. I reject that argument because Plaintiffs' Complaint fairly raises their demand for arbitration as to Count II, even if they chose to proceed on a parallel track in New York.

107 *See* Aff. of Sean M. Brennecke ("Brennecke Aff.") Ex. E. On December 17, 2010, the New York court denied Roche's motion to stay Plaintiffs' demand for arbitration in New York. *See* Docket Item ("D.I.") 20. Roche appealed this decision on February 10, 2011, and the matter still is pending. D.I. 26.

108 In this regard, I note that, under the Roche License, the issue of arbitrability is governed by federal law. *See* Roche License Agreement § 6.2(a) ("The Parties intend Section 6.2 hereof to be enforceable in accordance with the Federal Arbitration Act . . . ."). As noted by our Supreme Court, however, "Delaware arbitration law mirrors federal law." *James & Jackson, LLC v. Willie Gary, LLC*, 906 A.2d 76, 79 (Del. 2006).

resolve the latter question, I first must decide whether these issues relate to procedural or substantive arbitrability.[109]

a. Do the issues presented involve procedural or substantive arbitrability?

Questions of procedural arbitrability concern whether the parties to a contract containing a provision mandating arbitration of disputes have complied with the terms of that provision, including whether "prerequisites such as time limits, notice, laches, estoppel, and other conditions precedent to an obligation to arbitrate have been met."[110] In general, courts presume that issues relating to procedural arbitrability will be decided by an arbitrator.[111] On the other hand, questions of substantive arbitrability concern "gateway questions" relating to the applicability of an arbitration provision to a given dispute.[112] Substantive issues require the court to analyze the validity and scope of the

---

109 *See Bell Atl.-Pa., Inc. v. Commc'ns Workers of Am.*, 164 F.3d 197, 200-01 (3d Cir. 1999) ("Disputes surrounding arbitration have often been divided into the categories of 'substantive arbitrability' and 'procedural arbitrability.'"); *Willie Gary, LLC*, 906 A.2d at 79; *Julian v. Julian*, 2009 WL 2937121, at *4-5 (Del. Ch. Sept. 9, 2009) ("In determining whether a claim should be decided before an arbitrator, Delaware courts divide the issue into questions of 'procedural arbitrability' and 'substantive arbitrability.'").

110 *See, e.g., Kristian v. Comcast Corp.*, 446 F.3d 25, 39 (1st Cir. 2006); *United Steel Workers of Am. v. Saint Gobain Ceramics & Plastics, Inc.*, 505 F.3d 417, 420 (6th Cir. 2007); *see also Avnet, Inc. v. H.I.G. Source, Inc.*, 2010 WL 3787581, at *4 (Del. Ch. Sept. 29, 2010).

111 *See, e.g., Kristian*, 446 F.3d at 39; *Int'l Ass'n of Machinists & Aerospace Workers v. Indresco, Inc.-Indus. Tool Div.*, 892 F. Supp. 917, 922 (S.D. Tex. 1995).

112 *Kristian*, 446 F.3d at 39 (identifying "two categories of disputes where we presume that *courts rather than arbitrators* should resolve the gateway dispute: (1) disputes 'about whether the parties are bound by a given arbitration clause'; and (2) disagreements 'about whether an arbitration clause in a concededly

arbitration provision.[113] When examining substantive arbitrability, the underlying question is whether the parties decided in the contract to submit a particular dispute to arbitration.[114]

Here, the arbitration-related issue before the Court is clearly substantive. Plaintiffs contend that they are entitled to an order from this Court requiring the parties to arbitrate Count II. Roche counters that Plaintiffs are not "Parties" to the Roche License and, therefore, have no right under §§ 6.2 and 6.3 to invoke its arbitration provisions. Roche draws a distinction between entering into an agreement and merely consenting to it, which it claims is all Plaintiffs did with regard to the Roche License. According to Roche, a mere consent entitles Plaintiffs to fewer rights in the contract.[115] This dispute focuses on the gateway issue of whether Plaintiffs may invoke the arbitration provisions

---

binding contract applies to a particular type of controversy.'") (internal citations omitted); *Bell Atl.-Pa., Inc.*, 164 F.3d at 200-01; *see also Julian*, 2009 WL 2937121, at *4.

113 *See Bell Atl.-Pa., Inc.*, 164 F.3d at 200-01 ("Substantive arbitrability refers to the question whether a particular dispute is subject to the parties' contractual arbitration provision(s)."); *see also RBC Capital Mkts. Corp. v. Thomas Weisel P'rs, LLC*, 2010 WL 681669, at *8 (Del. Ch. Feb. 25, 2010).

114 *See Avnet, Inc.*, 2010 WL 3787581, at *4.

115 For example, Roche contends that "[MSD] *consented* to the entire [Roche License], but it *joined* only in the licenses," and not in other provisions such as the arbitration section. DRB 25 (emphasis in original). For their part, Plaintiffs assert that "four reasons compel arbitration in this case independent of 'party' status," including that the parties to the Roche License Agreement agreed to submit claims such as Count II to arbitration, the broad language of § 6.2 requires arbitration regardless of "party" status, Roche is equitably estopped from opposing arbitration, and if the arbitration clause is ambiguous, all doubts should be resolved in favor of arbitrability. PAB 35-38.

in the Roche License based on their having consented to and joined in parts of that License. I find that issue to be related to the scope of the arbitration provisions and, therefore, substantive in nature.

b. Should the Court or the arbitrator determine arbitrability?

Unlike issues pertaining to procedural arbitrability, issues of substantive arbitrability presumptively are to be decided by a court, absent evidence that the parties "clearly and unmistakably" intended otherwise.[116] Roche contends there is "no language in Section 6 of the [Roche License] permitting [Plaintiffs] to invoke arbitration [so Plaintiffs'] claim that [they have] a contract-based right to arbitrate must be resolved in court, not in arbitration."[117] But, before reaching the issue of whether Count II should be arbitrated, I first must address who should decide that issue: the Court or the arbitrator.[118]

---

116 *See, e.g.*, *Int'l Ass'n of Machinists & Aerospace Workers v. AK Steel Corp.*, 615 F.3d 706, 712 (6th Cir. 2010); *Contec Corp. v. Remote Sol'n, Co.*, 398 F.3d 205, 208 (2d Cir. 2005) ("Under the FAA, there is a general presumption that the issue of arbitrability should be resolved by the courts. . . . Acknowledging this presumption, we have held that the issue of arbitrability may only be referred to the arbitrator if there is *clear and unmistakable evidence* from the arbitration agreement, as construed by the relevant state law, that the parties intended that the question of arbitrability shall be decided by the arbitrator.'") (emphasis in original) (internal citations omitted); *Bell Atl.-Pa., Inc.*, 164 F.3d at 200-01 ("Absent a clear expression to the contrary in the parties' contract, substantive arbitrability determinations are to be made by a court and not an arbitrator."); *see also Avnet, Inc.*, 2010 WL 3787581, at *4 (citing *Willie Gary*, 906 A.2d at 79); *Julian*, 2009 WL 2937121, at *4-5 .

117 DRB 23.

118 *See Anderson v. Pitney Bowes, Inc.*, 2005 WL 1048700, at *3-4 (N.D. Cal. May 4, 2005); *see also Carder v. Carl M. Freeman Cmtys., LLC*, 2009 WL 106510, at *3 (Del. Ch. Jan. 5, 2009).

If the answer is the arbitrator, then this Court lacks jurisdiction to decide whether the particular claims asserted in Count II are subject to arbitration or whether Plaintiffs have standing under the Roche License to arbitrate them.[119]

"The issue of who should decide arbitrability turns on what the parties agreed to in their contract."[120] Because courts presume that the parties did not agree to submit substantive arbitrability issues to the arbitrator, if the contract is silent or ambiguous, the court will decide arbitrability.[121] But, "if the parties 'clearly and unmistakably' empowered an arbitrator to determine arbitrability, the Court must compel arbitration of the gateway issues as well."[122]

The majority federal view, as recognized by the Delaware Supreme Court in *Willie Gary*, involves a two-pronged method for determining whether an arbitration clause constitutes "clear and unmistakable evidence" of the parties' intent to arbitrate arbitrability.[123] This evidentiary standard is satisfied if an arbitration clause (1) generally

---

119 *See Mehiel v. Solo Cup Co.*, 2005 WL 1252348, at *7 n.56 (Del. Ch. May 13, 2005) (noting arbitration provides an adequate remedy at law).

120 *Anderson*, 2005 WL 1048700, at *2; *see also First Options of Chicago, Inc. v. Kaplan*, 514 U.S. 938, 944 (1995) ("When deciding whether the parties agreed to arbitrate a certain matter (including arbitrability), courts generally [with certain qualifications] . . . should apply ordinary state-law principles that govern the formation of contracts.").

121 *See Anderson*, 2005 WL 1048700, at *2.

122 *See, e.g.*, *id.*; *Bell Atl.-Pa., Inc.*, 164 F.3d at 200-01; *see also Willie Gary, LLC*, 906 A.2d at 78-79.

123 *Willie Gary*, 906 A.2d at 80; *cf. Contec Corp.*, 398 F.3d at 208.

refers all disputes to arbitration and (2) references a set of arbitral rules, such as the American Arbitration Association ("AAA") rules, that empowers arbitrators to decide arbitrability.[124]

I find that, under the standard articulated in federal and Delaware law, the Roche License arbitration clause contains clear and unmistakable evidence that the parties' intended to arbitrate arbitrability. First, §§ 6.2 and 6.3 broadly refer all disputes between the parties to arbitration. In particular, § 6.2(b) states that "[a]ny dispute or other matter in question between [IGEN and IGEN LS] arising out of or relating to the formation, interpretation, performance, or breach of this Agreement . . . shall be resolved solely by arbitration if the Parties are unable to resolve the dispute through negotiation pursuant to § 6.1 hereof."[125] Section 6.3 provides that Article 6 of the License, which contains the arbitration provisions, "shall be the exclusive dispute resolution procedure for Disputes under this Agreement and no Party shall bring Disputes before any court, except as

---

124 *Willie Gary*, 906 A.2d at 80 ("As a matter of policy, we adopt the majority federal view that reference to the AAA rules evidences a clear and unmistakable intent to submit arbitrability issues to an arbitrator. We do so in the belief that Delaware benefits from adopting a widely held interpretation of the applicable rule, as long as that interpretation is not unreasonable. The majority view does not, however, mandate that arbitrators decide arbitrability in *all* cases where an arbitration clause incorporates the AAA rules. Rather, it applies in those cases where the arbitration clause generally provides for arbitration of all disputes and also incorporates a set of arbitration rules that empower arbitrators to decide arbitrability."); *see also id*. at n.9.

125 Roche License Agreement § 6.2(b).

appeals to arbitration awards are permitted by Section 6.2."[126] Second, § 6.2(f) refers to the AAA rules, which permit arbitrators to decide arbitrability.[127] Therefore, I find that the Parties to the Roche License clearly and unmistakably committed questions of arbitrability to the arbitrator.

This conclusion also withstands Roche's argument that Plaintiffs lack standing to compel Roche to arbitrate their claim because they were not "Parties" to the license, and merely joined in or consented to it. Although it is tempting to address that issue on its merits, it would be inconsistent with *Willie Gary* for a court to address the merits of the underlying claim once it has determined that an arbitrator should decide arbitrability.[128] Nevertheless, consistent with my holdings in *Julian*, in cases where the parties dispute whether the arbitrator should decide arbitrability because one party claims the other does not have standing to compel arbitration, "a court conceivably could consider a preliminary question of whether or not there is a colorable basis for the court to conclude that" the opposing party, in fact, has such standing.[129] As such, "[i]f there is such a

---

126 *Id*. § 6.3.

127 *Id*. § 6.2(f) ("Except as provided above, arbitration shall be based upon the Commercial Arbitration Rules of the American Arbitration Association. . . ."). Rule 7 of the AAA Rules provides, with respect to jurisdiction, that "[t]he arbitrator shall have the power to rule on his or her own jurisdiction, including any objections with respect to the existence, scope or validity of the arbitration agreement." AAA Commercial Arbitration Rule R-7(a), *available at* http://www.adr.org/sp.asp?id=22440#R7.

128 *See generally Julian v. Julian*, 2009 WL 2937121, at *7 (Del. Ch. Sept. 9, 2009); *McLaughlin v. McCann*, 942 A.2d 616, 627 (Del. Ch. 2008).

129 *Julian*, 2009 WL 2937121, at *7.

colorable basis, along with a broad clause and reference to the AAA Rules or something analogous to them, then the question of substantive arbitrability should be sent to the arbitrator."[130]

Plaintiffs MST and MSD have stated a colorable basis for their claim of standing to compel Roche to arbitrate Count II. In *Contec Corp. v. Remote Solution, Co.*, for example, the Second Circuit faced the similar issue of "whether a non-signatory can compel a signatory to arbitrate under an agreement where the question of arbitrability is itself subject to arbitration."[131] The plaintiff, Remote Solution, argued it could not be compelled to arbitrate with the defendant, Contec, because the defendant was a "stranger" to the 1999 agreement to which the plaintiff was a signatory and which contained the relevant arbitration provision.[132] The court explained that:

> just because a signatory has agreed to arbitrate issues of arbitrability with another party does not mean that it must arbitrate with any non-signatory. In order to decide whether arbitration of arbitrability is appropriate, a court must first determine whether the parties have a sufficient relationship to each other and to the rights created under the agreement. . . . A useful benchmark for relational sufficiency can be found in our estoppel decision in *Choctaw Generation Ltd. P'ship v. Am. Home Assurance Co.*, where we held that the signatory to an arbitration agreement "is estopped from avoiding arbitration with a non-signatory 'when the issues the non-signatory is seeking to resolve in arbitration are intertwined

---

130 *Id*.

131 398 F.3d 205, 209 (2d Cir. 2005).

132 Contec L.P., the other signatory, had merged with the defendant, leaving the latter as the surviving entity.

> with the agreement that the estopped party has signed.'" . . . In *Choctaw*, we summarized the factors laid out in *Smith/Enron* as "the relationship among the parties, the contracts they signed (or did not), and the issues that ha[ve] arisen."[133]

Applying these factors, the court found a sufficient relationship between the plaintiff and the non-signatory defendant based on: the relationship between each Contec entity and the plaintiff; the fact that the plaintiff had signed the agreement; and the existence of a dispute between the parties that related to the 1999 agreement regardless of the change in the defendant's corporate form.[134] Having found such a relationship between the parties, the court held that because the plaintiff "'agreed to be bound' by provisions that 'clearly and unmistakably allow the arbitrator to determine her own jurisdiction' over an agreement to arbitrate 'whose continued existence and validity is being questioned,' it is the province of the arbitrator to 'decide whether a valid arbitration agreement exists.'"[135]

As in the *Contec* case, I find that Plaintiffs have at least a colorable basis for standing here. Roche agreed to be bound by § 6.2 of the Roche License, which, as explained above, clearly and unmistakably permits the arbitrator to determine arbitrability regarding an agreement whose scope is being questioned by Plaintiffs. Moreover, Plaintiffs actually *signed* the Roche License signifying that they consented to it and "joined in" parts of it, at least. Thus, in accordance with federal precedent, I hold

---

[133] *Id*. at 209 (citations omitted).

[134] *See id*.

[135] *Id*. at 211.

that whether Plaintiffs have standing to demand arbitration of their claims under Count II also is for the arbitrator to decide.

Accordingly, I deny Roche's motion to dismiss Count II and stay further proceedings on that Count pending the arbitrator's decision on the arbitrability of that Count or until further order of this Court.[136]

4. Dismissal of nonparties to the Global Consent and Roche License?

Finally, Roche argues that, even if Plaintiffs have stated a claim as to Count II, I should dismiss Roche Diagnostics GmbH, Roche Diagnostics Corporation, and LAC because those entities are not, nor have they ever been, parties to the Global Consent or Roche License and, thus, cannot be held liable for any breach that might have occurred. In resisting dismissal of those entities, Plaintiffs argue that, based on the allegations in the Complaint, one or more of those entities may be necessary or appropriate.

---

[136] Roche argues, in the alternative, that the Court should dismiss Count II because Plaintiffs breached their covenant not to sue found in the Meso Consent to the Roche License. In the Consent, MSD and MST represented and warranted to Roche that "each of them hereby waives any right that either of them may have to in any way restrict or limit [Roche]'s exercise of the licenses granted in the [Roche License] during the Term thereof." Roche License Agreement at Meso Consent. Roche asserts that Plaintiffs breached this covenant by interfering with its rights under the Roche License by "seeking to reform that agreement to make [MSD] a party and claim BioVeris' 65% royalty for itself" in Count II of this action. DRB 29. All of these issues, however, "aris[e] out of or relat[e] to the formation, interpretation, performance, or breach of [the Roche License]." Roche License Agreement § 6.2(b). Therefore, they must be presented to the arbitrator, not the Court.

I agree with Plaintiffs. Generally, a plaintiff may sue for breach of contract only those entities who are parties to the disputed contract.[137] Under Rule 20(a), however, a plaintiff may join "[a]ll persons . . . in 1 action as defendants if there is asserted against them jointly, severally, or in the alternative, any right to relief in respect of or arising out of the same transaction, occurrence or series of transactions or occurrences and if any question of law or fact common to all defendants will arise in the action."[138]

Here, Plaintiffs have sought relief against all named defendants based on alleged misconduct arising out of the same transactions: the Transaction and the BioVeris Merger. The three entities who seek dismissal are affiliates of Roche and had an interest or role in those transactions. Moreover, common questions of law and fact abound with regard to whether those entities also may be subject to injunction or other relief that might be granted to Plaintiffs in this action. For example, the Complaint raises a plausible claim that "Roche Diagnostics" asserted an interest in using and expanding its

---

[137] *Wallace v. Wood*, 752 A.2d 1175, 1180 (Del. Ch. 1999); *accord Pac. Carlton Dev. Corp. v. 752 Pacific, LLC*, 878 N.Y.S.2d 421, 422 (N.Y. App. Div. 2009) (noting that, in general, a person who is not party to a contract may not be bound by it); *A & V 425 LLC Contracting Co. v. RFD 55th Street LLC*, 830 N.Y.S.2d 637, 643 (N.Y. Sup. 2007) ("As a general rule, in order for someone to be liable for a breach of contract, that person must be a party to the contract.").

[138] Ct. Ch. R. 20(a) ("A plaintiff or defendant need not be interested in obtaining or defending against all the relief demanded. Judgment may be given for 1 or more of the plaintiffs according to their respective rights to relief, and against 1 or more defendants according to their respective liabilities.")

ECL business beyond the parameters of the Field restrictions.[139] In addition, LAC was the subsidiary through which Roche acquired BioVeris's intellectual property rights. At this early stage in the proceedings, I cannot rule out the possibility that certain equitable relief granted by this Court would include relief against LAC.

Therefore, Plaintiffs have asserted a sufficient basis under Rule 20(a) to join Roche Diagnostics GmbH, Roche Diagnostics Corporation, and LAC as Defendants here.[140] Accordingly, I deny Defendants' motion to dismiss the Complaint as to those Defendants.

---

139 *See* Compl. ¶ 53 (citing a press release in which Roche declared that Roche Diagnostics could expand its immunochemistry business beyond the Field restrictions). This allegation does not differentiate between Roche Diagnostics "GmbH" and "Corporation." Nevertheless, the Complaint has fairly alleged a claim against both of these entities, as affiliates of Roche, sufficient to satisfy the requirements of permissive joinder.

140 Indeed, the same reasons arguably support joining the three disputed entities as necessary parties under Rule 19(a). That rule states that a person or entity should be joined as a party to an action if "(1) in the person's absence complete relief cannot be accorded among those already parties, or (2) the person claims an interest relating to the subject of the action and is so situated that the disposition of the action in the person's absence may (i) as a practical matter impair or impede the person's ability to protect that interest or (ii) leave any of the persons already parties subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations by reason of the claimed interest." Ct. Ch. R. 19(a). Here, Plaintiffs appear to meet the first prong of Rule 19(a). If Roche Diagnostics GmbH continues to sell Products out of Field in violation of the Roche License, for example, an injunction directed solely against the primary Roche entities might not constitute complete relief.

III. CONCLUSION

For the reasons stated, I deny Roche's motion to dismiss Counts I and II of the Complaint. In addition, I stay any further proceedings as to Count II pending the resolution of the arbitrator's decision on the arbitrability of that Count or further order of this Court.

IT IS SO ORDERED.