

## **Delaware Court of Chancery Finds Reverse Triangular Merger Does Not Trigger Contractual Obligation To Secure Consent To An Assignment**

On February 22, 2013, in *Meso Scale Diagnostics, LLC v. Roche Diagnostics GMBH*, C.A. No. 5589-VCP (Del. Ch. Feb. 22, 2013), the Delaware Court of Chancery (Vice Chancellor Donald F. Parsons, Jr.) granted in part and denied in part a motion for summary judgment. First, the Court granted summary judgment that a reverse triangular merger was not an assignment by operation of law or otherwise, meaning that the acquisition of the company holding a license to valuable technology did not require the consent of the entity that granted the license. Second, the Court denied summary judgment concerning a claim that Roche Holdings had used the technology beyond the scope permitted under the license.

This opinion matters because it confirms that when a corporation acquires another corporation via a reverse triangular merger -- a form of merger in which the target becomes a subsidiary of the acquiror -- any contracts that grant other parties rights in the event that the target corporation assigns some asset will not be triggered. Delaware cases and commentators have forecasted this result, and this case confirms it.

This case concerns a type of intellectual property of use in pharmaceutical research. Jacob Wohlstadter (“Wohlstadter”) founded Meso Scale Technologies, LLC (“MST”) to commercialize his invention of electrochemiluminescent technology (“ECL”), which is useful in pharmaceutical research. In 1995, MST entered into a joint venture named Meso Scale Diagnostics, LLC (“MSD”, together with MST, “Meso”) to continue commercializing ECL. MST’s partner in the joint venture was IGEN International, Inc. (“IGEN”).

In 1992, IGEN granted a company that would later be acquired by Roche Holding Ltd. (“Roche Holding”) a license to use its patented ECL technology in carefully defined applications. Litigation erupted when IGEN accused Roche Holding of using ECL outside the scope of its license. In 2003, after IGEN won the ensuing litigation and canceled Roche Holding’s license to use the ECL intellectual property, Roche Holding entered into a transaction (the “2003 Transaction”) that resulted in it purchasing IGEN. The 2003 Transaction involved at least 12 separate agreements. Most importantly, after it was over, IGEN had become a wholly owned subsidiary of Roche Holding through a type of transaction known as a reverse triangular merger. That same transaction also involved the signing of a Global Consent by Meso, Roche Holdings, and multiple Roche entities, and the granting of a license to Roche Holdings (the “Roche License”) for Roche Holdings to use ECL within a contractually-defined “Field.”

After the 2003 Transaction, a Delaware corporation named Newco, later renamed BioVeris Corp. (“BioVeris”), possessed the broad license for the ECL technology that had previously been possessed by IGEN. Section 5.08 of the Global Consent prohibited assignment of that license agreement without consent of the parties to the Global Consent, which included MSD and MST. In part, Section 5.08 read: “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.”

On June 26, 2007, Roche Holding bought BioVeris by forming an acquisition subsidiary and merging BioVeris into it, with BioVeris as the surviving corporation.

Meso filed a complaint with two counts. In Count I, Meso argued that Roche Holding violated Section 5.08 of the Global Consent by effectuating the reverse triangular merger of IGEN without securing Meso's consent. In Count II, Meso argued that Roche Holding exceeded the permissible scope of its license. The Defendants (Roche Holding and several of its subsidiaries, including BioVeris, collectively the "Defendants") sought summary judgment on both counts of the complaint.

The Court granted Defendants' motion for summary judgment concerning Count I. The Court found, as a matter of law, that a reverse triangular merger is not an assignment. The Court began its analysis with the text of 8 *Del. C.* § 259(a), which suggests that the corporation surviving from a merger possesses all the rights and obligations of the extinguished corporations, which "shall be thereafter as effectually the property of the surviving or resulting corporation as they were of the several and respective constituent corporations."

The Court then found that reasonable parties at the time of contracting would not have expected Section 5.08 to apply to a reverse triangular merger by pointing to Delaware case law and commentary from respected experts opining that a triangular merger does not result in a transfer of the target's rights and obligations. For example, the Court cited a Delaware treatise -- R. Franklin Balotti & Jesse A. Finkelstein's *Delaware Law of Corporations and Business Organizations* § 9.8 (2013) -- which explains the architecture of a reverse triangular merger: "The advantage of this type of merger is that T will become a wholly-owned subsidiary of A without any change in its corporate existence. Thus, the rights and obligations of T, the acquired corporation, are not transferred, assumed or affected." Another respected commentator described a reverse pyramid merger as using a "reverse subsidiary structure." Elaine D. Ziff, *The Effect of Corporate Acquisitions on the Target Company's License Rights*, 57 *Bus. Law.* 767, 787 (2002).

Meso argued that because the merger resulted in Roche Holding owning BioVeris' intellectual property rights, it was effectively a transfer. The Court dispensed with this argument because Delaware's doctrine of independent legal significance means that if a corporation can accomplish a result under one section of the Delaware General Corporation Law ("DGCL"), it need not comply with the procedures required to accomplish that result through another portion of the DGCL.

The Court then contrasted Delaware's position on this issue with California's. A 1991 case from the Northern District of California, *SQL Solutions, Inc. v. Oracle Corp.* held that a reverse triangular merger results in an assignment as a matter of law. *SQL Solutions* held that a legal change in the ownership of the business results in a transfer if "it affects the interests of the parties protected by the nonassignability of the contract." In Delaware, in contrast, multiple cases hold that corporations remain free to engage in stock purchase transactions without effecting an assignment as an operation of law. The Court concluded that "Both stock acquisitions and reverse triangular mergers involve changes in legal ownership, and the law should reflect parallel results."

Meso could have negotiated for a provision that would have incontrovertibly established the right it now seeks. Specifically, the Court stated that Meso could have negotiated for a “change of control” provision to operate as another trigger for the consent requirement. In the absence of language defining a change of control as triggering the requirement that Meso consent, the Court held that Meso’s proffered interpretation of Section 5.08 -- under which the contractual term ‘assignment’ captured a reverse triangular merger -- was unreasonable as a matter of law, and therefore granted summary judgment in favor of the Defendants on Count I.

The Court addressed other arguments against Count I. First, the Court refused to find Count I barred by laches. The closing of the merger happened less than three years (the relevant time period) before Meso filed the complaint, but the merger’s signing occurred more than three years prior. The question then became whether the earlier signing of the merger acted as a repudiation of the Global Consent such that the cause of action accrued on the earlier date. The Court relied on precedent suggesting that the reaction of the wronged party determines whether an earlier act counts as repudiation, and found that Meso had not treated the earlier act as a breach, so the Court likewise refused to do so, and denied the laches argument.

Second, Roche then attempted to win summary judgment on Count I by suggesting that the “rights, interests, and obligations” mentioned in Section 5.08 did not apply to the intellectual property -- formerly IGEN’s -- that was transferred to BioVeris in the Global Consent. The Court rejected that argument without much discussion, based on the fact that Meso consented to the transfer, which would have only occurred had the transfer contained the IGEN interests, because only that transfer would require Meso’s consent.

The Court denied summary judgment concerning Count II, which argued that Roche used the ECL intellectual property outside the scope permitted by its license. Roche moved for summary judgment, claiming that neither of Plaintiffs was a party to the license agreement. Indeed, the license agreement itself was between two Roche Holding subsidiaries, and explicitly stated they were the only parties. However, a Meso Consent was signed with the agreement, stating that Meso both consented to the Roche License “and join[ed] in the licenses granted” in the License. Under New York law, if Meso joined the portion of the License that discussed the scope of the License, then it could enforce the scope provisions of the license against Roche. The contracts did not explain what part of the Roche License Meso joined, and testimony was ambiguous on the point. Because there was competing testimony concerning whether the contracting parties intended for Meso to be able to enforce the scope terms of the Roche License, the Court determined the question could not be resolved on summary judgment.