

Delaware Court of Chancery Rules Reverse Triangular Mergers Do Not Result in Assignments by Operation of Law

In an opinion published on March 8, 2013, the Delaware Court of Chancery ruled in *Meso Scale Diagnostics v. Roche Diagnostics*, C.A. No. 5589-VCP (Mar. 8, 2013) that a reverse triangular merger does not result in an assignment of the assets of the surviving entity, by operation of law or otherwise. Although this decision confirms long-held views of generations of corporate lawyers, it reverses a previous holding from April 2011 in this same case and contradicts two previous Federal District Court opinions interpreting California and New Jersey law.

This case of first impression in Delaware, the most important jurisdiction for U.S. corporate law, will likely be viewed with relief by corporate practitioners because it both resolves the ambiguity created by that earlier ruling in this same case and because it sits in stark conflict with two previous Federal District Court opinions: a much-debated, unpublished 1991 opinion of the United States District Court for the Northern District of California in *SQL Solutions, Inc. v. Oracle Corp.*, 1991 WL 626458 (N.D. Cal. Dec. 18, 1991) and a 2012 opinion of the United States District Court for the District of New Jersey in *DBA Distribution Services, Inc. v. All Source Freight Solutions, Inc.*, 2012 WL 845929 (D.N.J. Mar. 13, 2012). Each of these prior cases, which found the question to be one of first impression under the laws of California and New Jersey, respectively, held that a reverse triangular merger transferred a license by operation of law in violation of the anti-assignment provisions in the licenses in question. In declining to follow *SQL Solutions*, Vice Chancellor Parsons asserted that such a view would frustrate the parties' intentions and conflict with Delaware jurisprudence on the effects of stock acquisitions.

Facts and Procedural History

The dispute at issue in this case stems from a series of agreements relating to the use of electrochemiluminescent (“ECL”) technology, which is a sophisticated diagnostic and assay technology used in drug research and human diagnostics. In 2003, defendant Roche Diagnostics GmbH, C.A. (“Roche”) received a new, field-limited, non-exclusive license to this ECL Technology after breaching and subsequently losing a license it had previously held to this technology. This license was granted in conjunction with the transfer of the ECL Technology patent rights to the newly formed BioVeris Corporation (“BioVeris”). Plaintiffs Meso Scale Diagnostics, LLC and Meso Scale Technologies, LLC (together, “Meso Scale”), which are the exclusive licensee under the ECL Technology for all other fields, consented to and “joined” this license agreement. This new license included an anti-assignment provision, which stated: “Neither this Agreement nor any of the rights, interests or obligations under [it] 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.” The license did not include a change of control provision; however, which clause would have resolved the matter at issue in this case unambiguously.

In response to a dispute in 2007 regarding whether Roche's use of the ECL technology had again exceeded the field of its limited license, Roche acquired BioVeris through a reverse triangular merger, with BioVeris surviving as a wholly owned subsidiary. On June 22, 2010, Meso Scale sued Roche on two counts: (1) that the reverse triangular merger was an assignment by operation of law that required its consent and (2) that Roche breached the 2003 license by exceeding the field limitation of its limited license to the ECL technology, which license Meso Scale could enforce as a “joined” party (the licensor having received \$600 million in cash

as part of the acquisition and becoming a subsidiary of Roche no longer objected to Roche's potential breach).

Roche moved to dismiss Meso Scale's complaint, arguing, among other things, that the completed reverse triangular merger had only changed the ownership of BioVeris and not the entity itself, and therefore no assignment of the license had occurred in violation of this anti-assignment provision. In denying Roche's motion, Vice Chancellor Parsons ruled in *Meso Scale Diagnostics v. Roche Diagnostics GMBH*, 2011 WL 1348438 (Del. Ch. Apr. 8, 2011) that, for purposes of a motion to dismiss in a case of first impression under Delaware law, Meso Scale's interpretation of the anti-assignment provision was not unreasonable. Vice Chancellor Parsons also observed that Roche's post-acquisition behavior, where it transformed BioVeris into little more than an intellectual property holding company by discontinuing all of BioVeris' products, firing all its employees and closing its facility within months of the merger, hurt Roche's argument that all that had really occurred was a change of ownership.

Holding and Reasoning

Following discovery, Roche moved for summary judgment on both counts of Meso Scale's complaint. The Delaware Court of Chancery granted Roche's motion with respect to the first count, ruling that the reverse triangular merger was not an assignment by operation of law or otherwise and therefore did not trigger the anti-assignment provision in the 2003 license agreement that required Meso Scale's consent. Vice Chancellor Parsons began by noting that there is no Delaware case law that directly addresses whether a reverse triangular merger can be viewed as an assignment by operation of law or otherwise, before reviewing the provisions of Delaware's General Corporation Law and both contractual and legal theory as adopted in Delaware to reach the conclusion that it should not.

Turning first to Delaware law, Vice Chancellor Parsons observed that Delaware General Corporation Law, Title 8, Section 259(a), and its interpreting case law, hold that a merger or consolidation results in the transfer of the non-surviving corporation's rights and obligations to the surviving corporation, which is consistent with the interpretation of commentators that no transfer of the surviving entity's rights or obligations occurs in a reverse triangular merger. This same consensus, when viewed by the Vice Chancellor using the objective theory of contract interpretation that is followed in Delaware, makes it unlikely the parties would have expected a clause covering assignments to apply in the context of a reverse triangular merger. Meso Scale's next argument, that the acquisition of BioVeris resulted, practically, in nothing more than an assignment of the intellectual property rights of BioVeris to Roche, was rejected by the court under the doctrine of independent legal significance, wherein acts taken under different sections of the Delaware General Corporation Law are acts of independent legal significance even though the end result may be the same as the result of actions taken under a different section. Finally, the Vice Chancellor rejected Meso Scale's argument that the court should look to Delaware case law on forward triangular mergers, noting that in mergers of that form the target company does not survive the transaction as it does in the reverse triangular context.

The Delaware Court of Chancery, however, denied Roche's motion for summary judgment with respect to the second count, holding that Meso Scale had raised a triable issue of material fact as to whether it was a party to, and so could enforce, the 2003 license and with it the field restriction. Trial as to this count began on March 1, 2013, and a decision is expected presently.

Conclusion

With its recent decision in *Meso Scale Diagnostics*, the Delaware Court of Chancery has confirmed, at least in so far as Delaware law is concerned, the traditional view that reverse triangular mergers do not constitute assignments by operation of law or otherwise. The court also lessened concerns that it would consider an acquirer's post-merger dealings when deciding whether an assignment occurred. However, very few cases have directly addressed assignments in the context of reverse triangular mergers, and the logic and opinions of *SQL Solutions* and *DBA Distribution Services* are unaffected by this ruling. As a result, you should consult with your legal advisor on a prospective acquisition where ongoing access to critical intellectual property rights is material to the target or business case.

For the full text of the Delaware Chancery Court's summary judgment opinion in *Meso Scale Diagnostics v. Roche Diagnostics*, please click [here](#).