

Delaware Court Refuses to Hold that a Reverse Triangular Merger Does Not Violate Anti-Assignment Clause

Parties to mergers and acquisitions routinely review material contracts of the target in order to determine whether there are any provisions in those contracts that would restrict or be violated by the proposed transaction. In technology and related businesses, intellectual property rights, particularly licenses, of the target are often a key area of sensitivity. One issue that often arises is whether an acquisition structured as a merger would trigger an anti-assignment clause in a contract to which the target is a party. Acquisitions involving a merger are often structured as “reverse triangular” mergers. A “reverse triangular” is an acquisition structure in which the acquirer forms a shell subsidiary and merges it into the target company, with the result that the target survives and becomes a wholly-owned subsidiary of the acquirer. One advantage to reverse triangular mergers is that they are generally considered not to involve a transfer of assets or change in structure of the target, but rather a change of ownership, similar to an acquisition of stock of the target. In the absence of definitive case law, practitioners have generally considered this type of merger not to trigger anti-assignment clauses which do not explicitly address this structure.

In a recent case, *Meso Scale Diagnostics, LLC and Meso Scale Technologies, LLC, as Plaintiffs, v. Roche Diagnostics GmbH et al., as Defendants*, decided April 8, 2011, the Delaware Chancery Court considered, in the context of a motion to dismiss, whether an anti-assignment clause applicable to intellectual property rights of a target would be triggered by a reverse triangular merger. The case involved intellectual property related to electrochemiluminescence (“ECL”) technology held by BioVeris Corporation and useful in biological research, diagnostics and drug development. The ECL technology was originally developed by IGEN International, Inc. and had been transferred by IGEN to BioVeris in connection with the acquisition of IGEN by Roche in July 2003. At that time, as licensees from IGEN of certain related intellectual property, among other reasons, the Plaintiffs were asked to and did consent, pursuant to a Global Consent, to the transfer of the ECL technology by IGEN to BioVeris.

In June 2007, BioVeris was acquired by Roche in a reverse triangular merger. Plaintiffs sued alleging that the acquisition breached an anti-assignment clause in the Global Consent. The Plaintiffs claimed that the acquisition effectively resulted in the assignment to Roche of, among other things, rights, interests and obligations relating to BioVeris’ intellectual property in violation of the anti-assignment clause. The anti-assignment clause in question provided that

“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 Plaintiffs argued that a merger, regardless of structure, constitutes an assignment “by operation of law,” relying on prior case law holding that forward triangular mergers, in which the newly formed shell subsidiary is the survivor of the merger and acquires all of the target’s assets and contract rights under the merger statute, constitute assignments. They also relied on a California case (*SQL Sol’ns Inc. v. Oracle Corp.*, N.D. Cal., December 18, 1991), holding that a reverse triangular merger results in an assignment under California law.¹

¹ The Court did not rely on the SQL decision, citing it as a decision from another jurisdiction where the opinion was not formally reported. It also noted that the court’s reasoning in that case is open to question.

Roche argued that the merger constituted a change of control of BioVeris with essentially the same effect as an acquisition of BioVeris' stock and, therefore, did not constitute an assignment. Accordingly, no violation of the anti-assignment clause occurred. The Court acknowledged the distinction between a prohibition on assignment, such as this clause, and a "change of control" provision that would be triggered by a change of control or ownership of BioVeris. However, notwithstanding the absence of a change of control clause, the Court refused to conclude that a change in ownership necessarily falls outside the scope of the anti-assignment clause.

It should be noted that the Court's ruling was a decision on a so-called 12(b)(6) motion to dismiss by the Plaintiffs. In such a motion, the defendant is essentially alleging that, even if the allegations of the plaintiff are true, there would still be no recognizable legal claim in favor of the plaintiff. Therefore, in this context, a court need not (and did not in this case) decide which party's interpretation is correct. It merely has to decide whether the plaintiff *could* have a recognizable claim. In this case, the Court, noting that Roche cited no Delaware case holding that a reverse triangular merger under these circumstances cannot constitute an assignment by operation of law, found that while Roche's construction was found to be reasonable, it was not necessarily the only reasonable interpretation. Therefore, of necessity, the motion to dismiss was denied.²

Where does this leave us? This case is unusual as it considers whether intellectually property rights generally (not necessarily rights under an intellectual property license) may be deemed to be assigned by virtue of a reverse triangular merger. However, the Court's findings are instructive and bear on the central question of whether a reverse triangular merger constitutes an assignment.³ In effect, by refusing to find that a reverse triangular *does not* constitute an assignment, it allowed that a reverse triangular merger *may* constitute an assignment. Therefore, this question remains open in Delaware. This case emphasizes again the need for extreme caution when analyzing anti-assignment clauses in connection with a proposed merger transaction, especially in the context of licenses and other agreements governing intellectual property rights.

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² In distinguishing the stock acquisition cases cited by Roche, the Court took note of the Plaintiff's argument that BioVeris not only experienced a change in its ownership, but also was essentially converted into a holding company for the intellectual property by laying off all of its employees, vacating its facility and notifying customers that its product lines were being discontinued.

³ It is not clear whether the Court would have come to the same conclusion if the anti-assignment clause had not included the phrase "by operation of law or otherwise" or if the target's business had not been wound down after the merger.