



STARK, U.S. District Judge:

Pending before the Court are the parties' objections to Chief Magistrate Judge Thyng's Report and Recommendation ("Report") issued on June 25, 2013. (D.I. 206) Plaintiffs contend that Judge Thyng erred in finding that: (1) Life Technologies Corporation ("Life") is a Successor of Applera; (2) the Cornell Patents do not claim inventions that are PCR methods; and (3) the Cornell Patents are necessarily infringed by the Defined Product. (See D.I. 210 at 1,4, 10) In turn, Defendant objects to Judge Thyng's findings that: (1) the patents involved are not subject to the 2004 Illumina-Applera Settlement and Cross License Agreement ("Settlement Agreement"); and (2) Cornell is not barred from maintaining this lawsuit against Illumina. (See D.I. 209 at i)

When reviewing the decision of a magistrate judge on a case-dispositive matter, the Court conducts a *de novo* review. See 28 U.S.C. § 636(b)(1)(B); Fed. R. Civ. P. 72(b)(3). A motion for summary judgment is considered a dispositive matter and, therefore, the conclusions of a magistrate judge in connection with such a motion are reviewed *de novo*. The Court may accept, reject, or modify the recommendations of a magistrate judge. The Court may also receive further evidence or return the matter to the magistrate judge with instructions for further proceedings.

Having undertaken the required *de novo* review, the Court concludes that Judge Thyng committed no factual or legal error in reaching her conclusions. Hence, the Court will overrule both sides' objections and adopt the Report.

BACKGROUND¹

In 2004, in an attempt to resolve disputes following a joint development venture, Applera and Illumina entered into a settlement agreement (the "Settlement Agreement"). The Settlement Agreement included a covenant not to sue ("Covenant"), under which "Applera . . . its Successors, or its assigns" would not bring suit against Illumina for infringement of "the Blocking Patents by the Defined Product or Modified Defined Product." The Settlement Agreement included an integration clause as well as a California choice of law provision. Subsequent to execution of the Settlement Agreement, a series of business transactions occurred. As recited in the parties' Stipulation of Agreed Facts:

- 1) Applied Biosystems Inc. was formed on June 24, 2008 as a direct, wholly owned subsidiary of Applera Corporation.
- 2) Effective July 1, 2008, Applied Biosystems Inc. merged with and into Applera Corporation (the "Applied Biosystems Inc. – Applera Corporation Merger").
- 3) Applera Corporation continued as the surviving entity in the Applied Biosystems Inc. – Applera Corporation Merger.
- 4) Applied Biosystems Inc. ceased to exist as a separate corporation as a result of the Applied Biosystems Inc. – Applera Corporation Merger.
- 5) The name of Applera Corporation changed to Applied Biosystems Inc. as part of the Applied Biosystems Inc. - Applera Corporation Merger.
- 6) Atom Acquisition Corporation was formed on October 9, 2008 as a direct, wholly owned subsidiary of Atom Acquisition, LLC.

¹ Adopted from Judge Thyng's Report

7) Effective November 21, 2008, Atom Acquisition Corporation merged with and into Applied Biosystems Inc. (the "Atom Acquisition Corporation -Applied Biosystems Inc. Merger").

8) Applied Biosystems Inc. continued as the surviving corporation in the Atom Acquisition Corporation - Applied Biosystems Inc. Merger.

9) Atom Acquisition Corporation ceased to exist as a separate corporation as a result of the Atom Acquisition Corporation - Applied Biosystems Inc. Merger.

10) Atom Acquisition, LLC was formed on June 9, 2008, as a direct, wholly owned subsidiary of Invitrogen Corporation.

11) Effective November 21, 2008, after the merger between Atom Acquisition Corporation and Applied Biosystems Inc., Applied Biosystems Inc. merged with and into Atom Acquisition, LLC (the "Applied Biosystems Inc. - Atom Acquisition, LLC Merger").

12) Atom Acquisition, LLC continued as the surviving company in the Applied Biosystems Inc. - Atom Acquisition, LLC Merger.

13) Applied Biosystems Inc. ceased to exist as a separate corporation as a result of the Applied Biosystems Inc. - Atom Acquisition, LLC Merger.

14) The name of Atom Acquisition, LLC changed to Applied Biosystems, LLC as part of the Applied Biosystems Inc. - Atom Acquisition, LLC Merger.

15) LT Name Corporation was formed on November 6, 2008 as a direct, wholly owned subsidiary of Invitrogen Corporation.

16) Effective November 21, 2008, LT Name Corporation merged with and into Invitrogen Corporation (the "LT Name Corporation - Invitrogen Corporation Merger").

17) Invitrogen Corporation continued as the surviving corporation in the LT Name Corporation - Invitrogen Corporation Merger.

18) LT Name Corporation ceased to exist as a separate corporation as a result of the LT Name Corporation – Invitrogen Corporation Merger.

19) The name of Invitrogen Corporation changed to Life Technologies Corporation (“Life”) as part of the LT Name Corporation – Invitrogen Corporation Merger.

DISCUSSION

I. Plaintiffs’ Objections

A. Life is a Successor of Applera

Plaintiffs object to Judge Thyng’s finding that Life is unambiguously a Successor of Applera. (D.I. 210 at 2) Both sides agree that under the terms of the Licensing Agreement, Applera’s Successor is subject to the Covenant and cannot sue Illumina for infringing “the Blocking Patents by the Defined Product or Modified Defined Product,” as those terms are defined in the Settlement Agreement. (*Id.*) The Settlement Agreement defines Successor as “an entity that acquires all or substantially all of the assets of Applera or Illumina.” (D.I. 169 Ex. 3 at ¶ 1.9)

Judge Thyng found that Life is the Successor of Applera because “Life Technologies acquired all or substantially all of the assets of Applied Biosystems, LLC, which stepped in the shoes of Applera” (D.I. 206 at 28) Plaintiffs do not contest that Applied Biosystems, LLC stepped into the shoes of Applera. (D.I. 210 at 1-2) There is no dispute that Life acquired all or nearly all of Applied Biosystem’s stock. (D.I. 169 Ex. 17 at 2) (“On November 21, 2008, Invitrogen Corporation[,] . . . a predecessor company to Life Technologies, completed the

acquisition of Applied Biosystems, Inc. . . . to form a new company called ‘Life Technologies Corporation.’”) However, Plaintiffs argue that Life did not “acquire[] all or substantially all of the *assets* of” Applied Biosystems as required by the Settlement Agreement’s definition of “Successor.” (D.I. 210 at 3-4) (emphasis added)

“[I]t is a general principle of corporate law that all assets and liabilities are transferred in the sale of a company effected by a sale of stock.” *In re KB Toys Inc.*, 340 B.R. 726, 728 (D. Del. 2006). Thus, even though the record contains no asset purchase agreement between Life and Applied Biosystems, LLC, the fact that Life owns Applied Biosystems, LLC is sufficient to come within the Covenant’s definition of “Successor.” Accordingly, the Court agrees with Judge Thyng that Life is a Successor to Applera.

B. The Cornell Patents do not claim inventions that are PCR methods

Plaintiffs next object to Judge Thyng’s finding that “merely because the claims of the patents contain the step of PCR [i.e., polymerase chain reaction]” methods does not mean that the claims are “inventions that are PCR methods.” (D.I. 210 at 5) The Settlement Agreement excludes from the covenant not to sue any patents that “claim inventions that are . . . polymerase chain reaction (PCR) methods.” (D.I. 169, Ex. 3 at ¶ 1.3)

Plaintiffs argue that Cornell’s patents claim inventions that are PCR methods because one of the steps in Cornell’s patents is to perform a PCR. (D.I. 210 at 8) Plaintiffs provide several examples of trade-usage in which a method involving a PCR step was labeled a PCR method. (*Id.* at 7-8) However, Judge Thyng found that the PCR method needed to be the novel or inventive feature of the claim to be subject to the Settlement Agreement. (D.I. 206 at 50) The cases cited by Plaintiffs challenging this approach are inapposite because those cases refer to

determining novelty as an issue relating to patentability, not contract interpretation. (See D.I. 210 at 5) The unambiguous contract language “claim inventions that are . . . polymerase chain reaction (PCR) methods” is that the method of performing PCR must be the invention. The Court, accordingly, agrees with Judge Thyng that the Cornell patents do not “claim inventions that are PCR methods.”

C. The Cornell Patents are Necessarily Infringed by the Defined Product

Plaintiffs object to Judge Thyng’s finding that the Cornell patents are “Blocking Patents” that are “necessarily . . . infringed by . . . the Defined Product.” (D.I. 210 at 10) The “Defined Product” is “Illumina’s GoldenGate assay as described in Exhibit 1.” (D.I. 169, Ex. 3 at ¶ 1.2) Exhibit 1 lists the five steps of the assay, including the step of:

Universal PCR, rolling circle, random priming, T4/Eberwine, strand displacement, TMA (transcript mediated amplification), LCR (ligase chain reaction), MDA (multiple displacement amplification) or SPIA amplification of the extended and ligated probes to generate labeled amplicons.

(*Id.* at L0000212) Plaintiffs objections are that (1) Judge Thyng improperly relied on the testimony of Illumina’s CEO and (2) the “R&R erroneously focused ‘on whether *an accused product* ‘necessarily infringes.’” (D.I. 210 at 10) (emphasis added) Judge Thyng did not err.

According to Plaintiffs, Judge Thyng should not have considered the testimony of Illumina’s CEO because “it is evidence of Illumina’s subjective intent of contractual meaning, which is not admissible under California law.” (*Id.*) Illumina’s CEO testified that the goal of the Settlement Agreement was “to make sure that [Illumina] couldn’t be sued under those patents, nor could [Illumina] be sued under any other patents subsequent to signing this that related to the products that we defined in the agreement or any products that we considered to be derivative to

that product.” (D.I. 169 Ex. 26 at 90-91)

Under California law, courts must consider “all credible evidence offered to prove the intention of the parties” when determining the circumstances under which an agreement was made. *Pac. Gas & Elec. Co. v. G. W. Thomas Drayage & Rigging Co.*, 442 P.2d 641, 645 (Cal. 1968). Moreover, a court may look at the objective manifestations of the parties’ intent to determine the meaning of a contract. *See Buckley v. Terhune*, 441 F.3d 688, 695 (9th Cir. 2006). Judge Thyng did not give controlling weight to the CEO’s subjective testimony; she simply used it to inform her analysis of the objective manifestations of the parties’ intent. This consideration of the CEO’s testimony was not improper.

Second, Plaintiffs argued in their motion for summary judgment that Cornell’s patents are not necessarily infringed by the Defined Product because it is possible to make the Defined Product without infringing Cornell’s patents. (D.I. 173 at 20-21) The Defined Product lists nine different methods for amplification, only one of which – PCR – is within the scope of the Cornell patents. (*Id.* at 21) Because the Defined Product can be produced by using any of the eight other amplification methods, Plaintiffs argue that the Cornell patents are not necessarily infringed by practicing the Defined Product. (*Id.*)

Judge Thyng found that this is a strained reading of “necessarily infringed” which eviscerated the purpose of the agreement, which was to protect the GoldenGate assay.² (D.I. 206 at 42) Plaintiffs’ reading of “necessarily infringed” would require that in order to be a “Blocking

² The importance of the GoldenGate assay to Illumina is discernable from the fact that the agreement explicitly protects this assay in the Settlement Agreement. (D.I. 169 Ex. 3 at ¶ 1.2) Judge Thyng properly focused on the Defined Product instead of the accused product by noting that “the patented-in-suit patents are ‘necessarily infringed’ by this ‘Defined Product,’” not the accused product. (D.I. 206 at 42)

Patent” a patent would need to list all nine of the amplification methods. But this reading would not protect the GoldenGate assay, which was the parties’ intent. That purpose is accomplished only if the “Defined Product” is viewed under the agreement as being practiced whenever any of the nine amplification methods listed is used in conjunction with the other steps. Because the Cornell Patents are infringed when the PCR amplification technique is used, the patents-in-suit are “necessarily infringed” by the “Defined Product.”

II. Defendant’s Objections

A. The Patents are not Subject to the Covenant

According to the Settlement Agreement, “Blocking Patents” include “patents . . . either currently or after the Effective Date, owned or licensed by Applera.” (D.I. 169 Ex. 3 at ¶ 1.1) The Report concluded that the patents involved here are not “Blocking Patents” because they are not owned or licensed by Applera. (D.I. 206 at 38-39) Illumina objects to this portion of the Report.

Illumina correctly notes that “currently” in Paragraph 1.1 of the Settlement Agreement refers to the time the agreement became effective, not the time of this litigation. (D.I. 209 at 4) Thus, a Blocking Patent must either have been owned or licensed by Applera at the time the agreement became effective or the time period after the Effective Date.

At the Effective Date of the Settlement Agreement, Applera had an exclusive license with Cornell for the patent applications that eventually resulted in the ten patents-in-suit. (*Id.* at 6) Illumina argues that that exclusive “license’s broad coverage guaranteed that Applera would be protected from infringement regardless of the precise path or timing of the patents’ eventual issuance. And, through the Covenant, Illumina obtained equally broad protection.” (*Id.*)

However, comparing the language of the exclusive license and that of the Covenant shows that these two agreements are not equally broad. The exclusive license lists “U.S. and PCT Patent *Applications*” as well as any provisional, continuing prosecution, continuation-in-part, or divisional applications thereof as being covered by the exclusive license. (D.I. 180 Ex. 28 at ¶ 2.2) (emphasis added) The covenant, on the other hand, limits the scope of “Blocking Patents” to “*patents* . . . owned or licensed by Applera.” (D.I. 169 Ex 3 at ¶ 1.1) (emphasis added) The covenant does not include “patent applications” and the Court will not read that term into the covenant. Because Applera only ever had licenses to the patent applications that resulted in the patents-in-suit, not the patents themselves, the patents-in-suit are not “Blocking Patents.”

Illumina argues that because the Settlement Agreement’s preamble defines “Applera” as “Applera Corporation and all of its affiliates and Affiliates,” and Life is Applera’s Affiliate, the patents-in-suit are licensed by Applera. (D.I. 209 at 6) Judge Thyng disagreed and concluded that Life is Applera’s Successor, not Applera’s Affiliate. The Court agrees with Judge Thyng. Further, the Court agrees with Illumina that Applied Biosystems stepped into the shoes of Applera. Life then acquired all or substantially all of Applera by acquiring Applied Biosystems. As such, Life became Applera’s Successor, not Applera’s Affiliate. (See D.I. 169 Ex. 3 at ¶ 1.9) (defining “Successor” as “any entity that acquires all or substantially all of the assets of Applera . . .”) No definition of “Applera” includes Applera’s Successor. Therefore, the patents-in-suit that are licensed by Applera’s Successor are not licensed by Applera. Because the Covenant covers patents licensed or owned by Applera, the patents-in-suit are not subject to the Covenant.

B. Cornell is not barred from maintaining this lawsuit

1. Cornell is subject to the Covenant

According to Illumina, Cornell is barred from maintaining this lawsuit because Cornell is subject to the covenant not to sue. As a threshold matter, even if Cornell is subject to the Covenant, Cornell may still maintain this lawsuit because the patents-in-suit are not subject to the Covenant. With respect to Illumina's specific objection, the general rule is that "a contract cannot bind a nonparty." *E.E.O.C. v. Waffle House, Inc.*, 534 U.S. 279, 294 (2002). However, when a patent owner issues a license that explicitly authorizes a sublicense, the patent owner is bound by the authorized sublicense just like the original licensee. *See Rhone Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, 284 F.3d 1323, 1332 n.7 (Fed. Cir. 2002) (noting that "[a]n authorized sublicense is in effect an agreement with the original licensor").

Here Cornell is the original patent owner and Applera was the original licensee. Applera granted a covenant not to sue to Illumina. Even though it was a covenant not to sue and not a sublicense outright, a non-exclusive license and a covenant not to sue can effectively be the same thing. *See TransCore, LP v. Elec. Transaction Consultants Corp.*, 563 F.3d 1271, 1276 (Fed. Cir. 2009) ("[T]he real question, then, is not whether an agreement is framed in terms of a 'covenant not to sue' or a 'license.' That difference is only one of form, not substance – both are properly viewed as 'authorizations.'"); *Innovus Prime, LLC v. Panasonic Corp.*, 2013 WL 3354390, at *5 (N.D. Cal. July 2, 2013) ("Under federal law, there is no substantive difference between an unconditional covenant not to sue and a non-exclusive license."). Plaintiffs argue that at the time of contracting, there was a legal difference between covenants not to sue and non-exclusive licenses. Thus, when Applera and Illumina chose to execute a covenant not to sue

instead of a non-exclusive license, they meant to differentiate their agreement from a non-exclusive license. (D.I. 214 at 7-8) This argument is unpersuasive because the Federal Circuit had held, in 1987 (17 years prior to the signing of the Applera-Illumina agreement in 2004), that “[a]s a threshold matter, a patent license agreement is in essence nothing more than a promise by the licensor not to sue the licensee.” *Spindelfabrik Suessen-Schurr, Stahlecker & Grill GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1081 (Fed. Cir. 1987). Because a covenant not to sue and a non-exclusive license are effectively the same thing, Cornell and Applera entered into a non-exclusive license and Cornell is also subject to the Covenant.

Plaintiffs further argue that Paragraph 6.1© of the Covenant limits the scope of the Applera-Illumina agreement. Paragraph 6.1© states:

Nothing contained in this Agreement shall be construed as . . . ©
[a] warranty or representation by Applera or Illumina that anything
made, used, offered for sale, sold, leased, or otherwise disposed of
under a license granted in this Agreement is or will be free of
infringement of patents of third parties.

(D.I. 169 Ex. 3 ¶ 6.1©) This paragraph simply disclaims any warranty or representation that this license covers any third party patents. However, nothing in 6.1© precludes the possibility that other third party patents could be covered by the license agreement.

Finally, Plaintiffs argue that the Applera-Illumina agreement was not an “authorized sublicense.” The 2001 Cornell-~~Illumina~~^{Applera} license required any sublicense to contain all provisions that were favorable to Cornell. (D.I. 180 Ex. 28 ¶ 14.1) Plaintiffs argue that the Covenant was not “authorized” because the royalty obligations of the Cornell-~~Illumina~~^{Applera} license as listed in ¶ 7.1 were not included in the Applera-Illumina Covenant. (D.I. 214 at 8; D.I. 180 Ex. 28 ¶ 7.1) This argument is not persuasive. An “authorized sublicense” is a sublicense that the licensee had

the authority to issue. A licensee's actions are unauthorized when they exceed the scope of a license. *See MacLean Assoc., Inc. v. Mercer-Meidinger-Hansen, Inc.*, 952 F.2d 769, 779 (3d Cir. 1991) (stating licensor may bring infringement suit if licensee's use of the implied license exceeds its scope). Thus, the Covenant would be an unauthorized sublicense if it exceeded the scope of the 2001 Cornell-~~Illumina~~^{Applera} license. ~~Illumina~~^{Applera} was authorized to sublicense its rights under the 2001 Cornell-~~Illumina~~^{Applera} license. (See D.I. 180 Ex. 28 ¶ 14.1) ~~Illumina's~~^{Applera's} purported failure to subject ~~Applera~~^{Illumina} to the specific royalty provisions of ¶ 7.1 may raise a breach of contract claim between Cornell and ~~Illumina~~^{Applera}, but it does not convert the Applera-Illumina agreement into an unauthorized sublicense. Thus, Cornell is subject to the Covenant. However, because the patents-in-suit are not subject to the Covenant, Cornell may nevertheless maintain this lawsuit.

2. Standing

Cornell and Life entered into a New Exclusive License Agreement ("NELA"), effective December 2009, naming Life as the exclusive licensee to make, use, sell, offer to sell, import, or otherwise practice the patents in issue. (D.I. 169 Ex. 2 ¶ 3.1) Illumina argues that this agreement was a virtual assignment from Cornell to Life of the patents-in-suit. Patent owners lose standing to sue if they effectively assign their patent rights, even if such assignment is done by way of a license. *See Alfred E. Mann Found. for Sci. Res. v. Cochlear Corp.*, 604 F.3d 1354, 1358-60 (Fed. Cir. 2010). However, patent owners may retain standing to sue when they transfer less than all substantial patent rights in a transfer. *See id.* Unless the NELA was a virtual assignment, Cornell has standing to sue.

The NELA was not a virtual assignment. Under the NELA, Cornell retained substantial rights. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Because Cornell

retained these substantial rights, the NELA was an exclusive license, not an assignment. *See*

Abbott Labs v. Diamedix Corp., 47 F.3d 1128, 1132 (Fed. Cir. 1995). Accordingly, Cornell has

standing to sue.

CONCLUSION

An Order consistent with this Memorandum Opinion will be entered.

CORNELL UNIVERSITY, CORNELL
RESEARCH FOUNDATION, INC., LIFE
TECHNOLOGIES CORPORATION, AND
APPLIED BIOSYSTEMS, LLC,

v.

Defendant.

C.A. No. 10-433-LPS-MPT

At Wilmington, this **22nd** day of **September, 2014**:

For the reasons stated in the Memorandum Opinion issued this same date, IT IS

HEREBY ORDERED that:

The Court ADOPTS Chief Magistrate Judge Thyng's Report and Recommendation issued on June 25, 2013 (D.I. 206), and specifically holds as follows:

1. Plaintiffs' motion to strike, alleging Defendant's reply brief relies on inadmissible evidence from an incomplete record on the parties' settlement negotiations, including the negotiation history, draft settlement agreements, and correspondence (D.I. 184), is GRANTED.
2. Plaintiffs' motion to strike, alleging Defendant's reply brief contains arguments

and alleged facts that were not included in Defendant's opening brief (D.I. 184), is GRANTED IN PART and DENIED IN PART.³

3. Defendant's motion for summary judgment, alleging Life Technologies and Applied Biosystems are bound by the covenant not to sue entered into by Applera as Applera's "Affiliates," affiliates," or "Successors" (D.I. 167), is GRANTED.

4. Defendant's motion for summary judgment, alleging Cornell and Applied Biosystems lack standing to sue Defendant because Cornell contractually waived its right to sue Defendant for infringement, and Applied Biosystems has no ownership interest in the patents at issue (D.I. 167), is DENIED.

5. Defendant's motion for summary judgment, alleging the covenant not to sue bars Plaintiffs' infringement claims as it protects Defendant from suits alleging infringement of the "Blocking Patents" by "Defined Products" and "Modified Defined Products," because the accused products are Defined and Modified Defined Products, the patents at issue are Blocking Patents, and the asserted patent claims are not the "Excluded Patent Claims" exempted from the covenant not to sue (D.I. 167), is DENIED.

6. Plaintiffs' cross motion for summary judgment, alleging Life Technologies is not bound by the covenant not to sue because Life Technologies is not Applera, Applera's "Affiliates," "affiliates," or "Successors" (D.I. 172), is DENIED.

³The parties did not object to Judge Thyng's first and second recommendations. The Court adopts those uncontested recommendations in paragraphs 1 and 2 of this Order.

7. Plaintiffs' cross motion for summary judgment, alleging Cornell is not bound by the covenant not to sue because Cornell is not Applera, Applera's "Affiliates," Applera's "affiliates," or Applera's "Successors" (D.I. 172), is GRANTED.

8. Plaintiffs' cross motion for summary judgment, alleging the covenant not to sue protects defendant from suits alleging infringement of the "Blocking Patents" that are "owned or licensed by Applera," and the patents in suit are not owned or licensed by Applera (D.I. 172), is GRANTED.

9. Plaintiffs' cross motion for summary judgment, alleging the covenant not to sue protects defendant from suits alleging infringement of the "Blocking Patents" that "would necessarily be infringed" by the sale, manufacture, or use of the "Defined Product," and the patents in suit are not necessarily infringed because the Defined Product can be used without infringing the patents (D.I. 172), is DENIED.

10. Because the Memorandum Opinion was issued under seal, the parties shall, ***no later than two (2) days after the date of this Order***, submit a proposed redacted version. The Court will thereafter issue a public version of its Memorandum Opinion.

11. The parties shall submit a joint status report no later than ***fourteen (14) days from the date of this Order***.


UNITED STATES DISTRICT JUDGE