IN THE SUPERIOR COURT OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

BOYCE THOMPSON INSTITUTE FOR PLANT RESEARCH, a New York not-for-profit, tax-exempt membership corporation,	)	
Plaintiff,	)	
v.	)	C.A. No. 07C-11-217 JRS
MEDIMMUNE, INC., a Delaware corporation, **GLAXO GROUP LIMITED,** a United Kingdom corporation,	)	
Defendants.	)	

Date Submitted: February 9, 2009
Date Decided: May 19, 2009

MEMORANDUM OPINION

Upon Consideration of Defendant's Motion to Dismiss.
GRANTED IN PART AND DENIED IN PART

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SLIGHTS, J.

I.

In this opinion, the Court considers whether a complaint alleging breach of a licensing agreement and related claims can survive motions to dismiss for failure to state a claim upon which relief may be granted. The agreement at issue relates to biotechnology that allegedly led to the development of a vaccine against a cancer-causing sexually transmitted disease, the human papilloma virus, commonly known as "HPV." The developer of this biotechnology, plaintiff, Boyce Thompson Institute for Plant Research ("BTI"), alleges that it is entitled to royalties from defendants, MedImmune, Inc. ("MedImmune") and Glaxo Group Limited ("Glaxo"), for sales of an HPV vaccine marketed as Cervarix®.

As discussed below, the licensing agreement at issue implicates issues of federal patent law. This circumstance has complicated the Court's attempt to construe the agreement, its analysis of the viability of plaintiff's legal theories, and its *sua sponte* consideration of whether subject matter jurisdiction over this controversy lies in this Court. After carefully reviewing the agreement, the Court concludes that it is ambiguous and that limited parol evidence will be admitted to construe its terms. The agreement is clear enough, however, to convince the Court that it fully addresses the rights and obligations of the parties with respect to BTI's biotechnology, and the defendants' vaccine. Accordingly, in the face of a valid

express contract governing the parties' relationship, BTI's unjust enrichment, unfair competition, implied covenant of good faith and fair dealing and conversion claims cannot stand. Finally, the Court is satisfied that defendants' statute of limitations defenses cannot be adjudicated until additional facts are developed in discovery. Accordingly, MedImmune's and Glaxo's Motions to Dismiss must be **GRANTED in part and DENIED in part**.

II.[1]

A. The Relationship Between BTI, MedImmune, and Glaxo

BTI is an independent not-for-profit research institution, organized under the laws of New York, affiliated with Cornell University, and located in Ithaca, New York. BTI scientists conduct research on all aspects of plant life. Their research has lead to developments in agriculture, nutrition and, of particular relevance to this controversy, vaccines against disease.[2]

MedImmune and Glaxo are subsidiaries of two of the world's largest and most successful pharmaceutical companies. MedImmune is a Delaware

[1]The Court recites the facts as set forth in the well plead allegations of the Amended Complaint. *Spence v. Funk*, 396 A.2d 967, 968 (Del. 1978).

[2]First Am. Compl., D.I. 55, at ¶¶ 3-4 ("Am. Compl.").

corporation and a subsidiary of AstraZeneca plc. Glaxo is a United Kingdom corporation and a subsidiary of GlaxoSmithKline Holdings.[3]

In 1984, BTI established a cell bank from the embryos of an insect known as a cabbage lopper. Working with that cell bank, BTI isolated and cloned a particularly promising cell, labeled it BTI-TN-5B1-4, and created a line of cloned cells. This cell line, which became known as the "High Five Cell Line" ("High Five"), is at issue in this case.[4] The development of High Five is widely acclaimed throughout the scientific community as the new gold standard for safely and reliably reproducing a desired protein readily susceptible to the development of vaccines. High Five is uniquely valuable because its lineage is well documented, a fact important to the Food and Drug Administration ("FDA") as that agency considers whether to approve new medications developed from biotechnology for sale in the United States.[5] BTI holds several patents relating to High Five, including patents registered in the United States, Canada, Mexico, and Europe. It is impossible to use or reproduce High Five without obtaining a physical sample

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[3] *Id.* at ¶ 5.

[4] *Id.* at ¶¶ 1, 8-9.

[5] *Id.* at ¶¶ 9, 13.

that can be traced to the original cell isolated by BTI.[6]

MedImmune first acquired a sample of High Five from a BTI marketing partner, Invitrogen Corporation, in the early 1990's when it entered into an agreement with Invitrogen that allowed MedImmune to use High Five for research purposes only.[7] In 1995, MedImmune approached BTI to discuss a commercial license for High Five. Later that year, the parties entered into a contract (the "Agreement") that granted MedImmune, *inter alia,* a license to use High Five for the commercial development of an HPV vaccine.[8] Glaxo became a party to this relationship in 1997 when MedImmune sub-licensed its rights under the Agreement to Glaxo in order to finalize the vaccine and get it approved by the FDA.[9] MedImmune and Glaxo, with some assistance from BTI, worked over the next decade to develop a HPV vaccine that could be brought to market.[10] This vaccine, Cervarix®, has now been approved for use in Europe and Australia, and is currently working its way through the regulatory approval processes in the United

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[6]*Id.* at ¶ 14.

[7]*Id.* at ¶ 19.

[8]*Id.* at ¶¶ 20-21.

[9]*Id.* at ¶¶ 25-27.

[10]*Id.* at ¶¶ 27-34.

States.[11] Projected worldwide sales of the vaccine exceed $2 billion per year.[12]

B. The Agreement

The Agreement, entitled simply "Agreement," is, in essence, a licencing agreement. The license is two-fold: (1) a license to use specifically identified biotechnology for the purpose of developing products for market; and (2) a license to manufacture, use and sell products that are "covered by" BTI patents. With respect to the use, manufacture or sale of an HPV vaccine specifically, the license is deemed "exclusive" for a period of two years, subject to extension by payment of an additional fee. With respect to the use, sale or manufacture of other so-called "Licensed Products," the license is deemed "non-exclusive." In exchange for the license, MedImmune agreed to pay royalties and fees, some fixed and some based on net sales of "Licensed Products." The parties, however, disagree on the intended meaning of "Licensed Product." The construction of this term is of critical importance as it is determinative of MedImmune's and Glaxo's royalty obligation, if any, to BTI on net sales of Cervarix®. The specific provisions of the Agreement relevant to this controversy are summarized below.

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[11] *Id.* at ¶ 35.

[12] *Id.*

The parties opened the Agreement by reciting broadly what they hoped to accomplish in the Agreement. BTI stated that it "wishes to have products based upon the Cell Lines perfected and marketed at the earliest possible time in order that products resulting therefrom may be available for public use and benefit."[13] For its part, MedImmune stated that it "wishes to acquire a license to use the Cell Lines (including High Five) and Licensed Patents (later identified) for the purpose of bringing products based upon the Cell Lines to market, and to manufacture, use and sell Licensed Products (later defined) in the Licensed Field (to include the commercial production of vaccines)."[14] "Licensed Patents" includes U.S. Patent 5,300,435 (the "435 Patent") "cover[ing]" High Five specifically, and patents from Canada, Europe and Mexico "cover[ing]" the Cell Lines (including High Five).[15] The Agreement defined "Licensed Products," in pertinent part, as "any product or part thereof, the manufacture, use or sale of which is covered by a valid claim of an issued, unexpired Licensed Patent."[16]

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[13]Agreement at § 1.3.

[14]*Id.* at § 1.4.

[15]*Id.* at § 2.4.

[16]*Id.* at § 2.5(a).

The "non-exclusive license under the Licensed Patents ... to make, have made, use and sell Licensed Products in the Licensed Territory," by definition, applied to sales throughout "the entire world."[17] The "exclusive license ... to make, have made, use and sell a vaccine for [HPV]" was for an initial period of two years, subject to extension in exchange for additional payment.[18] The Agreement does not specify the territory in which the exclusive license shall apply. The parties agreed that the licenses, both exclusive and non-exclusive, "exclude[d] manufacture and sale of the Cell Lines for biological research purposes...."[19]

In consideration for the grant of the license, MedImmune agreed to pay BTI a non-refundable initial payment of $30,000.[20] Thereafter, the Agreement provided for a "minimum royalty" of $15,000 per year to be paid by MedImmune regardless of whether or not High Five led to the production of a marketable product.[21] MedImmune could extend the exclusive license to develop a HPV vaccine for the full term of the Agreement by making an additional payment of $50,000 at the

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[17] *Id.* at § 3.1.

[18] *Id.* at § 3.1.1.

[19] *Id.* at § 3.3.

[20] *Id.* at § 5.1.

[21] *Id.* at § 5.3.

expiration of the initial two-year license.[22] In addition, MedImmune agreed to pay BTI "earned royalties on Net Sales"[23] (defined as "the gross revenue of [MedImmune] ... from the sales of Licensed Products in the form in which they are sold or used,"[24] less certain deductions (e.g. designated costs, taxes, rebates, etc.)) based on a graduated scale that decreased after certain sales milestones were met.

C. BTI Demands Royalties On Net Sales of Cervarix® And MedImmune and Glaxo Refuse

In 2007, BTI began to negotiate offers to monetize its expected future royalty income related to High Five in order to ensure its long-term viability. As part of the due diligence process, BTI and a potential investor, Cowen Healthcare Royalty Partners ("Cowen"), sought assurances from MedImmune and Glaxo that they would pay the expected royalties due under the Agreement on net sales of Cervarix®. After a series of vague communications, Glaxo sent BTI an email on August 29, 2007, stating that Glaxo and MedImmune did not owe any royalty payments to BTI beyond the minimum royalty.[25] This development ended the monetization efforts between BTI and Cowen, which resulted in BTI losing tens of

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[22] *Id.* at § 5.4.

[23] *Id.* at § 5.2.

[24] *Id*. at § 2.7.

[25] Am. Compl. at ¶¶ 36-41.

millions of dollars in expected income.[26]

D. The Parties' Contentions

The Amended Complaint is comprised of ten counts: Count I (seeking a declaratory judgment regarding the rights and obligations of the parties under the Agreement); Count II (anticipated repudiation of the Agreement); Count III (past breaches of the Agreement); Count IV (breach of the implied covenant of good faith and fair dealing); Count V (misappropriation of trade secrets); Count VI (unjust enrichment); Count VII (conversion); Count VIII (unfair competition); Count IX (tortious interference with contractual relations); and Count X (tortious interference with prospective contractual/business relations).

Defendants have moved to dismiss Counts I-III, IV, VI, VII-VIII, IX and X of the Amended Complaint on grounds that they fail to state claims upon which relief may be granted.[27] With respect to the breach of contract claim, defendants argue that the clear and unambiguous terms of the Agreement reveal that no breach has occurred here. According to defendants, BTI is entitled to royalties on Cervarix® only if Cervarix® is a "Licensed Product" as defined in the Agreement.

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[26] *Id.* at ¶ 42.

[27] Specifically, MedImmune has moved to dismiss Counts I-IV, Glaxo has moved to dismiss Count IX, and both defendants have moved to dismiss Counts VI-VIII. The motions were filed as separate "speaking motions."

Defendants allege that Cervarix® is manufactured in Belgium. They further allege that Cervarix® is not "covered" by a "valid claim of an issued ... Licensed Patent" in Belgium. They maintain, therefore, under the clear terms of the Agreement, that Cervarix® cannot be a "Licensed Product."

With respect to BTI's other claims, defendants argue that once the Court determines that BTI's breach of contract claim fails, it must then conclude *ipso jure* that BTI's other claims fail as well. According to defendants, when a contract governs the parties' relationship, the Court may neither imply a new contract or a covenant to the contract, nor may it find, in the absence of a breach, that a conversion or misappropriation of property subject to the contract has occurred. As to the tortious interference claims, defendants contend that no tortious interference can be found as a matter law when they acted within their rights under the Agreement and when BTI's only alleged damages are "economic" in nature. Finally, defendants contend that counts I through VIII of the amended complaint are barred by the applicable statutes of limitations. Specifically, they reiterate that these claims all depend upon BTI's allegation that MedImmune and Glaxo have breached the Agreement, and argue that BTI knew that the defendants were developing Cervarix® in Belgium without paying royalties, allegedly in breach of the Agreement, by no later than February 2002. Defendants contend, therefore,

that counts I through VIII of BTI's complaint, filed in November, 2007, are barred by the three year statute of limitations applicable to breach of contract claims.

According to BTI, the motions must be denied because its complaint alleges sufficient facts to suggest either that the unambiguous terms of the Agreement have been breached or that the Agreement is ambiguous. If the Court finds ambiguity, then BTI urges the Court to allow it to take discovery so that it can present a more complete factual record before the Court endeavors to construe the Agreement. Under either rationale, because the Court cannot determine the *bona fides* of the breach of contract claim on this record, BTI argues that the motions to dismiss this and the other related claims must be denied. As to the statute of limitations defense, BTI contends that there is a factual dispute as to when it became aware of the defendants' breach of the Agreement.

III.

A. Standard of Review

A motion to dismiss under Rule 12(b)(6)[28] presents the question of "whether a plaintiff may recover under any reasonably conceivable set of

[28]DEL. SUPER. CT. CIV. R. 12(b)(6) (allowing for dismissal of a complaint for "failure to state a claim upon which relief may be granted.").

circumstances susceptible of proof under the complaint."[29] When considering a motion to dismiss, the Court must read the complaint generously, accept all well-pleaded allegations as true, and construe them in a light most favorable to the plaintiff.[30] A complaint is 'well-plead' if it puts the opposing party on notice of the claim being brought against it.[31] Dismissal is warranted only when "under no reasonable interpretation of the facts alleged could the complaint state a claim for which relief might be granted."[32]

In this case, the parties both have referred to matters outside of the pleadings in the briefing and at oral argument. The Court must determine, therefore, whether to consider this motion to dismiss under a Rule 12 standard of review as styled, or under the very different standard of review implicated by Rule 56.[33]

Defendants attached the Agreement, BTI interrogatory responses, emails, and certain BTI patents to their motions to dismiss. The Agreement was attached

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[29]*Browne v. Robb*, 583 A.2d 949, 950 (Del. 1990) ("The complaint sufficiently states a cause of action when a plaintiff can recover under any reasonably conceivable set of circumstances susceptible of proof under the complaint.").

[30]*In re Tri-Star Pictures, Inc. Litig.*, 634 A.2d 319, 326 (Del. 1993) (citation omitted).

[31]*Precision Air v. Standard Chlorine of Del.*, 654 A.2d 403, 406 (Del. 1995).

[32]*Hedenberg v. Raber*, 2004 WL 2191164, at *1 (Del. Super.).

[33]*See* DEL. SUPER. CT. CIV. R. 12(b) ("If, on a motion ... to dismiss for failure to state a claim upon which relief can be granted, matters outside the pleading are presented to and not excluded by the Court, the motion shall be treated as one for summary judgment and disposed of as provided in Rule 56....").

to the amended complaint and incorporated therein by reference. It is not extraneous. The interrogatory responses, emails and patents, however, are extraneous. In addition to these extraneous materials, defendants maintained time and again, without any record support or reference to the pleadings, that Cervarix® was produced in Belgium, that BTI held no patent for High Five in Belgium and, therefore, that Cervarix® did not violate a valid claim of an issued patent. These contentions also are extraneous to the pleadings.

For its part, in opposition to the motion, BTI attached a Rule 56(f) affidavit from counsel,[34] and then at oral argument relied upon defense interrogatory responses, a defense privilege log, Cervarix® product literature, and information from the "BioFarm" website.[35] These materials are extraneous to the pleadings.

In determining whether to convert a motion to dismiss to a motion for summary judgment, the "critical questions ... are whether the extraneous matters are integral to and have been incorporated within the complaint and whether they have been offered to the court to establish the truth of their contents. If the

[34]*See* DEL. SUPER. CT. CIV. R. 56(f) (allowing a party resisting summary judgment to submit an affidavit outlining discovery that is needed properly to respond to the motion).

[35]Tr. of Oral Arg., D.I. 123, at 73-76 (Feb. 9, 2009).

extraneous matters have been offered to establish their truth, the court must convert the motion to dismiss to a motion for summary judgment."[36]

In this case, the parties, through their motions and responses, have asked the Court to construe the Agreement at issue in their dispute. As stated, this document was attached to and incorporated by reference in the Amended Complaint. The case law is legion that motions to dismiss are appropriate vehicles by which to engage the Court in the construction of written contracts.[37] Accordingly, the Court will attempt to construe the Agreement within the standard of review contemplated by Rule 12.

With respect to the arguments that have been raised regarding whether *vel non* defendants have breached the Agreement, both defendants and BTI have relied in a substantive way upon evidence outside of the pleadings. Nevertheless, given that the Court has determined that the construction of the Agreement must await

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[36] *Mell v. New Castle County,* 835 A.2d 141, 144 (Del. Super. 2003) (citations omitted).

[37] *See Schuss v. Penfield Partners, L.P.*, 2008 WL 2433842, at *6 (Del.Ch.) ("Under Delaware law, the interpretation of a contract is a question of law, and a motion to dismiss is a proper vehicle to determine the meaning of contract language"); *OSI Systems, Inc. v. Instrumentarium Corp.*, 892 A.2d 1086, 1090 (Del.Ch. 2006) ("judgment on the pleadings ... is a proper framework for enforcing unambiguous contracts."); *Caldera Properties-Lewes/Rehoboth VII, LLC v. Ridings Development, LLC*, 2008 WL 3323926, at *11 (Del.Super.) ("[A] motion to dismiss is a proper framework for determining the meaning of contract language."). *See also Taussig v. Clipper Group, L.P.*, 787 N.Y.S.2d 10, 11 (N.Y. App. Div. 1st Dept. 2004) (affirming that granting of a motion to dismiss, the court held that "[t]he interpretation of an unambiguous contract is a question of law for the court, and the provisions of a contract addressing the rights of the parties will prevail over the allegations in a complaint.").

further discovery, as discussed below, the Court will not fully address BTI's claim of breach at this time except to note that further information is required before the viability of this claim can be determined. The operative standard of review with respect to the breach claim, therefore, is of little moment at this juncture.

Defendants' motions to dismiss the remaining counts for failure to state a claim will be considered under Rule 12 as no extraneous matters have been relied upon in support of or opposition to those motions. The Court's review with respect to these claims will be limited to the Amended Complaint and the Agreement attached thereto.

Defendants have also sought dismissal of Counts I-VIII on the ground that they are barred by the applicable statute of limitations. They have referred to extraneous matters in support of this argument and, therefore, the Court will address the argument under Rule 56.[38] The Court's function when considering a motion for summary judgment is to examine the record to determine whether

[38]The Court asked the parties to address whether the motion to dismiss should be converted into a motion for summary judgment in supplemental memoranda. The Court did not, however, give notice to the parties of its intent to make the conversion as per *Appriva Shareholder Litig. v. EV3, Inc.,* 937 A.2d 1275 (Del. 2007), wherein the Supreme Court held, *inter alia,* that the trial court must give notice to the parties of its intent to convert a motion to dismiss into a motion for summary judgment and an opportunity to supplement the record before deciding the motion. Because the Court will allow motion(s) for summary judgment to be filed on the same grounds advanced here on a more complete record, the notice required by *Appriva* and Rule 12(b)(6) would be superfluous.

genuine issues of fact exist.[39] Summary judgment will be granted if, after viewing the record in a light most favorable to the non-moving party, no genuine issues of material fact exist and the party is entitled to judgment as a matter of law.[40] If, however, the record reveals that a material fact is in dispute, or if judgment as a matter of law is not appropriate, then summary judgment will not be granted.[41]

B. Choice of Law

The Agreement includes a choice of law provision at Section 12.2 which provides, in part:

> This Agreement shall be construed, interpreted and applied in accordance with the laws of the State of New York where state law is the appropriate standard, and by the laws promulgated by the United States Court of Appeals for the Second Circuit . . . if federal law is in question.

"Delaware courts will recognize and enforce contractual choice-of-law provisions if the selected jurisdiction has a material connection with the transaction."[42] The parties appear to agree that New York law governs the breach of contract and related claims, presumably because the Agreement's choice of law provision is

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[39] *Oliver B. Cannon & Sons, Inc. v. Dorr-Oliver, Inc.*, 312 A.2d 322, 325 (Del. Super. 1973).

[40] *Id.*

[41] *Ebersole v. Lowengrub*, 180 A.2d 467, 470 (Del. 1962).

[42] *Smartmatic v. SVS Holdings, Inc.*, 2008 WL 1700195, at *3 n.21 (Del. Super.) (quoting *Trilogy Dev. Group, Inc. v. Teknowledge Corp.*, 1996 WL 527325, at *3).

clear and unambiguous, BTI is legally and physically located in New York, BTI developed High Five in New York, and the Agreement was negotiated in New York.[43] Accordingly, Counts I-IV and VI, which relate directly to the interpretation of the Agreement, will be determined under New York law.[44]

New York law also applies to BTI's remaining claims. Delaware courts look to the Restatement (Second) of Conflict of Laws for guidance when resolving choice of law disputes.[45] Section 145(1) provides that "the rights and liabilities of the parties with respect to an issue in tort are determined by the local law of the state which, with respect to that issue, has the *most significant relationship* to the occurrence and the parties. . . ."[46] Factors the Court should consider in this analysis include: (a) the place of injury; (b) the place of conduct causing the injury;

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[43]Tr. at 8-10.

[44]Count I, BTI's request for declaratory judgment, is governed by both Delaware and New York law. Delaware's declaratory judgment statute, 10 *DEL.C.* §§ 6501-6513, and related Delaware case law will govern the procedural aspects of this claim, and New York law will govern the substantive rights of the parties pursuant to the Agreement. *Lutz v. Boas,* 176 A.2d 853, 857 (Del.Ch. 1961) ("It is well established that the law of the forum governs questions of remedial or procedural law.").

[45]*Travelers Indem. Co. v. Lake,* 594 A.2d 38, 46-47 (Del. 1991).

[46]*Id.* (citing RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 145(1) (1971)) (emphasis added).

(c) the domicile and residence of the parties; and (d) the place where the relationship, if any, between the parties is centered.[47]

New York has the most significant relationship to the parties and their extra-contractual disputes. First, the alleged harm occurred in New York, where BTI is incorporated and where its facilities, operations, staff, and assets are physically located. Second, while MedImmune and Glaxo operate globally, the negotiation of the Agreement took place in New York, and communications occurred with BTI in New York. Third, BTI is legally and physically present in New York. Fourth, the parties' relationship was centered in New York, where the negotiations that resulted in the Agreement took place, and where MedImmune and Glaxo obtained information about High Five by traveling to BTI's facilities. The Court will apply New York law when considering BTI's extra-contractual claims.[48]

IV.

A. Counts I - III - The Contract Claims

In Counts I through III, BTI alleges that MedImmune breached the Agreement by refusing to pay BTI royalties on net sales of Cervarix®. These claims require the Court first to interpret the Agreement, if possible, and then to

[47] *Id.* § 145(2).

[48] The Court also notes that Delaware courts generally are reluctant to apply different states' laws to contract and related tort claims when the contract at issue contains an enforceable choice of law provision. *See AT&T Wireless Services v. Fed. Ins. Co.,* 2007 WL 1849056, at *3 (Del. Super.).

determine whether BTI's claim of breach can survive summary disposition.[49]

1. The Agreement Is Ambiguous

When construing a written contract, the Court begins with the notion that "[t]he best evidence of what parties to a written agreement intend[ed] is what they [said] in their writing."[50] A written agreement that is complete, clear, and unambiguous on its face must be enforced according to the plain meaning of its terms.[51] A contract is unambiguous if its language has "a definite and precise meaning, unattended by danger of misconception in the purport of the [agreement] itself, and concerning which there is no reasonable basis for a difference of opinion."[52] If the agreement on its face is reasonably susceptible of only *one* meaning, the contract is unambiguous and the Court is not free to alter the contract.[53] A contract is ambiguous, however, if the provisions in controversy are

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[49]*See Matter of Wallace v. 600 Partners Co.,* 86 N.Y.2d 543, 548 (N.Y. 1995) (courts interpret the meaning of contracts as a matter of law).

[50]*Slamow v. Del Col*, 79 N.Y.2d 1016, 1018 (N.Y. 1992). *See also Slatt v. Slatt*, 64 N.Y.2d 966, 967 (N.Y. 1985) (same).

[51]*R/S Assoc. v. New York Job Dev. Auth.*, 98 N.Y.2d 29, 32 (N.Y. 2002); *W.W.W. Assoc. v. Giancontieri*, 77 N.Y.2d 157, 162 (N.Y. 1990).

[52]*Breed v. Ins. Co. of N. Am.*, 46 N.Y.2d 351, 355 (N.Y. 1978) (citations omitted).

[53]*Riverside South Planning Corp. v. CRP/Extell Riverside, L.P.*, 869 N.Y.S.2d 511, 516 (N.Y. App. Div. 1st Dept. 2008) (quoting *Greenfield v. Philles Records*, 98 N.Y.2d 562, 570 (N.Y. 2002)). *See also Teichman v. Cmty. Hosp. of W. Suffolk*, 87 N.Y.2d 514, 520 (N.Y. 1996); *First Natl. Stores v. Yellowstone Shopping Ctr.*, 21 N.Y.2d 630, 638 (N.Y. 1968).

reasonably or fairly susceptible of different interpretations or may have two or more different meanings.[54] A party's assertion that contract language means something other than what is clear is not sufficient to create an ambiguity.[55] And the Court may not look to extrinsic evidence to create ambiguity.[56]

Both parties argue that the Agreement is unambiguous.[57] Not surprisingly, however, they disagree as to its meaning. Remarkably, when all is said and done (after full briefing, supplemental briefing and a lengthy oral argument) both parties agree that this dispute comes down to the proper interpretation of a single word contained within a single provision of the Agreement.[58]

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[54]*New York City Off-Track Betting Corp. v. Safe Factory Outlet, Inc.*, 28 A.D.3d 175, 177, (N.Y. App. Div. 1st Dept. 2006); *Feldman v. National Westminster Bank*, 303 A.D.2d 271, 271 (N.Y. App. Div. 1st Dept. 2003) (quoting *Sanders v. Wang*, 1999 WL 1044880, at *6 (Del. Ch.)).

[55]*Ruttenberg v. Davidge Data Sys. Corp.*, 215 A.D.2d 191, 193 (N.Y. App. Div. 1st Dept. 1995).

[56]*150 Broadway N.Y. Assoc., L.P. v. Bodner*, 14 A.D.3d 1, 6 (N.Y. App. Div. 1st Dept. 2004).

[57]To be clear, BTI argues in the first instance that the Agreement is unambiguous. Tr. at 64– 65 ("[I]f the Court were really to go into the four corners of the document and adopt the plain meaning, as I just explained it, do we have a valid claim? Yes."). In the alternative, BTI argues that the Agreement is ambiguous and that parol evidence must be admitted to construe its terms. Pl. Answ. Br. in Opp'n to Defs. Mot to Dismiss, D.I. 89, at 15 ("[MedImmune and Glaxo's motion] is also premature and cannot be decided without resort to parol evidence."); Tr. At 70("We think, at worst, cover is ambiguous as to whether or not it means infringe, and therefore parol evidence has to come in.").

[58]Tr. at 70, 101.

Whether defendants owe royalties on net sales of Cervarix® depends on whether Cervarix® is a "Licensed Product" as defined in the Agreement.[59] The parties agree, therefore, that BTI's breach claim turns on whether Cervarix® is "covered" by a valid claim of an issued BTI patent. According to BTI, "[t]he Agreement, read in its entirety, shows the parties' intent was to pay royalties on *any* product produced using a cell line covered by a BTI patent [issued anywhere], *i.e.*, [the '435 Patent "cover[ing]] the High Five Cell Line."[60] Since Cervarix® allegedly was developed using High Five, and High Five is protected by a valid, issued and unexpired BTI patent (the '425 patent), BTI argues that Cervarix® must be a "Licensed Product." Although it offered no definition for "covered" in its response brief, at oral argument counsel for BTI stated that the term means "applicable to" or "virtually any dictionary definition the Court would rely upon."[61]

In response, defendants argue that in order for a product to be "covered" by a valid claim of a BTI Patent, the product must be protected by a licensed BTI patent such that the "manufacture, use or sale" of the product would infringe that

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[59]As set forth in § 2.5 of the Agreement:

> "Licensed Products" means any product or part thereof in the Licensed Field of Use, the manufacture, use or sale of which: (a) is *covered* by a valid claim of an issued, unexpired Licensed Patent. (emphasis added)

[60]Pl. Answ. Br. in Opp'n to Defs. Mot to Dismiss, D.I. 89, at 17 (emphasis added). *See* Agreement at § 2.4(b).

[61]Tr. at 80.

patent. According to defendants, even if Cervarix® was developed with High Five, it is not "covered" by a BTI patent because it was manufactured in a country where BTI has no patent protection.[62] Defendants, therefore, would have the Court interpret "covered" to mean "infringed."

"Covered" is not defined in the Agreement. Accordingly, the Court will consider its plain meaning in hopes that this will reveal the parties' intent.[63] The Merriam-Webster Online Dictionary defines "cover," in relevant part, as: "to afford protection or security; to have sufficient scope to include or take into account."[64] Based on these definitions, at first glance, the Court readily could conclude that the parties intended the phrase "*covered* by a valid claim of an issued, unexpired Licensed Patent" to mean "*protected by* or *to include* a valid claim of an issued, unexpired Licensed Patent." In laymen's terms, to be

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[62] *See* Defs. Reply Br. in Supp. of Mot. to Dismiss, D.I. 97, at 6. ("Under the plain meaning of the contract, if a product that MedImmune or Glaxo makes, uses, or sells is 'covered by a valid claim of [a]' BTI patent, then such manufacture, use or sale would infringe that BTI patent but for the license that MedImmune and Glaxo have from BTI."). *See also* Defs. Mot. to Dismiss Counts I-III, D.I. 75, at ¶¶ 4-6.

[63] *See White v. Cont. Ins. Co.,* 9 N.Y.3d 264, 267 (N.Y. 1996) (court must interpret contract provisions in accordance with their "plain and ordinary meaning"). *See also Fama v. Metro. Prop. & Cas. Ins. Co.*, 646 N.Y.S.2d 930, 933 (N.Y. Sup. Ct. 1996) (quoting 2 N.Y.Jur.2d, *Administrative Law*, § 105, pp. 158-159) ("Where a word is not defined in a regulation and there is no documented history which accompanies its promulgation shedding light on the administrative intent, the dictionary may be referred to in determining the sense in which the word is employed.").

[64] *See* "cover" Merriam-Webster Online Dictionary, http://www.merriam-webster.com/dictionary/cover © 2009, Merriam-Webster, Inc..

"protected" by a patent means "to maintain the status or integrity ... through ... legal guarantees" or "to foster or shield from infringement."[65] To "include" a patent means, *inter alia,* to "contain" or "comprise" a patent.[66] Needless to say, the notion of "protection," in the patent context, invokes a complex statutory and regulatory scheme that defines the scope of the protection and the means by which it will be implemented. The notion of inclusion, however, does not implicitly invoke anything beyond a state of being, *i.e.,* the patent has to exist to be "included."

By its terms, the Agreement reflects MedImmune's intent to "acquire a license to use the Cell Lines," including High Five. Its need for the license, and its obligations under the license, are prompted by BTI's patent(s) covering its cell lines, including High Five. Absent the patent(s), there would be no need for the license; the defendants could copy and use High Five at will.[67] Thus, the Court is satisfied that the parties intended that Cervarix® would be a "Licensed Product"

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[65]*Id.* for "protect". Of course, this definition comports with the basic scheme of patent protection in this country. Generally, "patent protection" means that the patentee has "the right to exclude others from [a] specific market, no matter how large or small that market." 60 AM. JUR.2D *Patents* § 6 (2003). Stated differently, "a patent ... protects against unlicensed use of the patented device or process even by one who discovers it properly through independent research." *Id.* at § 7. In the absence of this statutorily-created protection, an inventor "makes, uses or vends" his invention at the risk that others will "copy and use it with impunity." *Id.* at § 6.

[66]*Id.* for "include."

[67]*See generally* 60 AM. JUR.2D *Patents* §§ 6, 7 (2003).

only to the extent that High Five, allegedly used in the development of Cervarix®, was "covered," *i.e.*, "protected" by a valid patent.

The question remains, however, whether "covered" would include products that are protected by a BTI patent anywhere, as BTI contends, or whether it includes only those products that are protected by a BTI patent in the location(s) where "manufacture, use or sale" of the product occurs, as defendants contend. In this regard, Section 2.5 of the Agreement is silent. Accordingly, the Court will look to other provisions of the Agreement in search of further guidance.

By the Court's count, the parties used the term "cover" nine times in the Agreement, as excerpted below:

> - § 1.2 BTI has assignments to a number of patents and patent applications *covering* the Cell Lines.
> - § 2.4(a) U.S Patent 5,298,418 "Cell Line Isolated From [technical name]", issued on March 29, 1994 (*covers* cell line BTI-Tn-MG1)…
> - § 2.4(b) U.S Patent 5,300,435 "[technical name]", issued on April 5, 1994 (*covers* cell line BTI-Tn-5B1-4). . .
> - § 2.5 "Licensed Products" means any product or part thereof in the Licensed Field of Use, the manufacture, use or sale of which: (a) is *covered* by a valid claim of an issued, unexpired Licensed Patent. . . . (b) is *covered* by any claim being prosecuted in a pending application directed to the Cell Lines which application would be a "Licensed Patent," if issued. If a pending application has been pending for over five (5) years, then the requirement to pay royalties on sales of Licensed Products *covered* by the claims of that application . . . shall be suspended until such time as the application shall issue as a patent.
> - § 2.7 [second paragraph] In the event that a Licensed Product includes both component(s) *covered* by a valid claim of a Licensed

> Patent ("Patented Components") and a component which is diagnostically useable or therapeutically active alone or in combination which does not require the Patented Component and such component is not *covered* by a valid claim of a Licensed Patent ("Unpatented Component(s)")…
> - § 3.1 Non-Exclusive License: . . . It is understood that Cell Lines not *covered* under Licensed Patents may be used without restriction or payment by Licensee.

In each instance where the parties used the term "covered," they did so with respect to a BTI patent and did so in a manner consistent with the term's plain meaning. Substituting "protect" for "cover," as that term appears throughout the Agreement, makes clear the parties' understanding that BTI cell lines are protected by certain patents and that BTI intends to license its patents to MedImmune so that MedImmune can utilize the cell lines for commercial purposes. Thus, in Section 2.5, the Agreement provides:

> . . . If a pending application has been pending for over five (5) years, then the requirement to pay royalties on sales of Licensed Products *covered* by the claims of that application . . . shall be suspended until such time as the application shall issue as a patent.

This clause objectively provides that when a pending patent application fails to gain approval after five years, and thereby provides no protection, a patent does not *cover* the product and the obligation to pay royalties on the license is suspended until the application issues as a patent. The parties, through the Agreement, clearly

intended that MedImmune's obligation to pay royalties would be triggered only by the "manufacture, use or sale" of a product that is protected by a BTI patent.[68]

What is less clear in the Agreement is whether the parties intended that MedImmune's royalty obligation on net sales of a Licensed Product would be triggered only when the product *infringes* a Licensed Patent. The Agreement easily could have said that but it did not. And while defendants' argument that the license is necessary only if Cervarix® infringes a BTI patent intuitively makes sense,[69] and may well ultimately prevail as the correct construction of the Agreement, it is not entirely clear from the Agreement that this was the parties'

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[68]The use of "covered" in § 2.7 further supports the Court's construction of the term:

> . . . a component which is diagnostically useable or therapeutically active alone or in combination which does not require the Patented Component and such component is not *covered* by a valid claim of a Licensed Patent ("Unpatented Component(s)")
> . . .

This clause objectively means that an "Unpatented Component" – a component the use of which is not protected by a BTI patent – is one that is "not covered" by a valid claim of a licensed patent.

[69]It is not at all clear to the Court why defendants would require a license if, for instance, the '435 patent did not provide protection against the use of High Five in the development of a vaccine in Belgium. BTI maintains that the parties understood that a royalty obligation was triggered by its then-existing patent portfolio on the cell lines regardless of whether defendants' activities actually infringed any of the patents. It is conceivable that this was the case, i.e., that the parties, for reasons not reflected in this record, negotiated some sort of hybrid licensing agreement. The record in this regard needs further development.

intent.[70] BTI granted a license to MedImmune, apparently based on the '435 patent, to utilize High Five in the development of marketable "products," such as "human vaccines."[71] While it may be the case, as defendants contend, that Cervarix® does not infringe the '435 patent, it appears uncontroverted, at this stage of the proceedings, that the '435 patent does protect High Five to the extent permitted by law, and that High Five was used in the development of Cervarix®. The Court will allow BTI to present extrinsic evidence, if it exists, to support its contention that patent protection, as opposed to patent infringement, triggers

[70]Other courts have interpreted products "covered by a patent" to include only products whose manufacture, use, or sale would be protected by a patent such that a license is required to avoid liability for infringement. *See Interspiro USA, Inc. v. Figgie Int'l, Inc.*, 18 F.3d 927, 930 (Fed. Cir. 1994) (finding that when an agreement requires a party to pay royalties on sales "covered by" a patent, the issue of whether the party must pay a royalty "turns on whether the [accused product] infringes [that] patent"); *Arlaine & Gina Rockey, Inc. v. Cordis Corp.*, 2004 WL 5504978, at *6, 17 (S.D. Fla.) (finding that in order to prevail on a claim for higher royalties based on sales of licensed products, which were defined as products "covered by any claim of the Patents," the plaintiff had to show that the products would have infringed the patents but for the granted license). The Court has not, however, been directed to, or found on its own, any decision that has made this determination on a Rule 12 motion, and it is unclear whether the Courts in *Interspiro* and *Cordis* looked beyond the agreements at issue there to interpret them.

[71]Agreement at §§ 1.4, 2.3.

defendants' royalty obligation.[72]

2. The Court Cannot Assess The Claim Of Breach On This Record

Even if the Court adopted defendants' construction of the Agreement, and determined that defendants owed royalties to BTI only if Cervarix® infringed a BTI patent, the Court still could not, on this record, determine whether or not the Agreement has been breached. Defendants contend that BTI has no patent protection in Belgium and that Cervarix® cannot infringe a BTI patent because it is manufactured in Belgium. They offer no evidence to support either of these contentions, and BTI disputes them.[73] BTI also takes issue with the defendants' contention that the '435 Patent would not cover Cervarix® simply because the

[72]*See In Re Rudolph's Will*, 123 N.Y.S.2d 731, 733-34 (N.Y. Supr. Ct. 1953) (evidence concerning the commercial environment giving context to the agreement may be used to ascertain the parties' intent even if the language of the contract is unambiguous); *Care Travel Co. v. Pan American World Airways*, 944 F.2d 983, 988 (2d Cir. 1991) (holding that agreement is unambiguous when it is capable of only one meaning when viewed by "a reasonably intelligent person who has examined the context of the entire integrated agreement and **who is cognizant of the customs, practices, usages and terminology generally understood in the particular trade or business.**") (emphasis supplied)(citation omitted). *See also Interspiro USA, Inc. v. Figgie Intn'l, Inc.*, 815 F.Supp. 1488, 1501-02 (D.Del.1993) (same). The Court is satisfied that it is not adequately familiar with the prevailing "customs, practices, usages and terminology" at this stage of the proceedings, and that limited extrinsic evidence regarding patent licenses generally, and as understood by the parties, would be useful in construing the intended meaning of "cover" as used in the Agreement.

[73]Tr. at 87 (counsel for BTI argues: "I've also heard repeatedly today that ... it's not disputed that Cervarix® is manufactured in Belgium. Your honor, it is disputed. The only reason we would have to know that Cervarix® is manufactured in Belgium is because they tell us that.").

drug is produced in Belgium.[74] Discovery has yet to commence in earnest. For now, BTI's complaint alleges breach with sufficient particularity to survive a motion to dismiss.[75] And, given the undeveloped state of the discovery, it is not surprising that the evidence submitted with the briefing falls short of revealing undisputed issues of fact with respect to breach such that summary judgment would be appropriate. Moreover, the parties have not yet adequately addressed the legal landscape - - particularly with respect to the scope of BTI's patent protection - - such that the Court could meaningfully apply the facts to the appropriate legal standard(s).[76] It is too early, therefore, to determine if summary judgment would be appropriate on the breach claim, regardless of the Court's construction of the Agreement.[77]

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[74]Tr. at 67-68 (arguing that activities such as research, development, marketing and sales that occurred outside of Belgium could constitute infringing activity).

[75]*See e.g.* Am. Compl. ¶¶ 62-70.

[76]For instance, BTI contends that the '435 patent would protect against defendants researching and developing vaccines in this country based on High Five and then manufacturing them in Belgium or any other country where BTI lacked patent protection. The Court has no basis in the record or briefing upon which to determine if defendants engaged in such conduct or, for that matter, to determine if BTI's statement of the law is accurate.

[77]*See Ebersole,* 180 A.2d 467, 468-69 (Del. 1962) (summary judgment not appropriate when it is desirable to inquire more thoroughly into the facts to clarify the application of the law to the facts).

3. Subject Matter Jurisdiction

The Court may raise the issue of subject matter jurisdiction *sua sponte*.[78] Given the emerging possibility that federal patent law may impact the resolution of this controversy, the Court has considered whether it may properly exercise subject matter jurisdiction over this case. Jurisdiction over patent cases is governed by 28 U.S.C. § 1338(a):

> The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to *patents*, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in *patent*, plant variety protection and copyright cases. (emphasis added)

The United States Supreme Court, in *Christianson v. Colt Industries Operating Corp.*,[79] explained in what circumstances an action "arises under" federal patent law and would, therefore, fall under the exclusive jurisdiction of the federal courts:

> A federal district court's federal-question jurisdiction ... extends ... only to those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a

[78]DEL. SUPER CT. CIV. R. 12(h)(3) ("*Whenever* it appears by suggestion of the parties or *otherwise* that the Court lacks jurisdiction of the subject matter, the Court shall dismiss the action.") (emphasis added); *Mehiel v. Solo Cup Co.*, 2005 WL 1252348, at *6 n.47 (Del. Ch.) (Citing *Christiana Town Ctr. LLC v. New Castle County*, 2003 WL 21314499, at *2 (Del. Ch.). *See also Petrucci v Cummings*, 2008 WL 4853409, at *1 (D. Del.); *Golden ex. rel. Golden v. Golden*, 382 F.3d 348, 354 (3d Cir. 2004).

[79]*Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800 (1988).

> substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.[80]

Patent law is not a necessary element of a cause "if on the face of a well-pleaded complaint there are . . . reasons completely unrelated to the provisions and purposes of [the patent laws] why the [plaintiff] may or may not be entitled to the relief it seeks."[81] Patent law must be essential to the theory supporting the claim in order for there to be a basis for federal jurisdiction.[82] When deciding whether patent law is a necessary element of a well-pleaded claim, however, the Court is not restricted to the face of the pleadings.[83]

In *U.S. Valves, Inc. v. Dray*,[84] the Federal Circuit held that a substantial question of patent law was presented in a case factually similar to this case. In *Dray,* the parties had entered into a license agreement granting Plaintiff "an exclusive right to [manufacture and distribute] the Licensed Product."[85] The "licensed product," defined by the agreement as "the invention dis[closed] by the

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[80]*Id.* at 809.

[81]*Id.* at 810 (quoting *Franchise Tax Bd. of State of Cal. v. Constr. Laborers Vacation Trust for Southern Cal.*, 463 U.S. 1, 26 (1983)).

[82]*Id.*

[83]*Id.* at 809 n.3.

[84] 212 F.3d 1368 (Fed. Cir. 2000).

[85]*Id.* at 1370.

application(s) referred to in Recital A and in patents which issue there from [sic],"[86] was a valve developed by the defendant. The business relationship between the parties eventually soured, primarily due to a dispute over royalty payments, and defendant began selling the valve explicitly mentioned in the exclusive licensing agreement and an arguably similar valve.[87] Plaintiff brought an action in state court alleging breach of contract based on defendant's allegedly unauthorized valve sales.[88] The case was removed to federal district court on the basis of diversity jurisdiction, and the court ultimately found that defendant had violated plaintiff's exclusive rights under the license agreement, awarded damages, and issued a permanent injunction.[89] Both parties appealed to the Seventh Circuit.[90] That court then granted defendant's motion to transfer the appeal to the Federal Circuit, finding that plaintiff's claim for breach of contract required application of patent law.[91]

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[86] *Id.*

[87] *Id.*

[88] *Id.*

[89] *Id.*

[90] *Id.*

[91] *Id.* The Federal Circuit has jurisdiction over appeals arising under patent law. 28 U.S.C. § 1295(a)(1).

The Federal Circuit held that the transfer was proper.[92] The court reasoned that in order to show that defendant violated the license agreement, the plaintiff was required to prove that the valves sold by defendant "were covered by the licensed patents."[93] Because some of the valves sold by defendant were not explicitly referenced in the agreement, but were allegedly similar to the licensed product, the trial court was required to "interpret the patents and then determine whether the [new valve] infringes" the patent referenced in the agreement.[94] Applying the *Christianson* standard, the court concluded that because a determination of infringement was required, "patent law [was] a necessary element of [Plaintiff's] breach of contract action," and therefore the Federal Circuit had exclusive jurisdiction over the appeal.[95]

On their face, BTI's claims are state-law contract and tort causes of action that are not created or governed by federal patent law. Accordingly, exclusive federal jurisdiction would exist only if BTI's "right to relief necessarily depends on

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[92] *Id*. at 1372.

[93] *Id.*

[94] *Id.*

[95] *Id.* The *Christianson* standard has been applied in Delaware courts. *See American Home Products Corp. v. Norden Laboratories, Inc*., 1992 WL 368604 at *3-*7 (Del. Ch.) (denying leave to amend an answer to assert a counterclaim because the counterclaim was "related to the provisions and purposes" of patent law, and was thus within the exclusive jurisdiction of the federal courts.).

resolution of a substantial question of federal patent law, in that patent law is a necessary element of" BTI's claims."[96] Counts I-III, V, and VII-X each, in various ways, depend upon proof that the Agreement was breached.[97] BTI must allege facts that show - under any reasonably conceivable set of circumstances susceptible of proof under the complaint - that MedImmune breached the Agreement. If, as defendants contend, the proper construction of the Agreement would require the finder of fact to determine whether either of the defendants infringed a BTI patent in order to determine that Cervarix® is a Licensed Product,

[96]There is some authority that only one claim must meet the *Christianson* standard to divest a state court of subject matter jurisdiction. *See LaBelle v. McGonagle*, 2008 WL 3842998, at *2 n.1 (D. Mass.) ("The Supreme Court did not intend multiple claims to constitute "alternate theories" which could preclude the exercise of federal jurisdiction. The focus of *Christianson* was rather on alternate theories supporting a single claim.").

[97]Count I-III explicitly call for a finding that defendants have breached and/or will breach the Agreement. Count V, alleging misappropriation of trade secrets, requires a showing of a breach of an agreement. *Sylmark Holdings Ltd. v. Silicone Zone Intern. Ltd.*, 783 N.Y.S.2d 758, 770-771 (N.Y. Sup. Ct. 2004). In Count VII, BTI alleges that MedImmune and Glaxo used High Five in a way that was unauthorized by the Agreement. Am. Compl. at ¶¶ 89-94. Count VIII, alleging unfair competition, requires a showing of bad faith, which cannot be proven when "a defendant's alleged misconduct represents nothing more than its having exercised its legal rights." *Adiel v. Coca-Cola Bottling Co. of New York*, 1995 WL 542432, at *4 (S.D.N.Y. 1995); *Tri-Star Pictures, Inc. v. Leisure Time Productions, B.V.*, 17 F.3d 38, 45 (2d Cir. 1994) (holding that counterclaim alleging unfair competition was properly dismissed where there was no finding of contractual breach). Count IX for tortious interference with contractual relations requires a showing that the defendant intentionally induced the third party to *breach* or otherwise made performance of the contract impossible. *Bayside Carting, Inc. v. Chic Cleaners,* 240 A.D.2d 687, 688 (N.Y. App. Div. 2d Dept. 1997). Count X for tortious interference with prospective business relations requires proof that MedImmune and Glaxo interfered in a wrongful manner. *Hair Say, Ltd. v. Salon Opus, Inc.*, 2005 WL 697538, at *7 (N.Y. Sup. Ct.). BTI alleges that MedImmune and Glaxo acted wrongfully by "refusing to confirm their royalty obligations to BTI." Am. Compl. at ¶ 107.

such that MedImmune breached the Agreement by not paying royalties on net sales of Cervarix®, it would be difficult to escape the conclusion that patent law had become a "necessary element" of BTI's breach claim.[98] However, having deferred its construction of the Agreement and its determination of the *bona fides* of BTI's breach claim to a later stage of the litigation, the Court will likewise defer its determination of whether subject matter jurisdiction properly lies in this Court until these predicate issues are ripe for decision.[99]

B. Count IV - The Implied Covenant of Good Faith and Fair Dealing

In Count IV, BTI alleges that defendants breached the covenant of good faith and fair dealing implied in the Agreement by failing to make all of the royalty payments called for therein. "New York law does not recognize a separate cause of action for breach of the implied covenant of good faith and fair dealing when it is based on the same facts as a breach of contract claim."[100]

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[98] *See Dray,* 212 F.3d at 1372.

[99] *See* DEL. SUPER. CT. CIV. R. 12(h)(3).

[100] *Am. Bldg. Maint. Co. of New York v. Acme Prop. Serv.*, 515 F. Supp. 2d 298, 319 (N.D.N.Y. 2007) (citing *Harris v. Provident Life and Acc. Ins. Co.*, 310 F.3d 73, 81 (2d Cir. 2002)). *See also ICD Holdings S.A. v. Frankel*, 976 F. Supp. 235, 243-44 (S.D.N.Y. 1997) ("A claim for breach of the implied covenant will be dismissed as redundant where the conduct allegedly violating the implied covenant is also the predicate for breach of covenant of an express provision of the underlying contract.").

The allegations that support BTI's breach of the covenant of good faith and fair dealing claim are nearly identical to the allegations that support BTI's two breach of contract claims, Counts II and III. In Count IV, BTI alleges that MedImmune and Glaxo breached the covenant of good faith and fair dealing by "wrongfully denying BTI the royalty participation it had agreed to as a condition to license that technology."[101] In Count II, BTI alleges that "[defendants have] refused to make any royalty payments under the [Agreement],"[102] and "will not pay the future royalties owed [under the Agreement]."[103] In Count III, BTI alleges that "no royalties have been paid."[104] A review of the Amended Complaint reveals that BTI's breach of the implied covenant of good faith and fair dealing claim is redundant of its breach of express contract claims. The Agreement, despite its limited ambiguity, clearly governs BTI's licensing obligations and defendants' obligations to pay royalties. Therefore, Count IV must be dismissed.

[101] Am. Compl. at ¶ 74.

[102] *Id.* at ¶ 56.

[103] *Id.* at ¶ 57.

[104] *Id.* at ¶ 68.

C. Count VI - Unjust Enrichment

In Count VI, BTI alleges that defendants have been unjustly enriched by their use of High Five.[105] Under New York law, "[t]he theory of unjust enrichment lies as a quasi-contract claim."[106] "'[Q]uasi contract' only applies in the absence of an express agreement, and is not really a contract at all, but rather a legal obligation imposed in order to prevent a party's unjust enrichment."[107] The presence of a written agreement governing the subject matter at issue precludes recovery under quasi-contract.[108] The Agreement fully addressed the parties' rights and obligations with respect to the defendants' use of High Five. Accordingly, as a matter of law, defendants could not have been unjustly enriched as alleged in Count VI. This claim must be dismissed.

D. Counts VII & VIII - Conversion and Unfair Competition

In Count VII, BTI alleges that defendants "exercised unauthorized interference with BTI's ownership of the High Five Cell Line based on a specific research restriction and then misappropriating the cell line for an unauthorized

[105] *Id.* at ¶¶ 85-87.

[106] *See Goldman v. Metropolitan Life Ins. Co.,* 5 N.Y.3d 561, 572 (N.Y. 2005).

[107] *Clark-Fitzpatrick, Inc. v. Long Island R.R. Co.*, 70 N.Y.2d 382, 388 (N.Y. 1987).

[108] *Id.*; *Micro Bio-Medics, Inc. v. Westchester Medical Center*, 2004 WL 3048850, at *5 (N.Y. Sup. Ct.) ("Further, neither [quantum meruit or quasi contract] will lie where there is an express contract governing the subject matter of the contract. A claim for unjust enrichment is precluded where there is an express contract governing the same subject matter. . .").

commercial purpose."[109] In Count VIII, BTI alleges that defendants "have engaged in bad faith misappropriation of a commercial advantage belonging to BTI by exploiting BTI's proprietary information and/or trade secrets (not identified but presumably relating to High Five)."[110] Once again, BTI's extra-contractual claims are precluded as a matter of law by the existence of an express contract that governs the parties' relationship with respect to High Five.[111]

E. Counts IX & X - The Tortious Interference Claims

In Count IX, BTI alleges that Glaxo interfered with the Agreement by "falsely asserting that Cervarix® is not a Licensed Product under the [] Agreement...."[112] Defendants contend that this claim is barred by the so-called economic loss doctrine which precludes a tort claim that seeks to recover purely economic losses.[113] BTI counters that the doctrine applies only to negligence and strict liability claims and,

[109] Am. Compl. at ¶ 91.

[110] *Id.* at ¶ 96.

[111] *See* 18 AM. JUR.2D, *CONVERSION,* § 67 (2004) ("[A] claim for conversion cannot be maintained if it is predicated on a mere breach of contract."); *Peters Griffin Woodward Inc. v. WCSC, Inc.,* 452 N.Y.S.2d 599, 600 (N.Y. App. Div. 1st Dept. 1982) (same); *Delancey Kosher Rest. & Caterers Corp. v. Gluckstein,* 305 N.Y. 250, 256 (N.Y. 1953) ("At the outset, it should be kept in mind that we are dealing with an express contract between the parties, which by its terms defines what conduct is to be deemed fair or unfair, and such contract, rather than general principles relating to unfair competition in the absence of agreement, must govern.").

[112] Am. Compl. at ¶ 102. Contrary to defendants' argument, this allegation does allege interference with MedImmune's obligation under the Agreement. *But see* Defs.' Consol. Reply Br, at 17.

[113] *See Greater NY Auto Dealers Assoc. v. Envir. Sys. Testing, Inc.*, 211 F.R.D. 71, 82 (E.D.N.Y. 2002).

moreover, cannot benefit Glaxo in any event because Glaxo was not a party to the Agreement. The Court agrees with BTI; the economic loss doctrine does not apply here.

In New York, "where a party is merely seeking to enforce its bargain, a tort claim will not lie."[114] Clearly, if BTI was simply seeking to enforce its bargain with MedImmune against Glaxo by means of an intentional interference claim, then the claim would be barred as a matter of law. But here BTI has plead a tort claim that is distinct from its breach of contract claim. BTI has alleged that Glaxo induced MedImmune to breach the Agreement and that this conduct proximately caused not only breach damages, but also damages relating to BTI's lost opportunity to monetize its royalty payments.[115] These damages are "collateral" to those that might be recovered in the breach claim and are not, therefore, barred under the economic loss doctrine.[116]

In Count X, BTI alleges that both defendants interfered with BTI's prospective relationship with Cowen.[117] While the ultimate success of this claim

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[114]*New York Univ. v. Continental Ins. Co.,* 87 N.Y.S.2d 308, 316 (N.Y. 1995).

[115]Am. Compl. at ¶ 103.

[116]*See S&S Hotel Vent. Ltd. v. 777 S.H. Corp.,* 489 N.Y.S.2d 478, 480 (N.Y. App. Div. 1st Dept. 1985); *In re Actrade Fin. Technol. Ltd*., 2007 WL 433358, at * 4 (Bkrtcy. S.D.N.Y.).

[117]Am. Compl. at ¶ 107.

may well depend upon a finding that MedImmune breached the Agreement by refusing to pay royalties on net sales of Cervarix®, the fact that a predicate factual finding of breach might be required does not defeat the claim as a matter of law. Here again, BTI's alleged damages extend beyond those alleged to have been caused by the breach of the Agreement, and the claim is not barred by the economic loss doctrine.[118]

BTI has adequately plead claims for intentional interference with contract and prospective contractual/business relations. Accordingly, these claims will not be dismissed.

F. The Statute Of Limitations

Defendants seek dismissal of Counts I-VIII on the ground that they are barred by the applicable statutes of limitations. BTI counters that its claims were timely filed or, alternatively, that issues of fact must be resolved before the statutes of limitations can properly be applied.

"As a general rule in contract cases, the cause of action accrues and the Statute of Limitations begins to run from the time of breach. Such a breach may be said to occur and the cause of action to accrue when the plaintiff possesses a legal right to

[118] *See Id.*; *S&S Hotel Vent. Ltd,* 489 N.Y.S.2d at 480.

demand payment."[119] Tort claims accrue at the time of the tort or, in certain instances, the discovery of injury.[120] According to defendants, the best BTI can hope for is that a three year statute of limitations will apply to all of its claims, both tort and contract.[121]

BTI alleges that it demanded payment of royalties in 2007, and that the breach of contract occurred when defendants failed to pay royalties after beginning to sell Cervarix® in 2007.[122] In response, defendants allege that BTI knew that Cervarix® was being developed in Belgium, a country in which BTI had no patent protection, as early as 1997. According to defendants, to the extent BTI alleges that developing Cervarix® outside of the reach of BTI's patents somehow breaches the Agreement, BTI knew of this fact well before the three years prior to the filing of its complaint. If so, this would bar each of BTI's claims in Counts I through VIII. In support of this contention, defendants have attached several extraneous matters outside of the pleadings, including interrogatory responses and emails.[123] Discovery is ongoing.

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[119] *Prote Contracting Co., Inc. v. Bd. of Educ. City of New York,* 603 N.Y.S.2d 583, 584 (N.Y. App. Div. 2nd Dept. 1993).

[120] *See Kronos, Inc. V. AVX Corp.,* 81 N.Y.2d 90, 94 (N.Y. 1993).

[121] *See* Defs.' Mot. to Dismiss Counts I - VIII as Barred by the Applicable Statute of Limitations, at ¶ 7.

[122] Am. Compl. at ¶¶ 37, 41.

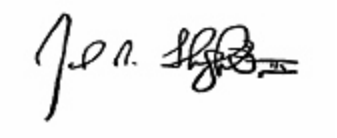
[123] *See* Defs.' Mot. to Dismiss Counts I - VIII as Barred by the Applicable Statute of Limitations, Exhs. A-C.

The Court is satisfied that a more complete factual record should be developed before it considers defendants' fact-driven defense.[124]

V.

Based on the foregoing, Defendants' Motions to Dismiss Counts I-III and IX-X for failure to state a claim upon which relief may be granted are **DENIED.** Defendants' Motion to Dismiss Counts I-VIII as barred by the applicable statute of limitations is also **DENIED.** Defendants' Motions to Dismiss Counts IV and Counts VI-VIII for failure to state a claim upon which relief may be granted are **GRANTED**. Defendants may renew motions for summary judgment on the merits as to Counts I-III and Counts IX-X, and as to all remaining counts on statute of limitations grounds, after further discovery occurs.

IT IS SO ORDERED.



Joseph R. Slights, III

Original to Prothonotary

[124] *Ebersole,* 180 A.2d at 468-69.