Correction on page 7.

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

PHARM-ECO LABORATORIES, INC., a California corporation, DAVID J. WADE and RICHARD GABRIEL, Plaintiffs, v. IMMTECH INTERNATIONAL, INC., a Delaware corporation, Defendant. IMMTECH INTERNATIONAL, INC., a Delaware corporation, Counterclaim Plaintiff, v. PHARM-ECO LABORATORIES, INC., a California corporation, DAVID J. WADE and RICHARD GABRIEL, Counterclaim Defendants.	)	Civil Action No. 18246

MEMORANDUM OPINION

Date Submitted: February 13, 2001
Date Decided: February 21, 2001
Date Corrected: February 26, 2001

Kevin G. Abrams and Raymond J. DiCamillo, Esquires, of RICHARDS, LAYTON & FINGER, Wilmington, Delaware, Attorneys for Plaintiffs/Counterclaim

Defendants.

James C. Strum, Esquire, of STRADLEY RONON STEVENS & YOUNG, Wilmington, Delaware; Of Counsel: Terence F. Gilheany and Keith W. Miller, Esquires, of CADWALADER, WICKERSHAM & TAFT, New York, New York, Attorneys for Defendant/Counterclaim Plaintiff.

STRINE, Vice Chancellor

This case centers on the proper construction of a Letter Agreement between Pharm-Eco Laboratories, Inc. and Imrntech International, Inc. Immtech has brought a motion for summary judgment claiming that the plain terms of the Letter Agreement required Pharm-Eco to grant or assign Immtech an exclusive license to any and all products derived from particular compounds. Because Pharm-Eco has not delivered such a license, Immtech contends that Pharrn-Eco has breached the Letter Agreement. Furthermore, because the exclusive license was the consideration for unregistered shares of Immtech stock Pharm-Eco received pursuant to the Letter Agreement, Immtech asserts that Securities and Exchange Commission Rule 144 and the restrictive legend on the shares prohibits them from being transferred or pledged without Immtech's consent. Immtech argues that Pharm-Eco pledged all of its shares in violation of these contractually agreed-upon restrictions.

In this opinion, I conclude that the undisputed facts support Immtech's argument. The Letter Agreement's clear terms required Pharm-Eco to grant or assign the exclusive license. Pharm-Eco has not done so. Likewise, Pharm-Eco pledged the shares less than a year after receiving them and did so without Immtech's consent and without providing Immtech with a counsel's opinion that the pledge was permitted by Rule 144. As a result, Pharm-Eco violated the restrictions on the shares. Finally, I conclude that Pharm-Eco's argument that Immtech was required to assent to the transferability of the shares when Pharm-Eco had not delivered the consideration for'the shares is erroneous as a matter of contract law.

Therefore,'1 grant Immtech's motion for summary judgment.

The Parties

Plaintifflcounterclaim defendant Pharm-Eco Laboratories, Inc. is a privately-held California corporation. It is in the business of developing and manufacturing chemical compounds that might have pharmacological uses.

Plaintiff/counterclaim defendant David Wade is Pharm-Eco's Chief Executive Officer and President. Plaintiff/counterclaim defendant Richard Gabriel is the Senior Executive Vice President of Pharm-Eco.

Defendant/Counterclaim plaintiff Immtech International, Inc. is a Delaware corporation. Immtech went public in 1999 and is engaged in the development of pharmaceutical compounds for future licensure and sale.

Factual Background

The relevant facts are for the most part undisputed. In 1993, Pharm-Eco entered into a license agreement (the "1993 License Agreement") with the University of North Carolina ("UNC"). The 1993 License Agreement gave Pharm-Eco an exclusive license to make and sell products derived from particular patented inventions and chemical compounds that had been developed by UNC scientists and which were owned by UNC. Pharm-Eco could grant sub-licenses, but only with UNC's written permission.

In the autumn of 1996, Immtech and Pharm-Eco began discussions about a strategic joint venture involving some of the UNC chemical compounds, which were being developed by Dr. Richard Tidwell at UNC. The basic concept was that Imrntech would provide financing for Tidwell's research, cover Pharm-Eco's outstanding obligations under the 1993 License Agreement, and issue shares of its stock to Pharm-Eco and UNC. In exchange, Imxntech would receive the rights and assume the obligations of Pharrn-Eco under the 1993 License Agreement.

After several months of negotiations, Pharm-Eco and Immtech entered into a detailed letter agreement (the "Letter Agreement"), to which UNC was also a party. The Letter Agreement also was intended to address compounds that were being developed by a consortium (the "Consortium") of universities that included UNC. Although these other universities were not parties, the Letter Agreement contemplated that UNC would obtain the Consortium's consent to the Agreement and that the Consortium would thereafter be bound by the Letter Agreement to the same extent as UNC.

The Letter Agreement had several basic elements:

- Imrntech was to pursue an IPO to generate $1 O,OOO,OOO in proceeds within nine months of the execution of the Letter Agreement.

- Irnmtech was to use a certain portion of the IPO proceeds to develop the chemical compounds defined in the Letter Agreement.

- Upon the completion of the IPO, Immtech was to issue shares of its stock to Pharrn-Eco and to UNC.

- UNC was to receive royalties on any sales of products made from the compounds.

- Immtech and Pharrn-Eco were to use reasonable efforts to negotiate a manufacturing agreement regarding compound-derived products, pursuant to a profit sharing formula.

- Upon completion of the IPO, Pharm-Eco was to grant or assign to Immtech the right to use, manufacture, and sell products based on the then-existing compounds. UNC was obligated to take any action necessary to permit Pharm-Eco to do this. UNC was to grant or assign a similar license to Immtech as to any and all products fi-om future compounds.

This case turns to a large extent on the connection between the shares due to Pharm-Eco and the rights Pharm-Eco was supposed to convey to Immtech regarding the so-called “Current Compounds.” The trigger for both the issuance of shares and the license was the IPO.

As to the license, the Letter Agreement states in relevant part that:

> Upon the completion of the IPO . . . , Pharm-Eco will grant or assign to Immtech, and UNC will take any action necessary to consent to the grant or assignment by Pharm-Eco to Immtech, of an exclusive world

wide license to use, manufacture, have manufactured, promote, sell, distribute or otherwise dispose of any and all products based directly or indirectly on the Current Compounds (the "Current Products").'

9. Cooneration

(a) The parties hereto recognize that the rights with respect to the Compounds and the Products are held jointly by the members of the Consortium, and that UNC does not have the right to grant a license to the Compounds or the Products without the consent of the other members of the Consortium. UNC will use reasonable efforts to obtain the agreement of each of the other members of the Consortium to be bound by the terms of this Letter Agreement (the "Consents"). After Consents have been received from each of the members of the Consortium, all references to "UNC" in this Letter Agreement shall be deemed to refer to the "Consortium." The rights and obligations of the parties hereto pursuant to paragraphs 1, 2, 3, 4, 5 and 6 shall be subject to receipt of Consents from each of the members of the Consortium.

(b) Immtech, Pharm-Eco, and UNC each shall cooperate in good faith and use reasonable efforts to obtain any necessary third party consents, finalize and execute the Definitive Agreements and associated schedules and any other documents or agreements necessary to effect transactions described in this Letter Agreement, and each party hereto will take all reasonable actions necessary to maintain their respective intellectual property rights that are the subject of this Letter Agreement. UNC's acceptance of this Letter Agreement is expressly conditioned upon the issuance or assignment to Immtech of a license with terms substantially similar to those contained in the August 1993 license from UNC to Pharm-Eco through a Definitive Agreement or as otherwise agreed, except to the extent that such terms are contrary to any of the provisions of this Letter Agreement. . . . [2]

[1] Letter Agreement § 2(b).

[2] Id. § 9. The Letter Agreement also required UNC to grant an exclusive license to the future compounds. *See id.* § 2(d) ("Upon completion of the IPO . . . , UNC will grant Immtech, and Pharm-Eco will take any action necessary to consent to the grant by UNC to Immtech of an exclusive world wide license to use, manufacture, have manufactured, promote, sell, distribute or otherwise dispose of any and all products based directly or indirectly on the Future Compounds

The key sections of the contract addressing the shares to be issued to Pharm-Eco state:

> 3. Consideration For License
>
> (a) Upon completion of the IPO . . ., Immtech will issue an aggregate of 1,112,500 shares of Common Stock to Pharm-Eco or persons designated by Pharm-Eco (the "Shares") to include 275,000 Shares issued to UNC and the Consortium. Pharm-Eco will notify Immtech in writing of the persons to whom the Shares should be issued not later than 10 business days prior to the closing of the IPO . . . . The persons receiving any Shares hereunder will agree to restrict the transfer of such Shares for any reasonable period required by the managing underwriter of the IPO ("the Lock-Up Period").[3]
>
> * * *
>
> 6. Registration Rights. Immtech, Pharm-Eco and UNC will each use reasonable efforts to negotiate and enter into a Registration Rights Agreement providing the holders of the Shares issued pursuant to paragraph 3(a) above with one demand and an unlimited number of piggyback registrations. Any such demand registration must be requested in writing by the holders of a majority of the outstanding Shares. Immtech will pay all expenses of any such registration, except for underwriters' discounts or similar selling expenses. Any such registration may be requested at any time after the end of any applicable Lock-up Period. The Registration Rights Agreement will have all other customary terms and conditions.[4]

For purposes of brevity, the rights Pharm-Eco was required to transfer to Immtech under § 2(b) of the Letter Agreement is hereafter referred to as

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(the 'Future Products' and, collectively with the Current Products, the 'Products')."). UNC and Immtech are still haggling over the language of this License.

[3] *Id.* § 3(a).

[4] *Id.* § 6.

the "Exclusive License." The shares Immtech was to transfer to Pharm-Eco pursuant to § 3(a) are referred to as the "Shares."

The IPO Finallv Takes Place And Pharm-Eco Receives Immtech Shares

Immtech was unable to undertake an IPO in the time contemplated by the Letter Agreement. But Pharm-Eco and UNC consented to giving Immtech more time. On April 26, 1999, the IPO finally occurred and Immtech was able to raise $10,000,000. After that time, Pharm-Eco's counsel communicated with Immtech regarding the issuance of the Shares.

On July 12, 1999, Immtech delivered to Pharm-Eco the stock certificates for the 423,000 Shares which represented its portion of the total Shares required by the Letter Agreement. Wade and Gabriel each received 12,500 shares, which they had been promised as consideration for Pharm-Eco's consent to the IPO's delay.

Immtech's Chief Financial Officer, Gary C. Parks, had instructed the company's transfer agent to ensure that the certificates had "'restrictive' legends indicating that they are subject to Rule 144 holding periods." The certificates that were delivered stated that they reflected **"FULLY PAID AND NONASSESSABLE SHARES OF COMMON STOCK. . . "**[5] **The** front side of the certificates stated prominently **"IMPORTANT – SEE**

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[5] Miller Aff. Ex. 10 (emphasis in original).

REVERSE SIDE OF CERTIFICATE FOR <u>RESTRICTIVE LEGEND</u>?

The Restrictive Legend on the Shares stated as follows:

> Securities represented by this certificate have not been registered under the Securities Act of 1933 or any applicable state law. These securities may not be offered, sold, transferred, pledged or hypothecated in the absence of registration, or the availability of an exemption from registration, under the Securities Act of 1933 or any applicable state law. Furthermore no offer, sale, transfer, pledge or hypothecation is to take place without the prior written approval of counsel acceptable to the issuer being affixed to this certificate. In addition, certain shares may be subject to the terms of restrictive agreements between the holders thereof and the issuer, including 'Lock Up' Agreements restricting the holder's'ability to transfer the securities. Specific information as to such agreements and restrictions can be obtained from the issuer. The stock transfer agent has been ordered to effectuate transfers of this certificate in accordance with the above instructions.[7]

<u>Pharm-Eco Experiences Financial Trouble And Pledges Its Immtech Shares To Secure Financing</u>

The Shares Pharm-Eco received after the IPO were subject to the federal income tax. Thus, Pharm-Eco recorded income on the 423,000 Shares it received of $4,038,750, a figure that was derived using the IPO price minus a 10% discount because Pharm-Eco understood the Shares to be subject to a one-year trading restriction pursuant to Securities and Exchange Commission ("SEC") Rule 144.

[6] *Id.*

[7] *Id.*

To address Pharm-Eco's liquidity needs, Gabriel asked an Immtech director, Eric Sorkin, for help in selling some of the Shares to raise cash to pay the taxes. According to Sorkin, he told Gabriel that the Shares were restricted, but that he would be willing to help find a buyer for Pharm-Eco in a private placement transaction. In the same conversation Sorkin says he asked that Pharm-Eco grant or assign Immtech the Exclusive License contemplated by the Letter Agreement.[8] Gabriel allegedly responded with laughter and said he could call UNC and get Immtech the License.[9]

Gabriel, however, followed up this conversation with a letter to Immtech's CEO, Steve Thompson, that suggested that Immtech had agreed to purchase $1 million worth of the Shares from Pharm-Eco at an average market price after April 26, 2000 and before July 1, 2000. Sorkin replied with a short memorandum stating:

> PharmEco's Immtech shares are restricted.
>
> Immtech's proceeds raised in the IPO are to be used for research and clinical development and not for stock repurchases.
>
> Steve Thompson and I made calls to PharmEco last year to indicate that PharmEco has a tax issue and offered to meet in 1999 to assist PharmEco in reducing its tax liabilities. Unfortunately PharmEco was not available for a meeting."

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[8] Sorkin Dep. 42-44.

[9] *Id.* at 42.

[10] Miller Aff. Ex. 12.

On March 22, 2000 — less than a year since the April 26, 1999 IPO and the July 12, 1999 receipt of the Shares — Pharm-Eco pledged all of its Imrntech Shares as collateral for $23 million in financing fi-om Citizens Bank of Massachusetts. It did so without seeking Immtech's consent and. without providing it with a counsel's opinion that the pledge was permitted by Rule 144.

On April 21, 2000, Citizens Bank authorized Pharm-Eco to pledge 72,727 of its Immtech Shares to GEM Industries, Inc. in connection with a $1 million loan from GEM to Pharm-Eco. Again, Pharm-Eco failed to seek Immtech's consent and did not provide a counsel's opinion. The GEM loan was interest-free for three months. But once three months elapsed on July 2 1, 2000, the loan began accruing interest at a 15% annual rate. In the event Pharm-Eco defaulted, a subordination agreement limited GEM to using the pledged Shares as its sole source of repayment.

By July, Pharm-Eco was in default on its loan with Citizens. It wanted to sell the Shares it pledged to GEM to satisfy the GEM loan.

To facilitate its ability to pay its creditors, Pharm-Eco sought the removal of any limitations on the transferability of its Shares. Pharm-Eco's counsel, Ropes & Gray, issued a formal opinion that the transfer of the Shares pledged to GEM was exempt from SEC registration requirement because the one-year holding period under Rule 144 had expired. Pharm-Eco provided the opinion to Immtech and asked Irnmtech to transfer those Shares and issue new certificates without the restrictive legend (the "Transfer Request").

Ropes & Gray also told Immtech that Pharm-Eco urgently needed free transferability of its Shares, and suggested that Immtech would not want to risk the possible liability exposure that could result if Pharm-Eco was injured by Immtech's refusal to permit Pharm-Eco to freely transfer its Shares.

Counsel for Immtech from the firm of Cadwalader, Wickersham & Taft responded. The response noted that Rule 144's volume restrictions prohibited Pharm-Eco from trading more than 50,000 of its Shares at that time. More importantly, the response'asked Pharm-Eco to explain how and when Pharm-Eco had pledged shares to Citizens Bank and GEM "since no opinion was delivered to Immtech as required by the legend . . ."[11]

A game of chicken then ensued. For its part, Immtech took the position that Pharm-Eco had not paid full consideration for the Shares because Pharm-Eco had not granted or assigned Immtech the Exclusive License referenced in § 2(b) of the Letter Agreement. Pharrn-Eco, in turn,

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[11] *Id*. Ex. 1 (Letter from Cadwalader to Ropes & Gray, August 18, 2000).

would not grant or assign the Exclusive License until it was assured that its Immtech Shares were freely transferable.[12]

Pharm-Eco then brought this suit seeking declaratory and injunctive relief that would ensure the free transferability of its Shares, and damages for any harm suffered by Immtech's refusal to grant permit transferability and to remove the restrictive legends. Immtech replied with its own counterclaims alleging that Pharm-Eco had breached its contractual obligations by refusing to-provide Immtech with the Exclusive License, and by pledging its Immtech Shares in violation of the restrictive legend.

After this suit was filed, Pharm-Eco restructured its debt, which was in default. The workout agreement provided that all of the Shares previously pledged to Citizens be pledged instead to Contrarian Funds, LLC.

The Basis For Immtech's Motion For Summary Judgment

Immtech argues that the undisputed facts in the record demonstrate its entitlement to a summary judgment order dismissing Pharm-Eco's claims and sustaining its own claims.

Immtech contends that the plain language of the Letter Agreement required Pharm-Eco to grant or assign the Exclusive License to exploit the Current Compounds once the IPO was accomplished. Because Pharm-Eco

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[12] Sorkin Dep. 44; Gabriel Dep. 236-237.

did not do so, Immtech asserts that full consideration has to this date not been given for the Shares. As a result of the lack of full consideration, the unregistered Shares cannot be transferred consistent with SEC Rule 144.

Furthermore, Immtech argues that Pharm-Eco breached its contractual obligations by pledging the Shares without Immtech's assent as required by the restrictive legend. In support of this argument, Immtech notes that Pharm-Eco pledged the Shares less than a year from the date of the IPO and less than a year after Pharm-Eco received the Shares. That is, Pharm-Eco had pledged the Shares before the Shares could be transferred under Rule 144, even if Pharm-Eco had given full consideration for the Shares.

For its part, Pharm-Eco contends that the Letter Agreement is ambiguous in key respects and that a trial should be held to permit the court to consider extrinsic evidence. Pharm-Eco asserts that the Letter Agreement's provision requiring it to grant or assign a license to Irmntech was self-executing upon the occurrence of the IPO. That is, Pharm-Eco argues that Immtech already possesses the Exclusive License it seeks and does not need further documentation.

Pharm-Eco claims that Immtech's claims that it needs a separate document reflecting the Exclusive License assignment or grant is a recently-contrived pretext to justify its improper refusal to allow Pharm-Eco to alienate the Shares. Pharm-Eco contends that the Shares were to be restricted only for the minimum period required by SEC Rule 144. Because that period ended in July 2000 at the latest, Immtech's failure to permit transfers and to remove the restrictive legend since then violates the Letter Agreement.

Procedural Standards

In addressing Immtech's summary judgment motion, I must draw all reasonable inferences in favor of Pharm-Eco as the non-moving party. If, after doing so, I conclude that the undisputed facts in the record support a judgment for Immtech as a matter of law, then it is appropriate to grant Immtech's motion.[13]

The Letter Agreement is governed by the laws of North Carolina. Like Delaware, North Carolina applies an objective, plain meaning approach to contractual interpretation. Where contractual language is unambiguous, the court's job is "to enforce the agreement as written."[14] The court should construe the contract "as a whole, considering each clause and word with reference to all other provisions and giving effect to each wherever

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[13] *Gilbert v. El Paso*, Del. Supr., 575 A.2d 113 1, 1142 (1990).

[14] *Atlantic & E. Carolina Ry. Co. v. Southern Outdoor Adver., Inc.*, 501 S.E.2d 87, 90 (N.C. Ct. App. 1998) (citations omitted).

possible.“” The court cannot consider parole evidence if the contract is unambiguous. [16] But if the agreement is susceptible to more than one reasonable construction, the court should look to extrinsic evidence as an aid to accurate construction. [17]

With these procedural and interpretative principles in mind, I turn to an analysis of Imrntech’s motion.

Did Pharm-Eco Breach The Letter Agreement By Refusing To Grant Or Assign The Exclusive License To Immtech?

Immtech argues that § 2(b) of the Letter Agreement clearly mandates that upon completion of the IPO, Pharm-Eco was obligated to provide Immtech with a formal document reflecting its grant or assignment of the Exclusive License. Pharm-Eco disagrees, and contends that the Letter Agreement was self-executing in this respect. A careful reading of the Letter Agreement convinces me that Imrntech’s construction is the correct one.

The language of § 2(b) of the contract itself states that Pharm-Eco “will grant or assign” certain license rights upon the completion of the IPO and that UNC “will take any action necessary to consent to the grant or

[15] *Marcoin,* Inc. v. McDaniel, 320 S.E.2d 892,897 (N.C. Ct. App. 1984) (citations omitted).

[16] *Lattimore v. Fisher 's Food Shoppe, Inc.*, 329 S.E.2d 346,350 (N.C. 1985).

[17] *Holshouser v. Shaner Hotel Group Properties One Ltd. Partnership,* 5 18 S.E.2d 17, 23 (N.C. Ct. App. 1999).

assingment by Pharm-Eco to Immtech. . . ." Thus, the natural inference one draws from the language is that Pharm-Eco was obligated to take specific action to grant or assign the Exclusive License upon completion of the IPO. If it were otherwise, one would expect that the Letter Agreement would state that upon completion of the IPO, all of Pharm-Eco's rights under the 1993 Letter Agreement would be automatically assigned to Immtech.

Construing the Letter Agreement to require Pharm-Eco to actually provide Irnmtech with a document granting or assigning the Exclusive License does not produce an absurd result, as Pharm-Eco contends. It must be remembered that Pharm-Eco possessed an exclusive license under the 1993 Agreement which could not be transferred without UNC's permission.

Thus, it makes sense that Pharm-Eco would be expected to turn over its license rights to Immtech in a formal document, which would be approved by UNC. Moreover, it seems obviously useful for such an important subject — which entity possessed the exclusive, world-wide right to exploit products made from the Current Compounds — to be clearly documented. One can easily imagine situations in which third-parties dealing with Immtech might be interested in proof that Immtech in fact possessed those rights and the precise extent of those rights.

Other language in the Letter Agreement also supports Immtech's construction of § 2(b). The first paragraph of the Letter Agreement states that "Immtech and Pharm-Eco contemplate entering into agreements regarding the license or assignment of certain intellectual property rights licensed to or otherwise held by Pharm-Eco relating to the Compounds . . . The structure of the transactions . . . will include . . . the license of the Compounds to Immtech . . . and one or more superceding definitive agreements (the 'Definitive Agreements'). . . ."[18] The Letter Agreement's "Cooperation" section buttresses the argument that the Exclusive License was among the Definitive Agreements contemplated by the parties. Indeed, that section states that UNC's acceptance of the Letter Agreement was expressly conditioned upon "the issuance or assignment to Immtech of a license with terms substantially similar to those contained in the August 1993 license . . . ."[19]

Pharm-Eco does not advance an alternative reading of the Agreement that is plausible. Its primary defense is that Immtech already possesses what it desires because the Letter Agreement is self-executing. But the only contractual language in the contract that obliquely supports this argument is

[18] Letter Agreement at 1.

[19] *Id.* § *9(b).*

language that explicitly states that the parties will use reasonable efforts to negotiate certain other agreements, such as an agreement to manufacture the products made from the Compounds. Pharm-Eco argues that the absence of similar language in § 2(b) implies that the License mentioned in that section was self-executing upon completion of the IPO.

This argument has several problems. The most important is that § 2(b) is written in a very odd way if it was intended to be self-executing. Was it a grant or an assignment of the Exclusive License that was self-executing? And how was UNC to consent to a self-executing grant or assignment? How does one explain the focus on future license agreements in the first paragraph of the Letter Agreement and in § 9? The better reading is that § 2(b) requires documentation of the assignment or grant, but that the obligation for Pharm-Eco to make the assignment or grant was mandatory. Because the Exclusive License assignment or grant was the linchpin of the deal, it makes sense that the parties would not use the softer language they used in addressing less critical subjects, such as registration rights and manufacturing, on which subsequent agreements were desired but not required.

Similarly, I reject Pharm-Eco's argument that the self-executing nature of the Letter Agreement is demonstrated by Immtech's transfer of the

Shares before receiving the Exclusive License. The Letter Agreement did not require Immtech to demand the Exclusive License. Immtech's good-faith transfer of the Shares does not justify Pharm-Eco's failure to provide the License. Nor does the record evidence bear out the assertion that Immtech believed that no separate Exclusive License was necessary. To the contrary, it is undisputed that Sorkin raised the need for the Exclusive License before Pharrn-Eco first pledged its Shares.[20]

In the alternative, Pharm-Eco contends that the only additional license that Immtech needs is from UNC. This, however, is plainly wrong if the document is not self-executing. Pharm-Eco had an exclusive license as of the time of the Letter Agreement. It was those license rights which were to be granted or assigned to Immtech with UNC's consent.

Pharm-Eco also tries to make hay out of the fact that § 2(b) only addresses products made from the Current Compounds and not the Compounds themselves. Because no products exist at this time, there are no products to license.

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[20] Pharm-Eco argued that certain equitable defenses preclude summary judgment for Immtech. But the doctrines of estoppel, waiver, and acquiescence each require a failure to object to an invasion of one's rights. See D.J. WOLFE & M.A. PITTENGER, CORPORATE AND COMMERCIAL PRACTICE IN THE DELAWARE COURT OF CHANCERY §§ 1 l-l, 11-2, 1 l-3, at 753, 758,759 (1998). Here, there is no evidence that Immtech failed to demand the Exclusive License in its discussions with Pharm-Eco in 2000. Thus I reject these defenses.

This is a throw-away argument. It is clear that the Letter Agreement contemplates that Immtech would receive the right to exploit "any and all" products directly or indirectly derived from the Current Compounds.[21] The existence of products was not a pre-condition to the grant or assignment, as § 2(d) of the Letter Agreement makes clear. That section requires UNC to grant or assign the rights to exploit *future* products from *Future* Compounds once the IPO takes place. That is, once the IPO occurred, UNC was bound to promptly grant or assign its rights to non-existent products to be made from yet-to-be created Future Compounds. As a result, it is hardly irrational for the Letter Agreement to require Pharm-Eco to grant or assign the Exclusive License as to "any and all products" from the Current Compounds to Immtech in advance of the identification of those products. The 1993 License Agreement, after all, did the same thing.

In conclusion, the Letter Agreement is clear that Pharm-Eco was to grant or assign the Exclusive License once the IPO was completed and failed to do so. That this required performance may have only required the simplest of documentation tasks — the assignment of the license rights

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[21] Letter Agreement § 2(b).

Pharm-Eco held under the 1993 License Agreement — does not excuse Pharm-Eco's refusal to deliver on its promise.[22]

Therefore, Immtech is entitled to summary judgment and an order requiring Pharm-Eco to specifically perform its obligations under § 2(b).

Do The Undisputed Facts Demonstrate That Pharm-Eco Pledged Its Immtech Shares In Violation Of The Agreed-Upon Restrictions On Those Shares?

Immtech's next argument flows out of its first successful argument. Because Pharm-Eco breached its obligations under § 2(b) of the Letter Agreement, Immtech contends that Pharm-Eco did not give full consideration for the Shares. As a result, the unregistered Shares Pharm-Eco received are not transferable, pursuant to SEC Rule 144(d)(l), which states as follows:

> General Rule. A minimum of one year must elapse between the later of the date of the acquisition of the securities from the issuer or from an affiliate of the issuer, and any resale of such securities in reliance on this section for the account of either the acquiror or any subsequent holder of those securities. If the acquiror takes the securities by purchase, the one-year period shall not begin until the full purchase price or other consideration is paid or given by the person acquiring the securities from the issuer or from an affiliate of the issuer.[23]

[22] Pharm-Eco cites Immtech public filings that describe Immtech as having the right to exploit the Compounds. It claims that these public filings make clear that Immtech has all it needs now. Immtech says that the public filings accurately reflect its contractual right to exploit the products, but do not excuse Pharm-Eco from its obligation to document that right formally as contemplated by the Letter Agreement. I agree with Immtech.

[23] 17 C.F.R. § 230.144(d)(1) (2000).

Irnmtech asserts that the consideration it was to receive for the Shares was the actual grant or assignment of the Exclusive License. Because this consideration has not been received, the one year restriction period under Rule 144 has not even begun to run.

In addressing this contention, I begin with the non-controversial conclusion that the restrictive legend reflects Pharm-Eco's acceptance of a limit on transferability tied to Rule 144. Section 3(a) of the Letter Agreement required Pharm-Eco to agree to restrict the transfer of the Shares for any reasonable period required by the underwriter. The undisputed facts in the record reflect Pharm-Eco's understanding that the Lock-Up Period would be the minimum period permitted under Rule 144, although Pharm-Eco seemed to believe that that period would run from the date of the IPO rather than the date it actually received the Shares.

The only reasonable reading of the restrictive legend is that it implements the parties' agreement that the minimum period under Rule 144 would be the Lock-Up Period. The restrictive legend operates to ensure that the Shares would only be transferred or pledged if permitted under Rule 144. The control given to Immtech by the restrictive legend allowed Immtech to restrict transferability or pledging if it was not assured that the transaction proposed was permitted by Rule 144. This construction is supported by the language of the restrictive legend itself, which contains the type of boilerplate routinely attached to unregistered securities subject to Rule 144 transfer restrictions.

The logical consequence of the fact that the agreed upon restrictions were the minimum required by Rule 144, however, is that Immtech did not have the unfettered right to deny the Transfer Requests. Rather, it could only deny those requests if it believed in good faith that the Transfer was not permitted by Rule 144.

Pharm-Eco contends that Immtech breached that obligation. Pharm-Eco portrays Immtech's refusal to permit free transferability of the Shares as retributive and untethered to any reasonable application of Rule 144. In this respect, Pharm-Eco reiterates its argument that the Letter Agreement itself was self-executing and delivered the Exclusive License to Immtech automatically once the IPO was consummated. As a consequence, Pharm-Eco contends that it gave full consideration and that the transferability restrictions of Rule 144 expired at the latest on July 12, 2000.

In the alternative, Pharm-Eco claims that the stock certificates themselves state that the Shares were "FULLY PAID AND NONASSESSABLE."[24] Given this fact and Immtech's release of the Shares

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[24] Miller Ex. 10; see *also* DiCamillo Aff. Ex. N. at IMMT000328.

on July 12, 1999 without having received the Exclusive License documentation from Pharm-Eco, Pharm-Eco contends that Immtech's contention that full consideration was not paid for the Shares is simply an after-the-fact excuse not to permit Pharm-Eco to transfer the Shares.

In the end, however, Pharm-Eco's argument has a distasteful quality that finds no support in the Letter Agreement itself. At bottom, Pharm-Eco argues that Irnmtech's good faith issuance of the Shares in advance of receiving the Exclusive License disentitles Immtech from demanding specific performance from Pharm-Eco.

Under the Letter Agreement, the IPO triggered obligations on the part of Immtech and Pharm-Eco. Immtech carried out its obligations within three months of the IPO. Pharm-Eco has still not done so.

And under even its own view of the restrictions, Pharm-Eco engaged in impermissible behavior. Its first pledge of *all of its Shares* occurred in March 1999, less than a year after the IPO. It did not request Immtech's approval of this pledge, nor did it provide Immtech with a counsel's opinion that the pledge did not violate Rule 144. Thus, Pharm-Eco breached the Letter Agreement, by failing to abide by the restrictive legend.

Pharm-Eco took other such actions less than a year after July 12, 1999 — the date of its receipt of the Shares. In its motion papers, Pharm-Eco has provided the court with no legal foundation for its argument that the one-year period under Rule 144 ran from the IPO rather than the date Pharm-Eco received the Shares, which appears to be the relevant date under the Rule.[25] As important, Pharm-Eco did not request or receive Immtech's permission for the April 2000 pledge to GEM nor did Pharm-Eco provide Immtech with a counsel's opinion that the pledge was permissible under Rule 144. Thus, it is clear that Pharm-Eco's pre-July 12, 2000 pledges violated the restrictions.

Pharm-Eco's response to these disquieting facts is to resort to the "no harm, no foul rule." By now, Pharm-Eco says, the one year restriction period has passed. The fact that we jumped the gun did not cause harm to Immtech and can be ignored, Pharm-Eco claims.

This argument, however, loses virtually of its force because Pharm-Eco has yet to grant or assign the Exclusive License. The plain language of Rule 144 contemplates that the full consideration to be received by the issuer must be paid before the one year period begins to run. The Letter Agreement makes clear that the consideration Pharm-Eco was to receive for the Exclusive License included the Shares. It is equally obvious that the

[25] See 17 C.F.R. § 230.144(d)(1) (2000) (tying one year holding period to date of acquisition of the securities). At oral argument, Pharm-Eco contended that the SEC could be convinced that the shares were acquired by it effective as of the IPO date. While this may be a permissible approach, Pharm-Eco has not cited authority for it. In any event, the issue is not material to my conclusion.

consideration Imrntech was to receive for the Shares was the Exclusive License.[26] The fact that the certificates contain boiler plate language saying the shares were fully paid does not create a material issue of fact regarding Pharm-Eco's failure to deliver the Exclusive License as required by the Letter Agreement's plain terms.

Thus, Immtech had a good faith basis to deny Pharm-Eco's Transfer Request because full consideration for the Shares has yet to be delivered, and as a result the Shares are still restricted by operation of Rule 144.[27] Even if Rule 144 were not operative, another doctrine of contract law would independently support Imrntech's refusal. By failing to grant or assign the Exclusive License, Pharm-Eco committed a material breach of the Letter Agreement. Having refused to perform its part of the bargain, Pharm-Eco was in no position to ask Immtech to permit the Shares to be freely

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[26] In considering this case, I pondered the possibility that the consideration for the Shares was the promise to deliver the Exclusive License and not the Exclusive License itself. Upon reflection, I came to the view that I was confusing the question of whether the Letter Agreement was supported by adequate consideration with the separate consideration issue reflected in Rule 144. There is no doubt that the promises of performance that Pharm-Eco, Immtech, and UNC made rendered the Letter Agreement a valid contract. But that could be true of a contract that simply stated that Pharm-Eco would deliver $500,000 to Immtech on a date six months from now and that Immtech would deliver 5,000 shares of its stock to Pharm-Eco on the same day. The contract would be supported by the promises. If, however, Immtech delivered the shares to Phann-Eco on the agreed day, but did not receive payment, Rule 144 seems to clearly contemplate that the one-year restriction period would not begin until Pharm-Eco paid the agreed-upon price for the 5,000 shares.

[27] In the context of performance by consultants under a consulting contract, the SEC has stated that completion of the last act required of the consultant triggers the commencement of the holding period of restricted securities issued to the consultant in exchange for its services. See, e.g., *Hadron,* Inc., SEC No-Action Letter, 1984 WL 45133, at *2 (Apr. 23, 1984).

transferred to third parties.[28] If Immtech granted the Transfer Request and permitted a free transfer of certificated Shares *without* restrictive legends to third-parties, the Shares would not be recoverable from those third-parties. Pharm-Eco's material breach of its obligation to deliver the promised consideration for the Shares excused Imrntech from having to undertake a self-sacrificing contractual performance facilitating the placement of the unpaid-for Shares out of Immtech's legal grasp. It was not unreasonable for Immtech to demand that Pharm-Eco bring its own behavior into compliance with the contract before acceding to Pharm-Eco's Transfer Request.[29]

For all these reasons, I grant Immtech's motion for summary judgment dismissing Pharm-Eco's claims based on Immtech's refusal to grant the Transfer Request. It is also clear that Immtech has proven that Pharm-Eco breached the Letter Agreement by pledging the Shares in violation of the Restrictive Legend.

That being said, I am quite dubious about Immtech's proposed remedy, which would require Pharm-Eco to redeem the Shares, which are

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[28] See, e.g., Henderson *v.* Henderson, 298 S.E.2d 345,350 (N.C. 1983) ("one party's breach of a provision in a separation agreement excuses the other's performance under an agreement where the provisions were interdependent.") *(citing Wheeler v. Wheeler, 263* S.E.2d 763 (N.C. 1980)); *Light v. Beaver Creek Development Partners,* 125 F.3d 848 (4th Cir. 1997) (unpublished opinion).

[29] As it is, Immtech may have to litigate against Contrarian to recover the Shares if Pharm-Eco does not deliver the Exclusive License. As of now, however, Immtech is protected by the restrictive legend, which put Contrarian on notice of the transfer restrictions.

now pledged to Contrarian Funds. This extreme remedy seems intentionally punitive and is out of keeping with any harm suffered by Immtech.

The real injury to Irnmtech has been the delay in receiving the Exclusive License and the cost of defending this lawsuit. Once the Exclusive License is received, Immtech has no legitimate and protectible interest in restricting the transferability of Pharm-Eco's shares, except insofar as is necessary to ensure compliance with Rule 144. Indeed, § 6 of the Letter Agreement required that Immtech facilitate the registration of the Shares in order to increase their transferability.

In these circumstances, the appropriate remedy for Pharm-Eco's breach of the restrictions is a declaratory judgment which, when coupled with an order requiring Pharm-Eco to grant or assign the Exclusive License promptly, will secure Immtech's legitimate interests. The only way in which this remedy is not completely satisfactory is that it does not compensate Immtech for the costs it incurred during this lawsuit.

Under the American rule, however, that sort of harm must be borne by Imrntech itself. The circumstances of this case do not rise to the extraordinary level that justifies fee-shifting.

Requiring each party to bear its own costs may also be the equitable resolution of this quite unnecessary dispute. Although I have found that

Pharm-Eco bears the legal responsibility for this skirmish, it is clear that Immtech did not act in a manner that facilitated peace. For example, Imrntech could have drafted an Exclusive License and forwarded it to Pharm-Eco to execute. In exchange, Immtech could have assured Pharm-Eco that it would try to be as flexible as possible about permitting the Shares to be transferred. Likewise, if Pharm-Eco believed that it had already granted or assigned the Exclusive License by operation of the Letter Agreement, why did it not simply document that in a writing effective as of the IPO date, send the document to Immtech, and demand that Immtech work with it to permit transferability to the extent permitted by Rule 144?

The high ground was there to be seized. It had no claimants. Instead, the record of the party's pre-litigation negotiations is devoid of indications of commercial rationality on either side, and full of the type of bluster that results in lawsuits with no redeeming commercial or social utility. What should have been solved in a week by clear-thinking businessmen was turned into an expensive and energy-diverting litigation.

Conclusion

For the foregoing reasons, Immtech's motion for summary judgment is granted. Immtech and Pharm-Eco shall collaborate on an implementing order, which shall be submitted to me within a week of this opinion.