COURT OF CHANCERY
OF THE
STATE OF DELAWARE

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RE: *LightLab Imaging, Inc. v. Axsun Technologies, Inc. and Volcano Corp.*
Civil Action No. 6517-CS

Dear Counsel:

LightLab Imaging, Inc. has brought a host of claims against Axsun Technologies, Inc. and Volcano Corp., primarily relating to Volcano's alternative light source development,[1] on the heels of this court's decision to grant LightLab's motion to stay the substantially related, yet separately filed, HDSS litigation concerning whether Volcano's high definition swept-source (HDSS) technology qualifies as a "Laser" within the meaning of the LightLab-Axsun "Contract," which governs LightLab and Axsun's joint

[1] Counts I and II contain claims against Volcano and Axsun for: (1) breach of contract (specifically, the provisions of the LightLab-Axsun "Contract" barring sales of Lasers to Volcano, and obligating Axsun not to use or disclose LightLab's confidential information without LightLab's express consent); (2) breach of the implied covenant; (3) misappropriation of confidential information in violation of trade secret statutes and the common law; (4) violation of Massachusetts Chapter 93A; and (5) tortious interference with the Contract. Count III contains LightLab's claim against Axsun for breach of the Most-Favored Nation provision of the Contract. In Count IV, LightLab claims that certain alleged corporate espionage activity that took place at a medical center at Stanford University violates California statutory and common law. In Count V, LightLab seeks a constructive trust for future revenues or profits received by Axsun or Volcano on account of the foregoing allegations.

development of, and LightLab's exclusive rights to, Lasers for use in certain OCT[2] systems.[3] The Stay Order in the HDSS litigation requires that Volcano and Axsun give LightLab a 45-day advance written notice before they sell, demonstrate, ship, or commence clinical trials with an OCT system that uses either HDSS or a "Disputed Laser," which is defined as any "laser developed, manufactured, or assembled with any advice, assistance, information, technology, parts or other participation directly or indirectly from Axsun."[4] LightLab is also protected by the Massachusetts Final Judgment obtained as a result of LightLab's suit against Axsun and Volcano in Massachusetts.[5] The Massachusetts Final Judgment bars Volcano from "receiving, obtaining, using or disclosing" the laser-related information found to be confidential by the Massachusetts jury.[6]

Axsun and Volcano have moved to stay the current litigation, premising their argument on much of the same reasoning that persuaded the court to grant LightLab's

[2] OCT stands for optical coherence tomography.
[3] LightLab filed its initial complaint in the current litigation on May 24, 2011, only a few months after the court granted LightLab's motion to stay the HDSS litigation on March 11, 2011, but before the court ruled on the form of the implementing order, which it did on June 10, 2011 during a status conference.
[4] *Axsun Techs., Inc. et. al. v. LightLab Imaging, Inc.*, C.A. No. 5250-CS, at ¶ 4 (Del. Ch. June 24, 2011) (Stay Order).
[5] The Massachusetts action centered on LightLab's contract, tort, and statutory claims against Axsun and Volcano arising out of Volcano's acquisition of Axsun, but its theory of harm substantially overlaps with the issues in the cases pending here. But the parties were never able to agree on a single forum and this court's suggestion that all the related litigation be held in Massachusetts – where a full trial on related issues was held and whose law governs the parties' contractual relations – was not embraced by the Massachusetts trial court. Hence, inefficient dual proceedings have ensued.
[6] Am. and Supplemental Verified Compl. (the "Complaint") at Ex. B. at ¶ 3.

request to stay the HDSS litigation. Specifically, they contend that a stay is appropriate because Volcano does not yet know what light source it is going to use in clinical trials or the commercial launch of its OCT system, the "development is ongoing and in flux," and Volcano is only in the "experimental, research and development phase" with third-party consultants hired to aid Volcano in its alternative light source development.[7] Further, Volcano filed an affidavit stating that it will not know these facts "at least until December 2012."[8]

"The decision to grant or to deny a stay is one that lies within the discretion of the trial court."[9] A court may grant a stay "on the basis of comity, efficiency, or common sense."[10] The moving party must demonstrate the appropriateness of the motion, such as where the granting of a stay would not prejudice the non-moving party and where it would spare the moving party "unnecessary expense or burden."[11] The court may

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[7] Defs. Op. Br. at 13.

[8] Defs. Reply Br. at 6 (citing Sheehan Aff. ¶ 4). The date by which Volcano expects to know what light source it will use in its OCT system has been pushed even further back from the date identified in its opening brief, April 2012. *See* Defs. Op. Br. at 13 ("Volcano does not expect to know until April 2012 at the earliest which light source it intends to use for OCT clinical trials or commercial launch, or whether its OCT system will include as a component an Axsun tunable filter.") (citing Lussier Aff. ¶¶ 5-12).

[9] *Phillips Petroleum Co. v. Arco Alaska, Inc.*, 1983 WL 20283, at *4 (Del. Ch. Aug. 3, 1983) (citing *General Foods Corp. v. Cryo-Maid Inc.*, 198 A.2d 681 (Del. 1964)).

[10] *Julian v. Julian*, 2009 WL 2937121, at *8 (Del. Ch. Sept. 9, 2009).

[11] *Weiss v. LeeWards Creative Crafts*, 1992 WL 65410, at *1 (Del. Ch. Mar. 30, 1992) (in the context of a motion to stay discovery pending resolution of a motion to dismiss); *see also Joseph v. Shell Oil Co.*, 498 A.2d 1117, 1123 (Del. Ch. 1985) ("[W]here there is a possibility of damage to the parties resulting from the stay of the proceeding the party requesting the stay must show that hardship or inequity would result absent the stay."); *cf. Landis v. N. Am. Co.*, 299 U.S. 248,

exercise its discretion to grant a stay where "a controversy has not yet matured to a point where judicial action is appropriate."[12] One factor indicating that a dispute is not ripe is where the "material facts" of the dispute are not "static."[13] Moreover, in deciding whether a claim is ripe for decision, Delaware courts look to "whether the interests of those who seek relief outweigh the interests of the court and of justice in postponing review until the question arises in some more concrete and final form."[14] Although these considerations apply with special force in the context of declaratory judgment actions, which are designed to advance the stage at which litigation would otherwise be instituted,[15] ripeness is a fundamental element to the court's jurisdiction over any matter,[16] and a case may be dismissed for lack of it.

Here, I find that the circumstances identified by the defendants weigh in favor of

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254-55 (1936) ("How [the decision to grant a stay] can best be done calls for the exercise of judgment, which must weigh competing interests and maintain an even balance.").

[12] *Stroud v. Milliken Enterprises, Inc.*, 552 A.2d 476, 480 (Del. 1989); *see also In re IAC/InterActive Corp.*, 948 A.2d 471, 476 (Del. Ch. 2008) (retaining jurisdiction over unripe fiduciary duty claim for resolution on a more complete record).

[13] *Stroud*, 552 A.2d at 481 (noting a dispute is ripe where "litigation sooner or later appears unavoidable," where "the material facts are static," and where "the rights of the parties are presently defined rather than future or contingent.") (citations omitted).

[14] *Julian*, 2009 WL 2937121, at *3 (citation omitted); *Bebchuk v. CA, Inc.*, 902 A.2d 737, 740 (Del. Ch. 2006) (noting that, when reviewing the ripeness of a claim, "a court should consider the hardship to the parties of withholding the court's judgment.") (citing 15 James Wm. Moore et al., *Moore's Federal Practice* ¶ 101.76[2] (3d ed. 2006)).

[15] *See Stroud*, 552 A.2d at 480 ("These judicial concerns [as to ripeness] are not rendered irrelevant by the declaratory judgment statute and its salutary purpose of advancing the stage of litigation.").

[16] *See Bebchuk*, 902 A.2d at 740 ("Ripeness, the simple question of whether a suit has been brought at the correct time, goes to the very heart of whether a court has subject matter jurisdiction.") (citing 15 James Wm. Moore et al., *Moore's Federal Practice* ¶ 101.70[1] (3d ed. 2006)).

granting the stay. LightLab sought to stay the HDSS litigation for substantially the same reasons that the defendants raise here – that is, that the material facts necessary to resolve the claims as to whether Axsun and Volcano have breached the Contract by supplying Volcano with a Laser are not yet static.[17] Moreover, LightLab agreed that the Stay Order would apply to its HDSS counterclaims, which included a request for a declaratory judgment that HDSS was a Laser and an unfair competition claim under Massachusetts Chapter 93A related to Axsun's supplying Volcano with HDSS "prototypes" and "devices."[18]

It was LightLab that desired the original stay, and at that time it knew of the issues that it now claims justify expedient action on the part of the defendants and the court. For example, LightLab knew that Axsun was supplying Volcano with HDSS prototypes, and the Stay Order specifically contemplates that Axsun will continue to supply Volcano with HDSS prototypes for research and development purposes.[19] At that time, LightLab did not seek to purchase these prototypes under the Most-Favored Nation provision of the

[17] Def. (LightLab) Op. Br. at 19, C.A. No. 5250-CS (Del. Ch. Feb. 7, 2011) ("[T]he Court should not be required to expend its resources on a trial, or resolve whether two versions of the HDSS are a [L]aser, when those versions may ultimately be marketed and indeed when HDSS may prove to be nothing more than an optimistic but ultimately unsuccessful lab experiment. / This case calls out for postponing trial until there is greater clarity and the facts stabilize.").
[18] Am. and Verified Countercl. ¶¶ 42-52. Although LightLab's Chapter 93A counterclaim had been previously stayed pending the resolution of LightLab's related Chapter 93A claim pled in the Massachusetts action, LightLab did not seek to lift that stay in Delaware once the Massachusetts court ruled. Thus, when LightLab moved to stay the entire HDSS litigation, LightLab chose to put on hold its claims concerning whether it would be harmed by Axsun's continued provision of HDSS prototypes to Volcano.
[19] *E.g.*, Stay Order ¶ 4.

Contract.[20] Rather, LightLab sought to stay the determination of whether any of these HDSS prototypes qualified as a "Laser" because the design of the final HDSS product had not yet been finalized. Now, LightLab seeks to re-litigate that very question by arguing that the HDSS prototypes qualify as "Lasers" and are therefore subject to the Most-Favored Nation clause. Thus, LightLab now wishes to blow through the stay of the HDSS litigation that it itself sought, but in a one-sided way that allows only it to proceed, not Axsun and Volcano.

Moreover, there is substantial overlap between the cases here in Delaware and the Massachusetts litigation now on appeal, especially as to LightLab's trade secrets claims.[21] I note that this is an appeal that *LightLab* is pursuing – indeed, it is seeking appellate review of adverse rulings on 27 out of its 30 claims for trade secret misappropriation. LightLab wishes for the court in Delaware to resume litigation that LightLab has itself suggested depends on Axsun's disclosure of its trade secrets, *yet it has done nothing to seek expedition of its appeal in Massachusetts.*[22] It is with some ill grace that LightLab seeks to reverse course here in Delaware (1) when it sought a stay of

[20] The Most-Favored Nation clause in the Contract provides that "[i]n the event Axsun supplies [a] Laser, or a substantially equivalent product, to another party," then Axsun is required to "offer LightLab the option of the same pricing for the same product at the same volume." Compl. ¶ 65.

[21] *Cf. Cabot Corp. v. Thai Tantalum Inc.*, 1992 WL 172678, at *3 (Del. Ch. July 22, 1992) (granting stay where there was "a common controlling issue" in a prior pending action and "it would serve the interests of efficiency and fairness [to] stay the instant action until the prior action is resolved.").

[22] Axsun and Volcano represented to the court that there is reason to believe that a briefing schedule for this appeal will be set by the end of this month. *See* Letter to the Court from Counsel for Axsun Techs., Inc. and Volcano Corp. (Mar. 28, 2012).

its own counterclaims because the facts were still fluid and it did not make sense to have a trial on that basis,[23] (2) when it has not moved to expedite its appeal in Massachusetts, and (3) when it now seeks to have serial trials on issues that it picks and chooses, without any exigent circumstance justifying its desire to burden the other side and this court with the inefficiency and hazards of that approach. If LightLab were to have its way, it would get to play offense when it wants to play offense, while gaining the advantage of not having to play defense and while having invoked another forum on related claims and not having sought to have that litigation's resolution expedited.

Nor will LightLab be prejudiced by a stay because it has two sets of protective provisions in place to secure its interests. First, the Stay Order requires a 45-day advance notice for any clinical development involving a Disputed Laser – which includes a laser developed by third-party consultants with Axsun's assistance – a definition that was designed to address the alternative light source development claims at issue here.[24] Second, the Massachusetts Final Judgment enjoins Volcano from "receiving, obtaining, using or disclosing" LightLab's confidential information as found by the Massachusetts

[23] Def. (LightLab) Op. Br., C.A. No. 5250, at 1 (Del. Ch. Feb. 10, 2011) ("[I]t makes no sense to [try this case] until it is known if there is a completely developed version of the HDSS that will actually be used in a Volcano OCT system … and which version that is, and only after LightLab has a fair chance to conduct discovery and testing on that version.").

[24] *See* Stay Order ¶ 4 ("Further, in the event that LightLab's claims in the related litigation between the parties, Civ. A. No. 6517-VCS, are dismissed, then Axsun and Volcano have reserved the right to bring a motion seeking to vacate the notice requirements in this paragraph relating to Disputed Lasers, and LightLab has reserved the right to oppose any such motion.").

jury.[25] To the extent that LightLab can prove, at the appropriate time, that Axsun divulged LightLab's confidential information to third-party consultants in the course of developing the alternative light source, the Massachusetts court that issued that order or this court may cauterize that harm by enjoining those parties from profiting from that knowledge.

As to Count IV, which concerns the alleged corporate espionage activity that took place at a Stanford University medical center, I am going to stay these claims as well rather than rule on Axsun and Volcano's motion for judgment on the pleadings at this juncture. The litigation over the Stanford conduct is another example of the inconsistency of LightLab's approach. It knew about this issue during the *Massachusetts* trial, indisputably used it during that trial in 2010, filed its first counterclaims in this court in May 2010,[26] filed its first complaint in this court in May 2011, but waited until October 3, 2011 to plead claims in *Delaware* addressing the conduct and alleging that it violated *California* statutory and common law.[27] Regardless of whether res judicata or laches would apply to bar LightLab from pursuing its claims in Count IV, this slow pace in LightLab's prosecution demonstrates the absence of any emergency to address them now.

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[25] Compl. at Ex. B. ¶ 3.
[26] LightLab filed its answer and verified counterclaim in the HDSS litigation on May 10, 2010, which it later amended on July 9, 2010. LightLab filed its first complaint in the current litigation in May 2011.
[27] P. Substituted Mot. to Amend and Supplement Compl. ¶¶ 82-87 (Oct. 3, 2011).

In sum, to my mind it is prudent and efficient to stay this case until all of the material facts ripen; and, preferably until the Massachusetts appeals courts finish up their work. If LightLab prefers a speedier pace, then it is free to seek expedition from the Massachusetts appellate courts.

For the foregoing reasons, Axsun and Volcano's motion to stay is GRANTED.

IT IS SO ORDERED.

Very truly yours,

/s/ Leo E. Strine, Jr.

Chancellor

LESJr/eb