IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

THE JOHNS HOPKINS UNIVERSITY, a Maryland corporation, BAXTER HEALTHCARE CORPORATION, a Delaware corporation, and BECTON DICKINSON AND COMPANY, a New Jersey corporation,	
Plaintiffs,	Civil Action No. 94-105-RRM
v.	
CELLPRO, a Delaware corporation,	
Defendant.	

MEMORANDUM OPINION

William J. Marsden, Jr., Esquire, Potter Anderson & Corroon, Wilmington, Delaware; Steven J. Lee, Esquire, Kenyon & Kenyon, New York, New York; Donald R. Ware, Esquire and Peter B. Ellis, Esquire, Foley, Hoag & Eliot, Boston, Massachusetts, attorneys for plaintiffs; Michael Sennett, Esquire, Bell, Boyd & Lloyd, Chicago, Illinois, attorneys for plaintiff Baxter Healthcare Corporation.

Patricia S. Rogowski, Esquire and Gerard M. O'Rourke, Esquire, Connolly, Bove, Lodge & Hutz, Wilmington, Delaware; Coe A. Bloomberg, Esquire, Robert C. Weiss, Esquire, Allan W. Jansen, Esquire, Jerrold B. Reilly, Esquire, Bruce G. Chapman, Esquire, and Armand F. Ayazi, Esquire, Lyon & Lyon, Los Angeles, California, attorneys for defendant.

Dated: July 24, 1997

McKELVIE, District Judge

This is a patent case. Plaintiff The Johns Hopkins University owns U.S. Patent No. 4,965,204 ("the '204 patent") and U.S. Patent No. 4,965,680 ("the '680 patent"). Johns Hopkins has licensed the '204 and the '680 patents to plaintiff Becton Dickinson and Company, which in turn licensed the patents to plaintiff Baxter Healthcare Corporation. Defendant CellPro Inc. is a Delaware corporation with its principal place of business in Bothell, Washington.

A jury has returned a verdict finding that CellPro has willfully infringed certain claims of the '204 and the '680 patents. Plaintiffs have moved for summary judgment on CellPro's affirmative defense of patent misuse. The following is the court's decision with respect to plaintiffs' motion.

I. FACTUAL AND PROCEDURAL BACKGROUND

The court draws the following facts from the parties' briefs, accompanying evidentiary submissions, and the record of court proceedings.

Sometime in January 1991, CellPro, in the process of seeking distribution networks for products related to the identification and suspension of bone marrow stem cells, drafted a business plan. The plan stressed that CellPro should seek "[s]trategic partnerships" for "selected foreign markets and more diffuse applications."

On January 18, 1991, Dr. Christopher Porter (then the President and CEO of CellPro) drafted a memorandum to CellPro's board that detailed discussions the company conducted with Becton Dickinson. An attachment to the memo stated that in exchange

for a proposed license to practice certain Becton-developed technology, CellPro would receive "exclusive European and U.S. marketing rights for the CellPro cell concentration [device] for use in the research separation market."

On April 2, 1991, Dr. Porter drafted a memorandum that confirmed CellPro's willingness to consider granting potential corporate partners distribution rights in certain geographic areas in exchange for receiving licensing arrangements. Figure II of the memo lists Baxter as a potential partner in the United States, Europe, and Japan.

On May 30, 1991, Dr. Porter sent a memorandum to senior staff at CellPro concerning the company's discussions with Cobe Blood Component Technology about possible overseas distribution arrangements for CellPro products. The memo noted: "We told [Cobe] that we need about $5 million/year for three years from a corporate partner . . . [and] said we were looking for assistance in the international markets for marketing, sales, registration, etc . . . ."

On June 4, 1991, Joseph Lacob (the Chairman of CellPro's board) had a telephone conversation with Baxter executive Tim Anderson. Dr. Porter's notes about the substance of the discussions indicates that Lacob broached the subject of overseas distribution networks for CellPro products to Anderson:

> Joe called Anderson and said CellPro was interested in doing a corporate deal with [Baxter]. Anderson brought up a potential issue with [the '204 and '680] patents. Joe said that was a side issue. [CellPro] should put it aside at this point when discussing a potential relationship. Anderson apparently agreed with this.

> Anderson asked what we had in mind. Joe did not spell anything out, but did talk about overseas distribution.

Later that summer, Baxter and CellPro had further discussions about international distribution of CellPro products. On July 25, 1991, Dr. Porter sent a memorandum to senior staff at CellPro, noting the following about the companies' dealings:

> We stated that Baxter was a logical corporate partner because of sales and distribution in foreign countries. Further, they had manufacturing and product capability which would strengthen CellPro's base, if it were made available to us. . .There was no mention of the ['204 or '680 patents], and the meeting was non-confrontational.

Despite negotiating obstacles that included Baxter's apparent request for certain rights to distribute CellPro products in the United States, CellPro, as reflected by Dr. Porter's notes prior to a meeting with Baxter representatives in August 1991, "was looking to gain European marketing partner (exclusive distribution rights). Would need to include performance clause for Baxter's penetration of European market." In exchange for granting Baxter exclusive rights to distribute CellPro products in Europe, Dr. Porter noted that CellPro was "looking for a $20 million investment." As the companies continued further negotiations, on September 10, 1991, they entered into a confidentiality agreement, permitting Baxter to have access to some of CellPro's business and technical information.

In November 1991, CellPro, apparently concerned about being sued for infringing certain claims of the '204 and '680 patents, considered granting European distribution

rights to Baxter " . . . for peace. We should actively pursue such a relationship." Another memorandum by Dr. Porter on the subject recommended that CellPro "[a]pproach Baxter to see if we can coexist in peace. We may be willing to give up distribution rights in Europe." Later that month, Baxter executive Russell Hays met with Richard Murdock of CellPro. Murdock noted in a memorandum that while Baxter's insistence on obtaining worldwide marketing rights to CellPro's products "might be a show stopper," it "should be easy" for the companies to agree on European marketing arrangements.

On January 13, 1992, Hays sent a letter to Dr. Porter. In the letter, Hays recited an offer by Baxter to license CellPro to practice certain claims of the '204 and '680 patents. In exchange for a $750,000 upfront payment by CellPro and subsequent royalty payments on sales of certain CellPro products, Baxter would grant CellPro a "non-exclusive, non-transferable license in the therapeutic field under this technology. . . ." On January 22, 1992, Murdock replied by sending a counteroffer to Baxter. Baxter rejected the counteroffer.

On April 14, 1992, Murdock and Hays once again met to discuss licensing arrangements. During their meeting, Murdock indicated to Hays that CellPro was "willing to negotiate" about European distribution rights but was more concerned with Baxter's continued insistence on obtaining certain non-exclusive marketing arrangements in the United States. He asked Hays to make a licensing proposal in writing so that CellPro's board could discuss it at their next meeting.

On April 15, 1992, Hays sent a letter to Murdock that detailed a revised Baxter offer to license CellPro to practice certain technology claimed by the '204 and '680 patents. The offer stated that in exchange for the license, "CellPro would grant Baxter exclusive distributor rights for its products in Europe and Japan." CellPro did not accept Baxter's offer.

On April 28, 1992, CellPro filed a declaratory judgment action against Baxter and Becton Dickinson in the Western District of Washington. In its complaint, CellPro sought a declaration of noninfringement and invalidity of the claims of the '680 patent. Baxter and Becton Dickinson subsequently moved to dismiss for lack of subject matter jurisdiction and failure to join an indispensable party (Johns Hopkins, the patent holder).

On July 22, 1992, John Osth, a Baxter executive, sent a letter to Murdock. In the letter, Osth reminded Murdock that it was CellPro that had commenced negotiations about granting Baxter distribution rights in Europe:

> CellPro -- not Baxter -- initiated discussions over a year ago seeking a comprehensive business relationship between the companies on a going forward basis. CellPro requested that Baxter consider working with it on the development of CellPro's business and on joint product developments. CellPro repeatedly requested over many months that Baxter consider distributing its products in Europe. CellPro told Baxter that it needed an international company with Baxter's resources and contacts as a distribution partner. Indeed, as late as our meeting on April 14th, you advised that CellPro remained keenly interested in having Baxter as "business partner," at least with respect to Europe.

Additionally, Osth reconfirmed Baxter's original license offer to CellPro, dropping

Baxter's request to have European distribution rights:

> We assume by CellPro's actions in bringing a lawsuit that our negotiations concerning a venture with CellPro and/or Baxter's distribution of CellPro's products, as initiated and encouraged by CellPro, are at an end. We accept that. We therefore reconfirm that our licensing proposal outlined in our letter of January 13, 1992 (consisting of a $750,000 upfront payment and running royalty of 16 percent applied to the net sales price of the antibody or to a defined portion of the net sales price of a product containing the antibody) remains available.

On August 27, 1992, CellPro and Baxter conducted face-to-face settlement negotiations. Baxter told CellPro that Osth's July 22, 1992 proposal was still open. CellPro rejected it.

On September 8, 1993, the United States District Court for the Western District of Washington dismissed CellPro's declaratory judgment action with respect to the claims of the '680 patent. The court ruled that Johns Hopkins, which CellPro failed to name as a defendant, was an indispensable party that was not subject to personal jurisdiction.

On March 8, 1994, Johns Hopkins, Baxter, and Becton Dickinson (collectively, "plaintiffs") filed a complaint in this court alleging that CellPro is willfully infringing claims 1, 2, 4, and 5 of the '204 patent. On March 29, 1994, CellPro denied infringement and raised certain affirmative defenses, including that the claims of the '204 patent are invalid and unenforceable. Additionally, CellPro counterclaimed for, among other things, plaintiffs' alleged violation of antitrust law and for a declaratory judgment that the claims of the '204 and '680 patents are invalid, unenforceable, and not infringed.

In their answer to CellPro's counterclaim, filed on April 18, 1994, plaintiffs denied the invalidity and unenforceability of the claims of the '204 and '680 patents. In addition, they alleged that CellPro is infringing, contributorily infringing, and inducing infringement of claims 1 and 5 ("the asserted claims") of the '680 patent.

On June 24, 1994, the parties filed a joint stipulation and proposed order. The stipulation stated that CellPro would be permitted to amend the answer to raise an affirmative defense that the asserted claims of the '204 and '680 patents are unenforceable as the result of patent misuse. The parties also agreed to bifurcate the trial, pursuant to Rule 42(b) of the Federal Rules of Civil Procedure ("Fed. R. Civ. P."). This would ensure that the patent misuse defense would be tried after an initial trial on infringement, validity, and inequitable conduct issues. On June 27, 1994, the court entered an order implementing the parties' stipulation.

The case was tried to a jury beginning on July 24, 1995 on the issues of the infringement and validity of the claims of the '204 and '680 patents. The parties tried inequitable conduct issues to the court. On August 4, 1995, a jury returned a verdict against plaintiffs in which it found that the claims of the '204 and '680 patents were invalid as obvious in light of the prior art. The jury also found that, except with respect to unasserted claims 3 and 6 of the '204 patent, all of the claims of the '204 and '680 patents were invalid as not enabled. The jury further found that CellPro did not literally infringe the asserted claims of the '204 patent and that CellPro did not literally infringe,

contributorily infringe, or induce infringement of the asserted claims of the '680 patent.

On October 3, 1995, plaintiffs renewed a motion made during trial for judgment as a matter of law pursuant to Fed. R. Civ. P. 50. In its motion, plaintiffs argued, among other things, that: 1) CellPro literally infringes the asserted claims of the '204 and '680 patents; 2) CellPro failed to prove by clear and convincing evidence that the claims of the '204 and '680 patents are obvious; and 3) CellPro failed to prove by clear and convincing evidence that the claims of the '204 and '680 patents are not enabled. In the alternative, plaintiffs renewed a motion made during trial for a new trial pursuant to Fed. R. Civ. P. 59.

On December 1, 1995, the parties filed cross-motions for entry of judgment on, among other things, CellPro's defense and counterclaim of inequitable conduct with respect to the '204 and '680 patents. In the alternative, CellPro moved to defer the inequitable conduct issue to the antitrust and patent misuse phase of the case. It argued in its opening brief that because the facts underlying its inequitable conduct defense and the antitrust claims are interrelated, it is entitled to a jury trial on inequitable conduct in order to preserve its Seventh Amendment jury trial rights for the antitrust claims. See Beacon Theatres v. Westover, 359 U.S. 500, 508 n.10 (1959).

On June 28, 1996, the court issued an Opinion and Order in which it found that plaintiffs were entitled to judgment as a matter of law that CellPro literally infringed and induced infringement of the asserted claims of the '680 patent. The court also found that

plaintiffs were entitled to judgment as a matter of law with respect to CellPro's defense that the asserted claims of the '680 patent are not enabled. Furthermore, the court concluded that plaintiffs were entitled to a new trial on the following issues: 1) literal infringement of the asserted claims of the '204 patent; 2) nonenablement of the asserted claims of the '204 patent; and 3) the obviousness of the asserted claims of the '204 and '680 patents.

On September 12, 1996, plaintiffs filed a motion for summary judgment that CellPro literally infringes claim 1 of the '204 patent. Plaintiffs also moved for summary judgment in their favor on CellPro's defense and counterclaim that the asserted claims of the '204 and '680 patents are obvious.

During a hearing on September 25, 1996, the court stated that it would deny the parties' cross-motions with respect to the issue of inequitable conduct and was inclined to allow the parties to renew their cross-motions if the case were to go trial and a jury were to find in favor of plaintiffs on CellPro's invalidity defenses and counterclaims. The court, however, reserved decision on whether to grant CellPro's motion in the alternative to defer the inequitable conduct issue until the antitrust phase of the case. The court entered an order on September 30, 1996 in accordance with its rulings from the bench on September 25.

Also on September 30, 1996, plaintiffs filed a motion to amend the complaint pursuant to Fed. R. Civ. P. 15(a) and (b) to seek relief for CellPro's infringement of the

asserted claims of the '680 patent.

During a hearing on October 31, 1996, the court stated that it would grant plaintiffs' motion to amend the complaint to seek relief for CellPro's infringement of the asserted claims of the '680 patent. It also stated that it would deny CellPro's motion to defer the inequitable conduct issue to the antitrust phase of the case. The court entered an order on November 4, 1996 in accordance with its rulings from the bench on October 31.

On November 14, 1996, CellPro filed an answer to the amended complaint. Among other things, CellPro raised the following affirmative defenses to any finding by a jury that the plaintiffs are entitled to damages for CellPro's infringement of the asserted claims of the '680 patent: 1) laches; 2) estoppel; 3) plaintiffs' failure to mark their infringed product as required by 35 U.S.C. § 287(a); and 4) plaintiffs' failure to give CellPro actual notice, pursuant to 35 U.S.C. § 287(a), that CellPro is infringing the asserted claims of the '680 patent.

On November 27, 1996, the court granted plaintiffs' motion for partial summary judgment that CellPro literally infringes claim 1 of the '204 patent. During a hearing on December 19, 1996, CellPro stipulated that the court's November 27, 1996 Order should be amended so that plaintiffs are also granted a partial summary judgment with respect to literal infringement of claim 4 of the '204 patent.

On January 24, 1997, plaintiffs filed a motion for summary judgment with respect to CellPro's defense of nonenablement of claims 1 and 4 of the '204 patent.

On January 29, 1997, the court entered an order granting summary judgment to plaintiffs with respect to CellPro's defense and counterclaim that the asserted claims of the '204 and '680 patents are obvious.

On February 24, 1997, the court entered an order granting summary judgment to plaintiffs with respect to CellPro's defense of nonenablement of claims 1 and 4 of the '204 patent.

The court then presided over a five-day jury trial, beginning on March 4, 1997, on the issues of reasonable royalty damages and whether CellPro willfully infringed the asserted claims of the '204 and '680 patents.

On March 11, 1997, the jury returned a verdict finding the following: 1) plaintiffs are entitled to reasonable royalty damages from CellPro for infringement of the asserted claims of the '204 and '680 patents in the amount of $2,320,493.00; and 2) that CellPro willfully infringed the asserted claims of the '204 and '680 patents.

On March 13, 1997, the court conducted a hearing during which it heard argument from the parties on CellPro's damages defenses of laches, estoppel, marking, and notice. On April 11, 1997, the court entered an order that granted judgment in favor of plaintiffs on CellPro's inequitable conduct defense and counterclaim. The court also ruled that CellPro could not obtain relief based on its laches and estoppel defenses.

At this point, the court had resolved all infringement, validity, and enforceability issues that had not been bifurcated out by the parties in their June 24, 1994 joint

stipulation. Accordingly, on May 9, 1997, plaintiffs moved for summary judgment on CellPro's patent misuse defense, arguing that CellPro cannot cite to evidence of record sufficient to demonstrate that there is a genuine issue of material fact.

II. DISCUSSION

A. Standard for determining whether a patent holder has misused its patents

The affirmative defense of misuse is an extension of the equitable doctrine of "unclean hands" into patent law. See Morton Salt v. G.S. Suppiger Co., 314 U.S. 488, 492-93 (1942). That is, a patent holder who seeks to impermissibly broaden the scope of its legal monopoly, with a resulting anticompetitive effect, will be prevented from enforcing the claims of the patent against potential infringers. Windsurfing Int'l v. AMF, Inc., 782 F.2d 995, 1001 (Fed. Cir. 1986) (citing Blonder-Tongue Labs., Inc. v. University of Illinois Found., 402 U.S. 313, 343 (1971). Any such misuse, however, can be cured by the patent holder when it "purges" the effects of its conduct. United States Gypsum Co. v. National Gypsum Co., 352 U.S. 457, 494 (1957).

B. CellPro's arguments

In its amended answer, CellPro raises two bases for its defense that the claims of the '204 and '680 patents are unenforceable as the result of patent misuse. First, CellPro alleges that plaintiffs have attempted to enforce inequitably procured patents. Second, it alleges that Baxter impermissibly attempted to expand the scope of its patent protection

by demanding exclusive distribution rights for CellPro's products in Europe and Japan. The court will address each basis in turn.

1. Have the plaintiffs sought to enforce inequitably procured patents?

CellPro argues that there is a genuine issue of material fact as to whether plaintiffs are guilty of patent misuse as a result of attempting to enforce inequitably procured patents. However, this argument fails, because the court ruled in an order entered on April 11, 1997 that plaintiffs did not commit inequitable conduct.

Alternatively, CellPro argues that despite the court's previous finding of no inequitable conduct, it is nevertheless entitled to a jury trial on whether the patents were inequitably procured. CellPro reasons that because the facts underlying its patent misuse defense are "inextricably intertwined" with its antitrust claims against plaintiffs, a jury is required, under the Seventh Amendment, to make findings concerning any patent misuse facts that might relate to the antitrust claims. Beacon Theatres v. Westover, 359 U.S. 500, 508, n.10 (1959). However, in denying CellPro's motion to defer the inequitable conduct issue to the antitrust phase of the case, the court has already rejected CellPro's Beacon Theatres argument.

Accordingly, because there is no genuine issue of material fact that plaintiffs did not commit patent misuse by enforcing inequitably procured patents, the court will grant summary judgment in favor of plaintiffs on this element of CellPro's patent misuse

defense.

2. Did plaintiffs commit patent misuse by demanding exclusive distribution rights for CellPro's products in Europe and Japan?

CellPro also argues that plaintiffs are guilty of patent misuse as a result of requiring CellPro, as a condition for receiving a license to practice inventions claimed by the '204 and '680 patents, to grant Baxter exclusive distribution rights in Europe and Japan.

Plaintiffs argue that the evidence of record indicates that there is no genuine issue of material fact on this issue. They point to evidence that suggests that it was CellPro that initiated discussions about granting European and Japanese distribution rights to Baxter in exchange for a license to practice the inventions claimed by the '204 and '680 patents. Accordingly, they argue that as a matter of law, Baxter did not engage in patent misuse by proposing a distribution scheme that CellPro had already indicated would be acceptable. Alternatively, plaintiffs argue that even if its Japan and Europe distribution demands constituted patent misuse, such misuse was purged as a matter of law on July 22, 1992. On that date, John Osth of Baxter offered CellPro a license to practice inventions claimed by the '204 and '680 patent -- without conditioning it on Baxter's receiving distribution rights for CellPro's products.

In response, CellPro argues that plaintiffs' account of the parties' negotiations is contradicted by testimony from Richard Murdock at the August 1995 trial. Murdock

testified that during a meeting on November 20, 1991, it was Baxter that first suggested the possibility of obtaining worldwide distribution rights to CellPro's products. Accordingly, it argues that there is a genuine issue of material fact as to whether Baxter unilaterally attempted to link European and Japanese distribution rights to a license to practice the inventions claimed by the '204 and '680 patents.

CellPro also argues that there is a genuine issue of material fact as to whether plaintiffs purged their alleged misuse. As support, they cite to an April 8, 1994 letter from John Osth to Richard Murdock. The letter states that as of that date, Baxter did not have "an outstanding offer to license the ['204 and '680] patents to CellPro on the table . . . ."

After evaluating the parties' briefs and their accompanying evidentiary submissions, the court agrees with plaintiffs that there is no genuine issue of material fact as to whether Baxter committed patent misuse by seeking distribution rights for CellPro's products in Europe and Japan. There is ample evidence of record that suggests CellPro, anxious to expand its international business, approached Baxter in 1991 to discuss the possibility of granting certain overseas distribution rights to Baxter in exchange for licensing the '204 and '680 patents. As a result of these discussions, the parties entered into an agreement on September 10, 1991 that allowed Baxter to view confidential CellPro data. Indeed, as late as April 14, 1992, CellPro indicated to Baxter that it was "willing to negotiate" about European distribution rights. Moreover, Murdock's

testimony about the parties' November 20, 1991 meeting, is not sufficient to create a genuine issue of material fact. The court notes that Murdock's account contradicts his contemporaneous memorialization of the meeting, in which he noted that "Europe should be easy. [Baxter has] the best infrastructure and add value for us." Moreover, Murdock did not note in his memo that Baxter initiated discussions about worldwide distribution rights.

CellPro has not cited to any authorities (nor has the court identified any through its own research) which state that a patent holder commits misuse when it offers to condition -- in accordance with the wishes of a potential licensee -- the granting of a license for technology claimed by its patents. Considering the purpose behind the patent misuse doctrine, the court finds that Baxter's conduct did not rise to the level of "unclean hands" necessary to constitute misuse. If a potential licensee makes a concession during the course of licensing negotiations (here, the granting of overseas distribution rights), the licensor does not act improperly by incorporating the concession into an offer to the licensee.

III. CONCLUSION

Plaintiffs did not commit patent misuse by requesting European and Japanese distribution rights for CellPro products in exchange for granting a license to practice the technology claimed by the '204 and '680 patents. Thus, they are entitled to summary judgment in their favor on CellPro's patent misuse defense.

The court will enter an order in accordance with this opinion.