UBS Securities Equity Research

May 13, 1997

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CELLPRO (CPRO - OTC)
CPRO: BAXTER'S LATEST REQUEST FOR AN INJUNCTION

RATING	BUY			
Price:	7.50		EPS	P/E
52 Week:	20.00-3.63	3/1996A	(1.13)	NM
Dividend:	Nil	3/1997E	(1.70)	NM
Yield:	Nil	3/1998E	(1.59)	NM
Shrs:	13.1 Mil.	3/1999E	(0.41)	NM
Market Cap:	9.8 Mil.			

- In Baxter's ongoing efforts to have CellPro's CEPRATE system removed from the market, they have submitted a new request for injunctive relief. This revised request would allow CellPro to continue selling the CEPRATE system until Baxter has a FDA approved system; however at an absurdly high 50% royalty rate.

- We believe this new request is a transparent ploy on the part of Baxter to convince the Department of Health and Human Services that since CEPRATE will not be removed from the market there is no reason to march-in.

- Given the fact that Baxter is still demanding a 50% royalty on CEPRATE sales (which we estimate would result in as much as a $1,200 net loss per procedure for CellPro) no rational person could view these terms as reasonable. Thus, we believe that Department of Health and Human Services will not be dissuaded from marching-in and granting CellPro a non-exclusive license with a reasonable royalty rate if the courts hand down an injunction.

Investment Thesis and Summary

It looks like the pressure from CellPro's massive political and publicity campaign, designed to convince the Secretary of Health and Human Services to invoke the government's "march in" rights under the Bayh-Dole Act and grant CellPro a nonexclusive license under the disputed anti-CD34 patents, has finally gotten to Baxter and their partners Becton Dickinson and Johns Hopkins University. This triumvirate, in a transparent attempt to dupe the Secretary of the Department of Health and Human Services, Donna Shalala, into believing that they do not intend to ask the courts to remove the CEPRATE system (CellPro's stem cell isolation product) from the market, has changed, for the third time, their request for injunctive relief.

Baxter's (we will use Baxter to refer to all the plaintiffs in this case) initial request for injunctive relief demanded that CellPro only be allowed to sell CEPRATE to the hospitals that were using the product before March 12 (representing only 13% of hospitals that do stem cell separation) and that no clinical trials could be conducted using the system. In addition, Baxter demanded a 50%

royalty rate. When CellPro responded to the proposed injunction stating that the terms were onerous and equivalent to a full injunction (clearly, if the aforementioned request was instituted by the courts it would no longer make economic sense for CellPro to keep CEPRATE on the market), Baxter modified their request for an injunction by stating that CellPro could continue to conduct clinical trials as long as the trial in question was approved by the FDA and the relevant Institutional Review Board (IRB) before March 12, 1997.

Last week, Baxter presented their third revised request for an injunction in less than a two month period. In response to inquiries by the Department of Health and Human Services, Baxter has attempted to escape the provisions of the Bayh-Dole Act by stating that they have no intention of keeping CEPRATE off the market until their product, Isolex, is approved by the FDA (more on this later). Furthermore, they indicated that CellPro can conduct any clinical trials they deem useful without restriction. Of course there is one catch; Baxter wants CellPro to pay a 50% royalty.

Actually, the approach that Baxter has taken is quite clever even if their motives are blatantly obvious. By telling Secretary Shalala that CellPro will be able to continue selling CEPRATE, albeit with a 50% royalty obligation, they have attempted to shake the label of "bad guy" and paint CellPro as the "money grubbing" party in the dispute. To cap it all off, they have included in their response to the Bayh-Dole inquiry what we believe to be a letter from a professor of Economics at MIT stating that the 50% royalty would not be a big deal for CellPro, even if they lose money selling CEPRATE. The professor went on to say that it will make sense for them to keep selling the product, even at a loss, to keep customers happy so when their next product is launched there will be a receptive marketplace.

We must admit to being rendered speechless by this remarkable piece of business acumen. CellPro does not make any other near term product devoid of the anti-CD34 antibody component, thus the professor is suggesting that CellPro keep selling CEPRATE until they run out of money, and while doing so, build a marketplace for Baxter when and if they get Isolex approved. If this were not such a serious matter it would be comical. Given that the costs of goods for CEPRATE is currently about 50% and costs of sales of such products is close to 30%, adding a 50% royalty means that for every $4,000 column CellPro sells they will lose $1,200. We do not think that this logic will persuade the Secretary of the Department of Health and Human Services or any other sane person that, under the terms of Baxter's "newest" request, CellPro will be able to keep CEPRATE on the market. Hence, we believe that Bayh-Dole still applies and should be viewed as a real threat to Baxter's latest position.

One last point. Baxter's entire argument that CellPro should be forced to restrict the sale of CEPRATE stems from their belief that they will be able to replace CellPro's product with their own Isolex system by the end of 1997. We believe that this contention is absurd since medical devices in the Division of Biologics at the FDA have historically taken two years or more to get approved. Furthermore, we believe that the quality of the data submitted to the FDA may be suspect in that most, if not all of it, was collected in Europe and few if any controlled U.S. studies have ever been completed.

We reiterate our BUY recommendation on CellPro and believe that ultimately either the courts will fail to issue an injunction or, if they do, the government will invoke the Bayh-Dole Act.