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7 **IN THE UNITED STATES DISTRICT COURT**
8 **FOR THE NORTHERN DISTRICT OF CALIFORNIA**
9 **SAN JOSE DIVISION**
10

11 MEDIMMUNE, LLC,
12 **Plaintiff,**
13 v.
14 PDL BIOPHARMA, INC.,
15 **Defendant.**

Case Number C 08-5590 JF (HRL)

ORDER¹ GRANTING
MEDIMMUNE’S MOTION FOR
SUMMARY JUDGMENT ON
INVALIDITY; GRANTING IN PART
AND DENYING IN PART
MEDIMMUNE’S MOTION FOR
SUMMARY JUDGMENT ON PDL’S
6TH, 7TH, 9TH, AND 10TH
COUNTERCLAIMS; GRANTING
MEDIMMUNE’S MOTION FOR
SUMMARY JUDGMENT ON PDL’S
8TH COUNTERCLAIM; GRANTING
PDL’S MOTION FOR SUMMARY
JUDGMENT ON MEDIMMUNE’S
COUNT VII; AND TERMINATING
AS MOOT PDL’S MOTION FOR
SUMMARY JUDGMENT ON
MEDIMMUNE’S PRIOR INVENTION
DEFENSE.

[re: document nos. 761, 770, 775, 776,
777]

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25 Before the Court are three motions for summary judgment brought by Plaintiff
26 MedImmune, LLC (“MedImmune”) and two motions for summary judgment brought by
27 Defendant PDL BioPharma, Inc. (“PDL”). The Court has considered the moving and responding
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¹ This disposition is not designated for publication in the official reports.

1 papers and the oral arguments of counsel presented at the hearing on December 2, 2010. For the
2 reasons discussed below, MedImmune’s motion for summary judgment will be granted with
3 respect to invalidity and PDL’s 6th, 8th, 9th, and 10th counterclaims; MedImmune’s motion for
4 summary judgment on PDL’s 7th counterclaim will be denied. PDL’s motion for summary
5 judgment on MedImmune’s Count VII will be granted, and PDL’s motion for summary
6 judgment on MedImmune’s prior invention defense will be terminated as moot.

7 **I. MedImmune’s Motion for Summary Judgment of Invalidity**

8 MedImmune first moves for summary judgment of invalidity with respect to Claim 28 of
9 United States Patent No. 6,180,370 (“the ’370 patent”) on the ground that the claim was
10 anticipated by prior art. PDL moves to strike the motion in its entirety, asserting that the theory
11 upon which the motion is based was not disclosed in MedImmune’s Invalidity Contentions as
12 required by this Court’s Patent Local Rules. Because MedImmune’s Invalidity Contentions
13 meet the minimum requirements of the Rules and PDL has not been prejudiced by any lack of
14 specificity in MedImmune’s anticipation claim, the motion to strike will be denied.

15 MedImmune contends that Claim 28 is invalid because the genus of immunoglobulins it
16 discloses includes at least one that was anticipated by United States Patent No. 6,548,640 B1
17 (“the Winter ’640 patent”). The parties agree that five of the six limitations established in Claim
18 28 are found in the Winter ’640 patent. Their dispute is limited to whether the requirement in
19 Claim 28 that there be seventy percent homology between the *donor* immunoglobulin framework
20 and the *acceptor* immunoglobulin framework necessarily implies the same degree of homology
21 between the *donor* framework and the *final humanized* immunoglobulin framework. Because
22 Claim 28, unlike other claims in the ’370 patent, does not limit substitutions between the
23 acceptor immunoglobulin framework and final humanized immunoglobulin framework, the
24 Court concludes that the homology requirement does not carry through, and accordingly, that the
25 Winter ’640 patent meets all the requirements of Claim 28.

26 **A. Background**

27 The ’370 patent is concerned with the engineering of immunoglobulins, also known as
28 antibodies, that are capable of binding to particular antigens within the human body. These

1 engineered (or humanized) immunoglobulins combine elements of donor immunoglobulins
2 developed in mice or rats to bind particular antigens with acceptor human immunoglobulins that
3 prevent the human immune system from recognizing the immunoglobulin itself as an antigen.
4 Each immunoglobulin is comprised of four amino acid chains—two identical light chains and two
5 identical heavy chains. Each chain has a constant and a variable region. The variable region,
6 which determines an immunoglobulin’s ability to recognize and bind to particular antigens, is
7 comprised of three complementary determining regions (“CDRs”) and four framework regions.
8 While the three CDRs are primarily responsible for binding to the antigen, the framework
9 positions and aligns them so that they have the correct orientation to interact with the other
10 chains’ CDRs, thereby forming the antigen binding site.

11 A number of different means have been used to create humanized antibodies. Originally,
12 scientists combined the murine antibody’s variable region (the six CDRs and the framework
13 regions) with the constant region of a human antibody. This combination, referred to as a
14 “chimeric” antibody, often triggered an immunogenic response in which the human immune
15 system attacked the antibody as it would an antigen. Scientists therefore tried to humanize the
16 antibody further by substituting only the CDRs in a human immunoglobulin while retaining the
17 human framework. This technique, known as CDR grafting, produced a result superior to that
18 associated with chimeric antibodies, but the antibodies still did not bind to the target antigens as
19 well as desired. Several humanized immunoglobulins created using the CDR grafting approach
20 were disclosed in a patents awarded to Sir Gregory Winter. One of these is the Winter ’640
21 patent, which was issued on April 15, 2003.

22 Working to improve upon this technique, Dr. Cary Queen determined that while the
23 CDRs are primary in the binding process, the framework of the variable region also affects the
24 ability of a CDR to bind to the antigen. One of the approaches that Dr. Queen developed to
25 improve binding affinity while avoiding an immunogenic reaction was the use of a human
26 variable region framework that has a high degree of similarity or homology² to the murine
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28 ² Homology or sequence identity is the measure of the similarity between two amino acid sequences. To determine homology, the amino acid at each position in one sequence is

1 antibody.

2 Dr. Queen sought and was awarded the '370 patent, which includes claims pertaining to
3 the refined process of creating humanized immunoglobulins as well as claims pertaining to the
4 composition of certain humanized immunoglobulins. Claim 28, the only claim at issue here, is a
5 composition claim that recites a class, or genus, of humanized immunoglobulins.³ The claim
6 reads, in its entirety:

7 A humanized immunoglobulin having complementarity determining regions
8 (CDRs) from a donor immunoglobulin, and heavy and light chain variable region
9 frameworks from human acceptor immunoglobulin heavy and light chain
10 frameworks which humanized immunoglobulin specifically binds to an antigen,
11 wherein the sequence of the acceptor immunoglobulin heavy chain variable
12 region framework is at least 70% identical to the sequence of the donor
immunoglobulin heavy chain variable region framework, and the humanized
immunoglobulin heavy chain variable region framework comprises at least 70
amino acids identical to those in the acceptor human immunoglobulin heavy chain
variable region framework, wherein percentage sequence identity is determined
by aligning amino acids in said frameworks by Kabat numbering.

13 '370 Patent Col. 171:27-172:4.

14 The parties agree that Claim 28, as construed previously by the Court, contains the
15 following six limitations:

- 16 (1) The claimed composition must be a “humanized immunoglobulin.”
17 (2) The final “humanized immunoglobulin” must have “CDRs from a donor
18 immunoglobulin.”
19 (3) The final “humanized immunoglobulin” must have “heavy and light chain variable
20 region frameworks from human acceptor immunoglobulin heavy and light chain
21 frameworks.”

22
23 compared to the amino acid found at the corresponding position in a second sequence. The total
24 number of matches divided by the total length of the sequences being compared is deemed the
25 percent identity. To determine which amino acids correspond, the sequence of the amino acids
26 must be aligned by a system developed by Elvin A. Kabat. Kabat assigns a number to each
amino acid position in an antibody sequence.

27 ³ See Claim Construction Order at 12:1-11 (“Claim 28 describes the invention of a
28 humanized immunoglobulin and defines its characteristics, including the requisite degree of
homology. Claim 28 does not define how that humanized immunoglobulin with those specified
characteristics must be created.”).

1 (4) The final “humanized immunoglobulin” must “specifically bind to an antigen.”

2 (5) The “sequence of the acceptor immunoglobulin heavy chain variable region
3 framework” must be “at least 70% identical to the sequence of the donor immunoglobulin
4 heavy chain variable region framework.”

5 (6) the “humanized immunoglobulin heavy chain variable region framework” must
6 comprise “at least 70 amino acids identical to those in the acceptor human
7 immunoglobulin heavy chain variable region framework.”

8 Pl.’s Motion at 4:25-5:12; *see* Berl Decl, Ex. B (“Bluestone Infringement Report”) at 12-49.

9 **B. Legal Standard**

10 **1. Summary Judgment**

11 A motion for summary judgment should be granted if there is no genuine issue of
12 material fact and the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P.
13 56(c); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 247-48, 106 S.Ct. 2505, 2509-10, 91
14 L.Ed.2d 202 (1986). Material facts are those that might affect the outcome of the case under the
15 governing law. *Id.* at 248. There is a genuine dispute about a material fact if there is sufficient
16 evidence for a reasonable jury to return a verdict for the nonmoving party. *Id.* The moving party
17 bears the initial burden of informing the Court of the basis for the motion and identifying
18 portions of the pleadings, depositions, admissions, or affidavits that demonstrate the absence of a
19 triable issue of material fact. *Celotex Corp. v. Catrett*, 477 U.S. 317, 323, 106 S.Ct. 2548, 2552,
20 91 L.Ed.2d 265 (1986). Where the party moving for summary judgment would not bear the
21 ultimate burden of persuasion at trial, it must either produce evidence negating an essential
22 element of the nonmoving party’s claim or defense or show that the nonmoving party does not
23 have enough evidence of an essential element to carry its ultimate burden of persuasion at trial.
24 *Nissan Fire & Marine Ins. Co. v. Fritz Cos.*, 210 F.3d 1099, 1102 (9th Cir. 2000). If the moving
25 party meets its initial burden, the burden shifts to the nonmoving party to present specific facts
26 showing that there is a genuine issue of material fact for trial. Fed. R. Civ. P. 56(e); *Celotex*, 477
27 U.S. at 324, 106 S.Ct. at 2553.

28 The evidence and all reasonable inferences must be viewed in the light most favorable to

1 the nonmoving party. *T.W. Elec. Serv., Inc. v. Pac. Elec. Contractors Ass'n*, 809 F.2d 626, 630-
2 31 (9th Cir. 1987). Summary judgment thus is not appropriate if the nonmoving party presents
3 evidence from which a reasonable jury could resolve the material issue in its favor. *Liberty*
4 *Lobby*, 477 U.S. at 248-49, 106 S.Ct. at 2510; *Barlow v. Ground*, 943 F.2d 1132, 1134-36 (9th
5 Cir. 1991).

6 **2. Patent Invalidity**

7 Inventions must be novel. 35 U.S.C. § 102. “Invalidity based upon lack of novelty
8 (often called ‘anticipation’) requires that the same invention, including each element and
9 limitation of the claims, was known or used by others before it was invented by the patentee.”
10 *Oney v. Ratliff*, 182 F.3d 893, 895 (Fed. Cir. 1999). Claims that cover a genus of compositions
11 are invalid if even one of the claimed compositions is not new. *Titanium Metals Corp. v.*
12 *Banner*, 778 F.2d 775, 782 (Fed. Cir. 1985).

13 Determining whether a patent has been anticipated is a two-step process. The first step is
14 to construe the claim to determine its meaning, which is a question of law. *Elmer v. ICC*
15 *Fabricating, Inc.*, 67 F.3d 1571, 1574 (Fed. Cir. 1995). The second step is to compare the
16 properly construed claim to the disclosure of the reference to prior art to assess whether that
17 disclosure meets all the limitations of the claim. *Id.* This step is a question of fact and involves
18 three parts. First, the trier of fact must determine whether the challenging reference is prior art.
19 *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1576-78 (Fed. Cir. 1996). Second, the finder of fact
20 must ascertain that the prior art is enabled so as to put the invention in the public’s possession.
21 *Akzo N.V. v. U.S. Int’l Trade Comm’n*, 808 F.2d 1471, 1479 (Fed. Cir. 1986). Prior art patent
22 references are presumed enabled. *In re Sasse*, 629 F.2d 675, 681 (C.C.P.A. 1980). Third, the
23 trier of fact must determine if “each limitation of the claim is found in a single reference, either
24 expressly or inherently.” *Atofina v. Great Lakes Chem. Corp.*, 441 F.3d 991, 999 (Fed. Cir.
25 2006). In order to overcome the presumption of validity under 35 U.S.C. § 282, the party
26 seeking to invalidate the patent must present clear and convincing evidence that the claim was
27 anticipated. *Atlas Powder*, 190 F.3d at 1347.

1 **C. Discussion**

2 **1. Motion to Strike Pursuant to Patent Local Rule 3-3**

3 PDL first moves to strike MedImmune’s motion for failure to comply with Patent Local
4 Rule 3-3. The Rule provides that a party accused of infringement must assert formal Invalidity
5 Contentions that identify “each item of prior art that allegedly anticipates each asserted claim or
6 renders it obvious,” P.L.R. 3-3(a), state “[w]hether each item of prior art anticipates each
7 asserted claim or renders it obvious,” P.L.R. 3-3(b), and provide a chart “identifying where
8 specifically in each alleged item of prior art each limitation of each asserted claim is found,”
9 P.L.R. 3-3(c). In addition, “[i]f obviousness is alleged,” the party must provide “an explanation
10 of why the prior art renders the asserted claim obvious.” P.L.R. 3-3(b).

11 PDL asserts that prior to filing the instant motion, MedImmune never suggested that
12 Claim 28 of the ’370 patent was anticipated by the Winter ’640 patent because the ’370 patent
13 requires a lesser degree of homology between the humanized immunoglobulin and the donor
14 immunoglobulin than between the donor and acceptor immunoglobulins. Specifically, PDL
15 contends that MedImmune failed to include such an assertion in its Invalidity Contentions as
16 required by Rule 3-3, noting that all of the references to the Winter ’640 patent in MedImmune’s
17 Invalidity Contentions and accompanying chart are directed to obviousness rather than
18 anticipation. PDL also argues that MedImmune’s proffered validity experts did not opine that
19 the Winter ’640 patent anticipates Claim 28 of the ’370 patent.

20 However, MedImmune’s Invalidity Contentions state expressly that “[a]sserted claim 28
21 of the ’370 patent is *anticipated* and/or rendered obvious by the following references”
22 Fletcher Decl., Ex. 12 (“Invalidity Contentions”) at 2 (emphasis added). The subsequent list of
23 references includes more than a hundred pieces of prior art, including the Winter ’640 patent. *Id.*
24 at 7. Referring to what the parties have called Limitation 5 and Limitation 6, the Invalidity
25 Contentions note that Limitation 6 has been “used, disclosed, and suggested by prior art
26 including [the Winter ’640 patent],” while Limitation 5 “is neither necessary, critical, nor
27 relevant to achieving the desired goals of the ’370 patent, and cannot distinguish the claimed
28 invention from prior art.” *Id.* at 8. The Invalidity Contentions also contain an assertion that on

1 the basis of disclosures including the Winter '640 patent, “[p]ersons skilled in the art would have
2 had reason to modify the humanized antibodies” to reach a seventy-percent identity between the
3 donor and acceptor frameworks. *Id.* Finally, the chart accompanying the Invalidity Contentions
4 lists citations to the Winter '640 patent under each limitation in the patent. The language under
5 Limitation 5 states that “a person of ordinary skill in the art would have had reason to use an
6 [acceptor framework] that retains the structural features of the [donor framework].” *Id.* Ex. A.

7 Courts in this district have held that the requirement of Rule 3-3(b) can be satisfied even
8 where anticipation and obviousness are described using an “and/or” clause, because the court
9 “assumes that a prior art reference that does not anticipate by going to all the elements of a claim
10 will be used for . . . obviousness contentions.” *Avago Tech. Gen. IP Pte Ltd. v. Elan*
11 *Microelectronics Corp.*, No. C04-05385 JW (HRL), 2007 WL 951818 (N.D. Cal. Mar. 8, 2007);
12 *see also Keithley v. The Homestore.Com*, 553 F. Supp. 2d 1148, 1150 (N.D. Cal. 2008). In
13 *Keithley*, the court accepted a list of seventy-two prior art references “which did not specify
14 whether each reference art anticipated the patent, rendered it obvious, or both” as satisfying Rule
15 3-3(b). 553 F. Supp. 2d at 1150.

16 At the least, MedImmune’s grouping of more than a hundred references as prior art that
17 “anticipated and/or made obvious” PDL’s ’370 patent approaches the minimum disclosure
18 permitted under Rule 3-3(b). Had PDL demanded greater specificity with respect to
19 MedImmune’s assertion of anticipation or obviousness, it well may have obtained relief.⁴
20 However, where the accompanying chart includes references showing where each of the claimed
21 terms is found, anticipation is at issue. PDL’s mistaken assumption that MedImmune was
22 asserting only obviousness does not justify striking or disregarding the merits of MedImmune’s
23 motion.

24 It is true that MedImmune’s statement with respect to Limitation 5 that “a person of
25 ordinary skill in the art would have had reason to use an [acceptor framework] that retains the
26 structural features of the [donor framework]” articulates an obviousness argument. However,

27
28 ⁴ PDL raised numerous other complaints as to the sufficiency of MedImmune’s
Invalidity Contentions. *See Fletcher Decl.*, Ex. 13-14.

1 while Rule 3-3(b) requires that “[i]f obviousness is alleged,” the party must provide “an
2 explanation of why the prior art renders the asserted claim obvious,” no such explanation is
3 required with respect to anticipation. The additional requirements for obviousness reflect the
4 different standards by which anticipation and obviousness are measured. While anticipation
5 requires that a single source contain all the elements of a claim, a claim may be demonstrated to
6 be obvious to one with ordinary skill in the art by a showing of suggestion or motivation to
7 modify or combine the teachings of prior art to the claimed invention. *Avago*, 2007 WL 951818,
8 at *3.

9 Keeping in mind the reasoning behind the rule, the Court concludes that a party’s formal
10 Invalidity Contentions need not supply a theory of anticipation as long as anticipation is asserted
11 and the accompanying chart meets the Rule’s requirement of indicating “where specifically in
12 each alleged item of prior art each limitation of each asserted claim is found.” PDL pointed out
13 at oral argument that MedImmune’s references to the Winter ’640 patent do not discuss the
14 homology of the Winter ’640 patent. *See* Invalidity Contentions, Ex. A at 3, (“[Winter patent] at
15 Cols. 1-6, 9-21, 23-27 and Figs discussed their in.”). However, while this is literally true, the
16 references do describe the basic structure of the donor and humanized antibodies from which the
17 homology may be determined. *See* Rees Decl., Ex. A at ¶¶ 23-24.

18 PDL also contended at oral argument that had MedImmune properly raised its
19 anticipation argument in its Invalidity Contentions, the Court could have addressed during claim
20 construction the issue of how and to what extent Limitation 5 determines the makeup of the final
21 humanized immunoglobulin framework. However, the precise scope of Limitation 5 is an issue
22 in the obviousness analysis as well. *See Graham v. John Deere Co.*, 383 U.S. 1, 17-18 (1966)
23 (announcing the test for obviousness, including an examination of “differences between the prior
24 art and the claims at issue”). PDL thus cannot show that its proffered construction of Limitation
25 5 was compromised by the lack of specificity in MedImmune’s anticipation contention.

26 PDL’s Rule 4-2 disclosure argued that Limitation 5 should be construed to require a
27 seventy percent identity between the donor and acceptor frameworks, but it did not address the
28 degree of identity between the donor and final humanized immunoglobulin frameworks. *See*

1 PDL’s Patent Local Rule 4-2 Statement (June 15, 2009) at 15. MedImmune similarly failed to
2 specify how the limitation operates as a limitation on the final humanized immunoglobulin. *See*
3 MedImmune’s Patent Local Rule 4-2 Disclosure (June 15, 2009). Indeed, prior to and during
4 claim construction, both parties appeared to treat Limitation 5 as a process limitation rather than
5 product limitation. In its Invalidity Contention chart, MedImmune states with respect to
6 Limitation 5 that “a person skilled in the art would have had reason to *use* [an acceptor
7 framework] that retains the structural features of the [donor framework].” Invalidity Contention,
8 Ex. A (emphasis added). PDL uses similar process language to distinguish the Winter ’640
9 patent, claiming that the patent “does not describe or otherwise disclose the *use* of an acceptor
10 framework region that is at least 70% identical to the donor framework region.” Berl. Decl., Ex.
11 C (“Bluestone Invalidity Report”) at 36 (emphasis added). However, because Claim 28
12 subsequently has been construed as a product claim, the parties agree that the process by which
13 Winter made his humanized immunoglobulin—i.e., whether or not a homologous acceptor
14 framework is *used*--is “irrelevant.” *See* Def.’s Op. at 18 n.4; *cf. G.E. Co. v. Wabash Appliance*
15 *Corp.*, 304, U.S. 364, 373 (1938) (“Although in some instances a claim may validly describe a
16 new product with some reference to the method of production, a patentee who does not
17 distinguish his product from what is old except by reference, express or constructive, to the
18 process by which he produced it, cannot secure a monopoly on the product by whatever means
19 produced.”).

20 The parties’ joint failure to address the present issue during claim construction thus stems
21 from their mutual mistake about the purpose of Limitation 5, not MedImmune’s lack of
22 specificity in its Invalidity Contentions. Indeed, MedImmune’s statement that the
23 donor/acceptor homology is not “relevant to achieving the desired goals of the ’370 patent, and
24 cannot distinguish the claimed invention from prior art” is essentially the same argument that it
25 makes in the instant motion. Invalidity Contentions at 8.

26 PDL also argues that it received no notice of MedImmune’s anticipation argument from
27 MedImmune’s experts. However, the record suggests otherwise. Dr. Ravetch opines that the
28 Winter ’640 patent “satisfies every limitation of Claim 28 . . . with the possible exception of the

1 language directed to 70% heavy chain framework identity between the donor and acceptor
2 immunoglobulin.” Fletcher Decl. Ex. 4 (Ravetch Expert Report) ¶ 150. In a separate subsection
3 of the “Anticipation and Obviousness” section of his report entitled “The Relationship Between
4 the Framework Identity Language and the Final Humanized Immunoglobulin,” Dr. Ravetch
5 dedicates several paragraphs to MedImmune’s argument concerning the relationship between the
6 framework identity language and the final humanized immunoglobulin. *Id.* ¶¶ 194-196. The
7 report states specifically that “[i]f the claim requires at least about 56% or at least about 59%
8 identity between the donor and final heavy chain frameworks, then the antibodies disclosed in
9 Verhoeyen, the Winter patent, and potentially Jones would all meet the homology requirement.”
10 *Id.* ¶ 195.

11 PDL also claims that MedImmune’s alleged noncompliance with Rule 3-3(b) led to an
12 “ambush” of PDL’s expert, Dr. Bluestone, at his deposition. During that deposition,
13 MedImmune’s counsel walked Dr. Bluestone through a series of exhibits describing a
14 hypothetical immunoglobulin he called “Humanized 922.” Bluestone Dep. at 299:13-309:17.
15 The composition of “Humanized 922” was identical to the immunoglobulin described in the
16 Winter ’640 patent, although the process of creation was not. Mot. at 14. The exhibits included
17 the sequence homology between the donor and acceptor frameworks as well as framework
18 changes between the acceptor immunoglobulin and the final humanized immunoglobulin of the
19 hypothetical antibody. *Id.* Dr. Bluestone tentatively agreed that the framework changes between
20 the acceptor immunoglobulin and the humanized immunoglobulin were permitted and that this
21 final humanized immunoglobulin met the requirements of Claim 28. See Bluestone Dep. 309:13
22 (“All right. I’ll bite.”). While he compared the homology of the donor and acceptor
23 immunoglobulins (71.3%), mot. at 14; Bluestone Dep. 301:11-13, Dr. Bluestone was not
24 given—and did not state that he required—the homology between the donor and final
25 immunoglobulin (less than seventy percent). Mot. at 14. PDL argues that this exercise was
26 intended to mislead Dr. Bluestone into an admission that the Winter ’640 patent comes within
27 the scope of Claim 28.

28 If in fact MedImmune chose not to disclose its anticipation argument in order “ambush”

1 Dr. Bluestone with the “Humanized 922/Winter ’640 immunoglobulin thought experiment, its
2 strategy was ill-advised. The value of an expert witness’s testimony is correlated to the expert’s
3 confidence in the application his or her learning and experience in the discipline. A “gotcha”
4 moment is of much less use than an expert’s reasoned analysis. Whether or not Dr. Bluestone
5 would have answered MedImmune’s questions differently had he known of MedImmune’s
6 anticipation claim is of less importance than his obvious uncertainty in analyzing the exhibits put
7 before him on the spot. *See* Bluestone Dep. 303:3-4 (“[I]t’s hard to tell with all the framework
8 changes.”); *see also id.* 308:9-309:4 (Dr. Bluestone request for assistance sorting through the
9 exhibits). Accordingly, the Court gives such testimony little weight.⁵

10 **2. Construction of Claim Limitations**

11 The first step in determining whether a claim is anticipated is to construe the claim to
12 determine its meaning, which is a question of law. *Elmer v. ICC Fabricating, Inc.*, 67 F.3d
13 1571, 1574 (Fed. Cir. 1995). After an extensive hearing and detailed briefing by the parties, the
14 Court issued a claim construction order construing the disputed terms of Claim 28. *See* Claim
15 Construction Order (Feb. 22, 2010). Following claim construction, the parties agreed on the six
16 limitations described above. The parties now dispute how Limitation 5 (which states that the
17 “sequence of the acceptor immunoglobulin heavy chain variable region framework [must be] at
18 least 70% identical to the sequence of the donor immunoglobulin heavy chain variable region
19 framework”) acts to restrict the composition of the final humanized immunoglobulin. Whether
20 the seventy percent homology requirement between the donor and acceptor frameworks is
21 carried through to the final humanized immunoglobulin framework determines whether the
22 Winter ’640 patent meets all the limitations of Claim 28 of the ’370 patent.

23 According to PDL, the humanized immunoglobulin described in the Winter ’640 is
24 distinguished from those covered by the PDL’s ’370 patent because the latter requires seventy
25 percent (or sixty-one of eighty-seven) of the amino acids in the heavy chain variable region

26
27 ⁵ In contrast, as detailed below, Dr. Bluestone’s admission that Claim 28 allows any
28 framework substitutions between the acceptor immunoglobulin and final humanized
immunoglobulin—made in reference to an examination of his own infringement report—serves
MedImmune’s purposes much more persuasively and less theatrically.

1 framework of the final humanized immunoglobulin be identical to those in framework of the
2 donor immunoglobulin, while only fifty-seven out of eighty-seven amino acids (65.5%) in the
3 humanized immunoglobulin framework described in the Winter '640 patent are identical to those
4 in the donor framework. MedImmune contends that Claim 28 thus requires a lesser degree of
5 homology met by the immunoglobulin described by the Winter '640 patent.

6 Claim 28 involves the relationship among three different immunoglobulins: a donor
7 immunoglobulin, an acceptor immunoglobulin, and the humanized immunoglobulin. The plain
8 language of Limitation 5 requires that *acceptor* immunoglobulin framework be at least seventy
9 percent identical to the *donor* immunoglobulin framework, which means that sixty-one of eighty-
10 seven amino acids must be identical. Limitation 6 requires that the *humanized immunoglobulin*
11 framework comprise at least seventy amino acids identical to those in the *acceptor* human
12 immunoglobulin framework. Because Claim 28 is a composition claim rather than a process
13 claim, *see supra* note 3, both parties read the two limitations together such that Limitation 5
14 applies to the composition of the final humanized immunoglobulin.

15 MedImmune contends that while Limitation 5 requires that sixty-one of eighty-seven
16 amino acids in the acceptor immunoglobulin be identical to those in the donor immunoglobulin,
17 it does not require that all of these identical amino acids be included in the final humanized
18 immunoglobulin. It argues that because it requires that only seventy amino acids in the acceptor
19 immunoglobulin framework be identical to those in the final humanized immunoglobulin
20 framework, Limitation 6 allows for the substitution of *any* of the seventeen ($87 - 70 = 17$)
21 remaining amino acids, even if the result is that the humanized immunoglobulin has less than
22 seventy percent identity with the donor. Reading the two clauses in this way, MedImmune
23 asserts that Claim 28 requires identity of as few as forty-four of eighty-seven amino acids
24 between the *donor* immunoglobulin and the *final humanized immunoglobulin*.

25 PDL takes the position that Limitations 5 and 6 should be read as mutually reinforcing:
26 “[t]o be covered by claim 28 the amino acid sequence of the framework of a final humanized
27 immunoglobulin must have at least 70 amino acids identical to the framework of the acceptor
28 immunoglobulin (Limitation 6), and at least 61 *of those* amino acids must be identical to the

1 donor sequence (Limitation 5).” Op. at 15. In other words, the identity between the acceptor
2 framework and the donor framework must be carried through to the humanized immunoglobulin.
3 PDL supports its reading by explaining the different purposes served by the two limitations.
4 According to PDL, there are two key aspects to the ’370 patent: (1) retaining substantially the
5 same affinity as the donor antibody to the target antigen; and (2) avoiding immunogenicity in
6 humans. “The donor/humanized immunoglobulin homology requirement of Limitation 5 is
7 directed to the objective of retaining binding affinity, the acceptor/humanized immunoglobulin
8 homology requirement of Limitation 6 is directed to reducing immunogenicity.” *Id.*

9 PDL argues that the Court determined this issue in its Claim Construction Order when it
10 indicated that “Claim 28 describes the invention of a humanized immunoglobulin and defines its
11 characteristics, *including the requisite degree of homology.*” Claim Construction Order at 12:5-7
12 (emphasis added); *see also id.* at 12:8-11 (“The language of the claim requires *substantial*
13 *homology*, but it does not specify how that percent of identity must be achieved”) (emphasis
14 added). PDL also claims that MedImmune has conceded that “Limitation 5 is a limitation on the
15 final humanized immunoglobulin.” Mot. at 8:3. However, PDL ignores MedImmune’s basic
16 contention that while Limitation 5 *does* require a degree of homology in the final humanized
17 immunoglobulin, the homology required is less than that claimed by PDL. Because the Claim
18 Construction Order did not address the degree of homology required between the donor
19 immunoglobulin and the humanized immunoglobulin, the Court must undertake that analysis
20 here.

21 The starting point for ascertaining a claim’s meaning is the claim language itself.
22 *Phillips v. AWH Corp.*, 415 F.3d 1303, 1314 (Fed. Cir. 2005) (en banc). While PDL emphasizes
23 that a high degree of homology between the donor immunoglobulin and the final humanized
24 immunoglobulin is consistent with the purposes of the patent, it cannot escape the fact that the
25 actual language of Limitation 5 describes the relationship between the donor and acceptor
26 immunoglobulins, not the donor and humanized immunoglobulins. The patentee easily could
27 have described the latter relationship simply by using “humanized immunoglobulin” instead of
28 “acceptor immunoglobulin” in the clause in question. As MedImmune points out, in a different

1 Queen patent issued prior to the '370 patent, the patentee did just that.⁶ For whatever reason, the
2 patentee chose not to make that comparison in Claim 28 of the '370 patent. A fundamental tenet
3 of patent law is that courts are not permitted to redraft claims. *Process Control Corp. v.*
4 *HydReclaim Corp.*, 190 F.3d 1350, 1357 (Fed. Cir. 1999); *see also Quantum Corp. v. Rodime/*
5 *Plc*, 65 F.3d 1577, 1584 (Fed. Cir. 1995) (“Although we construe claims, if possible, so as to
6 sustain their validity, it is well settled that no matter how great the temptations of fairness or
7 policy making, courts do not redraft claims.”) (internal citation omitted).

8 Because Limitation 5 does not relate the donor immunoglobulin framework directly to
9 the final humanized immunoglobulin framework, the question is whether Limitation 6, which
10 describes the homology required between the acceptor and the final humanized immunoglobulin,
11 necessarily requires that the homology between the donor and acceptor immunoglobulins be
12 carried through to the humanized immunoglobulin. Limitation 6 requires that the “humanized
13 immunoglobulin heavy chain variable region framework” comprise “at least 70 amino acids
14 identical to those in the acceptor human immunoglobulin heavy chain variable region
15 framework.” Nothing in this language indicates that the homology requirement between the
16 donor and acceptor of Limitation 5 is carried through to the final immunoglobulin.

17 The Court next turns to the specification, *see Markman v. Westview Instruments, Inc.*, 52
18 F.3d 967, 979 (Fed. Cir. 1995) (en banc) (“claims must be read in view of the specification of
19 which they are a part”), as well as the other claims in the patent, *see Phillips v. AWH Corp.*, 415
20 F.3d 1303, 1314 (“Other claims of the patent in question, both asserted and unasserted, can also

21
22 ⁶ Claim 1 of United States Patent No. 5,693,763 (“the '763 patent”) reads in full:
23 A humanized immunoglobulin having complementary determining regions
24 (CDRs) from a donor immunoglobulin and heavy and light chain variable region
25 frameworks from human acceptor immunoglobulin heavy and light chain
26 frameworks, which humanized immunoglobulin specifically binds to an antigen
27 with an affinity constant of at least 10⁷M⁻¹ and no greater than about four-fold
28 that of the donor immunoglobulin, wherein the sequence of *the humanized*
immunoglobulin heavy chain variable region framework is at least 65% identical
to the sequence of the *donor immunoglobulin* heavy chain variable region
framework and comprises at least 70 amino acid residues identical to an acceptor
human immunoglobulin heavy chain variable region amino acid sequence.
Berl. Decl., Ex. G (claim 1); *see also id.* (Claim 11).

1 be valuable sources of enlightenment as to the meaning of a claim term”) . In the case of the
2 ’370 patent, there are indications in the specification that the patent generally contemplated that
3 with one exception the only substitutions between the acceptor immunoglobulin framework and
4 the humanized immunoglobulin framework would be the replacement of amino acids in the
5 acceptor framework with amino acids from the donor framework.⁷ See ’370 patent at ‘3:1-2
6 (“amino acids from the acceptor immunoglobulin chain may be replaced with amino acids from
7 the CDR-donor immunoglobulin chain”); *id.* at 11:29-42 (“Most humanized immunoglobulins
8 that have been previously described have comprised a framework that is identical to the
9 framework of a particular human immunoglobulin chain The present invention includes
10 criteria by which a limited number of amino acids in the framework of a humanized
11 immunoglobulin chain are chosen to be the same as the amino acids at those positions *in the*
12 *donor rather than in the acceptor*”). If these restrictions always were operative in Claim
13 28, then the homology between the final humanized immunoglobulin and the donor necessarily
14 would be higher than that of the donor and the acceptor.⁸

15 However, the specification also includes a category of substitutions (Category 5) in
16 which the amino acid in a given position in both the acceptor and donor sequences is rare for

17
18 ⁷The specification describes five instances in which amino acids from the acceptor
19 immunoglobulin should be replaced. In Category 1, the amino acid is in a CDR (as opposed to
20 the framework). See ’370 patent 13:64-65. In Categories 2 through 4, the amino acids from the
21 acceptor immunoglobulin should be replaced with those from the donor framework: Category 2
22 allows replacement if the acceptor immunoglobulin is rare in that position for human sequences
23 while the donor amino acid is common; Category 3 allows replacement of amino acids in the
24 positions immediately adjacent to one of the CDRs; and Category 4 allows replacement of amino
25 acids in positions that are close to the CDRs and have a good probability of interacting with the
26 amino acids in the CDRs. See *id.* 13:66-15:55. Category 5 provides that where the amino acids
27 in a particular position in both the donor and acceptor sequences are rare in that position for
28 human sequences, an amino acid that is in neither the donor nor the acceptor framework may be
substituted. See *id.* 15:56-16:3.

25 ⁸ MedImmune notes that if Claim 28 did limit framework substitutions to the rules
26 defined in the patent, PDL documents indicate that Synagis would not have infringed.
27 MedImmune references an exchange between Dr. Queen and Dr. Maximiliano Vasquez which
28 appears to indicate that the substitutions were made in Synagis that fell outside of categories
described above. See Fletcher Decl. Ex. 1 (Vasquez Dep.) 313:9-11; Fletcher Decl. Ex. 3 (email
exchange between Dr. Vasquez and Dr. Queen).

1 human sequences, in which case it may be replaced with an amino acid that is typical for human
2 sequences. '370 patent 15:62-67. MedImmune overstates this point somewhat by arguing that
3 this type of substitution “intentionally *reduces* the final humanized immunoglobulin’s identity
4 with the donor.” Reply at 6. In fact, a reduction in identity would occur only if the amino acids
5 in both sequences *both* were rare in human sequences *and* identical to each other. The
6 specification does not address such a circumstance directly.

7 A much more significant problem for PDL is that Claim 28 makes no reference to any
8 restriction on substitutions. Other claims in the '370 patent explain in detail how substitutions
9 between acceptor and humanized immunoglobulin frameworks are to be made. For example,
10 Claim 29 contains language identical to that of Claim 28 except that it only requires a homology
11 of sixty-five percent between the donor and acceptor frameworks. However, while Claim 28
12 requires that “the humanized immunoglobulin heavy chain variable region framework comprises
13 at least 70 amino acids identical to those in the acceptor human immunoglobulin heavy chain
14 variable region framework,” Claim 29 states that

15 “the humanized immunoglobulin heavy chain variable region framework
16 comprises at least 70 amino acids identical to those in the acceptor
17 immunoglobulin heavy chain variable region framework . . . wherein said
18 humanized immunoglobulin comprises amino acids from the donor
19 immunoglobulin heavy chain framework outside the Kabat CDRs that replace the
20 corresponding amino acids in the acceptor immunoglobulin heavy chain
21 framework, and each of these said donor amino acids:

- 22 (I) is adjacent to a CDR in the donor immunoglobulin sequence, or
23 (II) is capable of interacting with the CDRs.”

24 '370 patent Claim 29. The patentee’s decision not to include such restrictions in Claim 28 must
25 be afforded considerable weight. *See Helmsderfer v. Bobrick Washroom Equipment, Inc.*, 527
26 F.3d 1379, 1383 (Fed. Cir. 2008) (“It is often the case that different claims are directed to and
27 cover different disclosed embodiments. *The patentee chooses the language and accordingly the*
28 *scope of his claim.*” (emphasis added)).

29 The prosecution history also supports MedImmune’s construction. In a draft of what
30 later issued as Claim 28, Limitation 5 read: “wherein the sequence of the *humanized*
31 immunoglobulin heavy chain variable region framework is at least 70% identical to the sequence
32 of the *donor* immunoglobulin heavy chain variable framework.” Fletcher Decl., Ex. 10 (portion

1 of the prosecution history of the Queen patents filed in response to Official Action dated Nov.
2 18, 1997) at 14 . Following a rejection by the examiner, the patentee amended Limitation 5 to its
3 present form, which compares the acceptor and the donor immunoglobulins. *See* Weiswasser
4 Decl. Ex. 10 (portion of the prosecution history of the Queen patents filed in response to Official
5 Action dated April 29, 1999) at 12. MedImmune contends that PDL’s interpretation
6 impermissibly would undo this amendment *sub silentio*. *See Bd. Of Regents of the Univ. Of*
7 *Texas Sys. v. BENQ Am. Corp.*, 533 F.3d 1362, 1370 (Fed. Cir. 2008) (refusing to construe
8 “syllabic element” to mean “word” where patentee had amended claims in prosecution to replace
9 “word” with “syllabic element”).

10 PDL points out that new claims were added during prosecution that distinguished prior
11 art based on the requirement of homology between the final immunoglobulin and donor
12 immunoglobulin frameworks. *See* Weiswasser Decl. Ex. 10 at 21 (Amendment G (August 9,
13 1999). However, the language in these new claims contained the substitution restrictions
14 included in Claim 29 but not in Claim 28. *See id.* at 12-13.

15 While extrinsic evidence may not be used to vary or contradict the claim language or the
16 import of other parts of the specification, it may be used to help the Court come to the proper
17 understanding of the claims. *Vitronics Corp. v. Conceptronics*, 90 F.3d 1576, 1584 (Fed. Cir.
18 1996). Here, MedImmune suggests that PDL’s own experts did not read the patent as including
19 any limitations on the substitutions that can be made between the acceptor framework and the
20 final immunoglobulin framework. MedImmune points to Dr. Bluestone’s agreement in his
21 deposition testimony that “any framework substitutions” are permitted in Claim 28.⁹ The
22 deposition testimony of Dr. Queen also indicates that Claim 28 allows substitutions of amino
23 acids beyond the rules described in the specifications; indeed, Dr. Queen expressly distinguishes
24 Claim 28 from other claims that require that acceptor amino acids be replaced by donor amino
25

26
27 ⁹ Q: [W]ith respect to the claim [Claim 28], any framework substitutions are
permitted not just those in categories 2 through 5; correct?

[Bluestone]: Correct.

Bluestone Dep. At 287:19-22.

1 acids.¹⁰

2 MedImmune also notes that in his invalidity analysis of Synagis and motavizumab, Dr.
3 Bluestone carefully describes the homology between the donor and acceptor immunoglobulin
4 frameworks but undertakes no analysis of whether that homology “carries over” to the final
5 humanized immunoglobulin framework. Bluestone Infringement Report at 31-32. Similarly,
6 MedImmune cites Dr. Queen’s interrogatory response indicating that PDL’s first humanized
7 antibody–humanized anti-Tac–which was made during the fall of 1988, falls outside of the scope
8 of Claim 28 because the donor and acceptor frameworks were only sixty-seven percent rather
9 than seventy percent identical. Fletcher Decl., Ex. 2 at 262:7-265:14; Ex. 8 at 3:12-17. However,
10 following the framework changes, the final sequence of humanized anti-Tac is eighty percent
11 identical to the donor sequence. ’370 patent 3:63-4:4. If the donor to final immunoglobulin
12 analysis had been undertaken, the immunoglobulin would come within Claim 28.

13 Because Claim 28 is a product claim, the limitations described in the claim are operative
14 only to the degree that they restrict the composition of the final product, in this case the final
15 humanized immunoglobulin. *See In re Brown*, 459 F.2d 531, 535 (Fed. Cir.) (“[I]t is the
16 patentability of the product claimed and not of the recited process steps which must be
17 established.”). Limitation 5 calls out the required homology between the donor and acceptor
18 immunoglobulin frameworks, not between the donor and final humanized immunoglobulin. In
19 this respect, the prosecution history, the language used in other PDL patents, and Dr. Bluestone’s
20 infringement analysis all are consistent with the plain language of the patent. Accordingly,
21 Limitation 5 limits the composition of the final humanized immunoglobulin only to the degree
22 that the homology between the donor and acceptor immunoglobulin frameworks is carried

23
24 ¹⁰ Q: [I]t’s your testimony that it’s also within the scope of your invention to
25 change that adjacent residue to a different amino acid that’s not in the murine
26 sequence?
27 [Queen]: “That would be in the scope, but I don’t think that’s what the rules said.
28 In other words, it would necessarily bring it under the claims. Most of our claims,
not the ones at issue in this infringement case but in others, are – say make a
substitution of the donor amino acid. So if it was something other than the donor
amino acid, it wouldn’t bring it under the coverage of the claim.

Queen Dep. at 238:9-20 (emphasis added).

1 through to the final humanized immunoglobulin framework. Limitation 6, which describes the
2 homology between the acceptor and final humanized frameworks, places no restrictions on
3 framework changes as long as seventy amino acids are identical. This is clear not only from the
4 language of the claim but also from the fact that the specification and other claims in the patent
5 include such restrictions while Claim 28 does not. Both Dr. Bluestone and Dr. Queen
6 understood Claim 28 in this way. Without any language in the claim restricting substitutions
7 between the acceptor and the final humanized immunoglobulin beyond the requirement that
8 seventy amino acids remain identical, Limitation 5 must be read only to require an identity of
9 forty-four of the eighty-seven amino acids in the heavy chain variable region framework, or
10 50.6% homology.

11 While the teaching of the '370 patent as a whole is the use of acceptor immunoglobulin
12 frameworks with a high degree of homology to the donor immunoglobulin frameworks in order
13 to improve the binding affinity of the final humanized immunoglobulin to the target antigen,
14 Claim 28 does not contain the restrictions present in other claims in the '370 patent or other
15 patents of the same family. Without such restrictions, there is no justification for a narrower
16 interpretation, even if such an interpretation would be more consistent with the ultimate purposes
17 of the patent. PDL is bound by the language chosen by the patentee.

18 **3. Anticipation**

19 The second step of anticipation analysis—whether the prior art discloses all of the
20 elements of the patent claim—is a question of fact. *Elmer v. ICC Fabricating, Inc.*, 67 F.3d 1571,
21 1574 (Fed. Cir. 1995). Summary judgment is appropriate only if there is no question of material
22 fact as to whether the patent in fact is anticipated by prior art. *EnzoBiochem, Inc. v. Applera*
23 *Corp.*, 559 F.3d 1325, 1332 (Fed. Cir. 2010).

24 Under § 102(a), a document is prior art only if it is published before the invention date.
25 The Winter '640 patent was issued on April 15, 2003, resulting from a patent application filed on
26 May 3, 1988. Winter '640 patent. According to PDL, the subject matter covered by Claim 28
27 was conceived in July 1988. Berl Decl., Ex. A at 3:10-11. Thus, there is no question of fact as
28 to whether the Winter '640 patent is prior art.

1 The Court next must determine whether the prior art is enabled. However, prior art
2 patent references are presumed enabled. *In re Sasse*, 629 F.2d 675, 681 (C.C.P.A. 1980). PDL
3 has not attempted to rebut that presumption.

4 Finally, the trier of fact must determine if “each limitation of the claim is found in a
5 single reference, either expressly or inherently.” *Atofina v. Great Lakes Chem. Corp.*, 441 F.3d
6 991, 999 (Fed. Cir. 2006). MedImmune has presented uncontested evidence that:

- 7 • (Limitation 1) The Winter ’640 patent discloses “a fully ‘humanized’ anti-lysozyme
8 antibody.” Rees Expert Report at 72; Winter ’640 patent 23:34-36.
- 9 • (Limitation 2) The final humanized antibody “contains the full sequences of all the CDRs
10 found in the donor immunoglobulin.” Rees Expert Report at 72; Winter ’640 patent
11 12:32-14:49.
- 12 • (Limitation 3) The final humanized antibody contains heavy and light chain variable
13 region frameworks from human acceptor antibody frameworks. Rees Expert Report at
14 72; Winter ’640 patent 12:32-14:49.
- 15 • (Limitation 4) The final humanized antibody “specifically binds the target lysozyme
16 antigen, with an affinity in the range of 5-50 nM.” Rees Expert Report at 72; Winter
17 ’640 patent 24:29-50.
- 18 • (Limitation 6) The final humanized antibody’s heavy chain framework has 87 of 87
19 amino acids identical to the human acceptor immunoglobulin (because the acceptor and
20 final immunoglobulin frameworks are identical). Rees Expert Report at 72.

21 Accordingly, the Court finds and concludes that Limitations 1-4 and Limitation 6 of Claim 28 of
22 the ’370 patent are found in the Winter ’640 patent.

23 It also is undisputed that the humanized immunoglobulins described in the Winter ’640
24 have 65.5% homology between the donor and acceptor immunoglobulins. *See* Bluestone Decl. ¶
25 6; Rees Expert Report at 73. Because the Winter ’640 patent retains the heavy chain variable
26 region framework from the human acceptor antibody, eighty-seven of eighty-seven amino acids
27 between the acceptor immunoglobulin framework and final humanized immunoglobulin
28 framework are identical. *See* Ravetch Expert Report at ¶ 148 (“[T]he heavy chain of the

1 humanized anti-lysozyme antibody used the framework region sequences of the NEW human
2 antibody (also referred to as NEWM).”); Mot. fn. 3. Thus, the required degree of homology
3 between donor immunoglobulin framework and the final humanized immunoglobulin framework
4 is 65.5%, *see id.*, or fifty-six of eighty-seven amino acids. *See* Rees Expert Report at 73.

5 PDL consistently has contended that Limitation 5 is not disclosed by the Winter ’640
6 patent. In his declaration in opposition to the instant motion, Dr. Bluestone restates the position
7 take in his invalidity report that “Limitation 5 is not met in the humanized immunoglobulin
8 disclosed in [the Winter ’640 patent] because the identity between the donor and acceptor
9 immunoglobulins used to create the humanized heavy chain is 65.5% (the ’370 Patent requires
10 70%).” Bluestone Decl. ¶ 6 (internal quotation marks omitted). PDL argues that Dr.
11 Bluestone’s declaration creates a factual question as to whether Limitation 5 is met by the
12 Winter ’640 patent. *See Rockwell Int’l Corp. v. United States*, 147 F.3d 1358, 1364-1365 (Fed.
13 Cir. 1998) (holding that summary judgment should be denied where there are “differences in
14 expert opinion” as to what a reference discloses).

15 However, Dr. Bluestone’s opinion does not create a contested issue of fact. Both Dr.
16 Bluestone and MedImmune’s experts agree that the identity between the donor and acceptor
17 immunoglobulin frameworks is 65.5%. *See* Bluestone Decl. ¶ 6; Rees Expert Report at 73. The
18 issue actually in dispute is not the factual question of the degree of homology between the donor
19 and acceptor immunoglobulin frameworks or between the donor and final immunoglobulin
20 frameworks described in the Winter ’640 patent, but the legal question of whether Claim 28 as
21 written requires seventy percent homology between the donor and final frameworks. As
22 discussed above, Claim 28 cannot be read to contain such a requirement. Limitation 5 requires
23 only that forty-four of the eighty-seven amino acids, or 50.6%, be homologous. The Winter ’640
24 patent, which demonstrates homology of 65.5% thus meets Limitation 5.

25 The Winter ’640 patent thus meets all of the limitations of Claim 28. A patent that would
26 exclude the public from practicing prior art is invalid, even if it also covers subject matter that is
27 not in the prior art. *Atlas Powder Co. v. Ireco Inc.*, 190 F.3d 1342, 1346 (Fed. Cir. 1999).
28 Accordingly, the Court finds and concludes that Claim 28 of the ’370 patent is anticipated and

1 therefore invalid.¹¹

2 **II. MedImmune’s Motion for Summary Judgment on PDL’s Contract Counterclaims.**

3 PDL alleges that MedImmune violated its obligations under the parties’ License
4 Agreement by calculating the royalties owed to PDL for international sales of Synagis based on
5 MedImmune’s sales to Abbott rather than Abbott’s sales to end-users. PDL contends that
6 Abbott is a “sublicensee” of MedImmune under the terms of the License Agreement, and that
7 MedImmune’s failure to calculate its royalties based on Abbott’s sales constitutes a breach of
8 contract, breach of the implied covenant of good faith and fair dealing, and fraud. PDL also
9 claims that MedImmune breached its contractual obligation to comply with PDL’s request for an
10 independent inspection of MedImmune’s books and records. MedImmune moves for summary
11 judgment on the grounds that Abbott is not a “sublicensee” under the terms of the License
12 Agreement and that it complied with the agreement’s inspection requirements.

13 **A. Background**

14 In July 1997, PDL and MedImmune entered into an agreement granting MedImmune a
15 nonexclusive license to “make, import, have made, use or sell” antibody products that would
16 otherwise infringe PDL’s Patents. Fletcher Decl., Ex. 1 (License Agreement § 2.01). The
17 agreement provides that MedImmune will pay PDL a quarterly royalty of “Three Percent (3%)
18 of the Net Sales of all Licensed Products sold by MedImmune or its Affiliates or sublicensees to
19 non-Affiliated third parties.” *Id.* § 3.03. Transfers or sales between MedImmune and its
20 “sublicensees and Affiliates” are not subject to royalty; instead, the royalty is to be calculated on
21 the “subsequent sale . . . to a non-affiliated third party.” *Id.* § 3.04.

22 In December 1997, MedImmune executed an agreement making Abbott International,
23 Ltd. (“Abbott”) the exclusive distributor of Synagis, a pharmaceutical covered by the License
24 Agreement, outside the United States (“the Distribution Agreement”). Fletcher Decl., Ex. 2.
25 Abbott agreed to purchase Synagis from MedImmune at a transfer price equal to forty-five

26
27 ¹¹ Because Claim 28 of the ’370 patent is the sole basis of PDL’s claim of infringement,
28 MedImmune’s motion for summary judgment on PDL’s 8th counterclaim also will be granted.
PDL’s motion for summary judgment on MedImmune’s prior invention defense will be
terminated as moot.

1 percent of all of its net sales of Synagis below \$200 million, and fifty percent of all of its net
2 sales above \$200 million. *Id.* The Distribution Agreement contains no express grant of a license
3 to MedImmune’s Synagis patents or a sublicense of any of other patents, including PDL’s Queen
4 Patents. *Id.* MedImmune also hired a German contract manufacturer, Dr. Karl Thomae GmbH
5 (“Thomae”), to make Synagis for MedImmune to sell within the United States and for Abbott to
6 resell internationally. Fletcher Decl., Ex 3.¹²

7 In 1998, when sales of Synagis commenced, MedImmune began submitting quarterly
8 royalty reports to PDL showing both domestic and international sales of the product and the
9 calculation of MedImmune’s royalties. Fletcher Decl., Ex. 12. MedImmune paid royalties based
10 on its revenue from its sale of Synagis to Abbott, rather than Abbott’s subsequent sales to third-
11 parties. *Id.*

12 In December 2008, MedImmune brought the instant action, seeking a declaratory
13 judgment of patent non-infringement and invalidity of PDL’s patents. It later added a claim that
14 PDL had violated the “most favored licensee” clause of the License Agreement. In June 2009,
15 seven months after MedImmune filed its complaint, PDL sought to exercise its right to inspect
16 MedImmune’s books and records pursuant to § 3.09 of the License Agreement. KPMG, the
17 accounting firm selected by PDL, contacted MedImmune and stated that it intended as a part of
18 the inspection to conduct interviews with MedImmune employees in a variety of fields. Fletcher
19 Decl., Ex. 27 at 8. In light of the pending litigation, MedImmune requested that all
20 communications relating to the inspection be submitted in writing and directed to its outside
21 counsel, who would respond in writing. *Id.*, Ex. 28. KPMG complained that such an arrangement
22 was “atypical,” *id.*, Ex. 29, but it was instructed by PDL to proceed, *id.*, Ex 30. KPMG then
23 proposed a nondisclosure agreement, which permitted it to release MedImmune’s confidential
24 information after three years. *Id.*, Ex. 33. MedImmune requested an indefinite term of
25 confidentiality. *Id.* KPMG raised concerns with PDL about MedImmune’s request for

26
27 ¹² In February 2005, MedImmune and Abbott replaced the Distribution Agreement with
28 an amended agreement reflecting the development of motavizumab, another licensed product.
Fletcher Decl., Ex. 5. The Amended Distribution Agreement preserved the fundamentals of the
parties’ previous arrangement but increased MedImmune’s share of sales. *Id.*

1 permanent nondisclosure and return of all confidential information subsequent to the review, as
2 well as MedImmune’s request that PDL sign the non-disclosure agreement. *Id.*, Ex 34. On
3 November 16, 2009, KPMG informed MedImmune that it could not remove the sentence
4 regarding confidentiality termination completely, but would increase the period of
5 confidentiality to four years. *Id.*, Ex. 35. On November 19, MedImmune responded that
6 KPMG’s changes were “not acceptable,” and on December 3, provided KPMG with a draft that
7 included the same provisions to which KPMG had objected. *Id.*, Ex. 39. The parties then
8 exchanged emails to arrange further negotiations. *Id.*

9 On December 10, 2009, PDL notified MedImmune that it was terminating the License
10 Agreement. *Id.*, Ex. 40. Two business days later, PDL filed an amended answer in the instant
11 case adding a claim for patent infringement and breach of contract claims for underpayment of
12 royalties and failure to permit inspection. *See* Dkt. 244. In July 2010, PDL again amended its
13 answer to add claims for fraud and breach of the implied covenant of good faith and fair dealing.
14 *See* Dkt. 676.

15 **B. Legal Standard**

16 The interpretation of private contracts, including patent licenses, ordinarily is a question
17 of state law. *Texas Instruments, Inv. v. Tessera, Inc.*, 231 F.3d 1325, 1329 (Fed. Cir. 2000)
18 (citing *Volt Info. Sci., Inc. v. Bd. of Tr. Of Leland Stanford Junior Univ.*, 489 U.S. 468, 474
19 (1989)). Under California law, “interpretation of a written instrument becomes solely a judicial
20 function only when it is based on the words of the instrument alone, when there is no conflict in
21 the extrinsic evidence, or when a determination was made based on incompetent evidence.” *City*
22 *of Hope National Medical Center v. Genentech, Inc.*, 43 Cal. 4th 375 (2008).

23 Contracts are interpreted so as to effectuate the mutual intention of the parties at the time
24 the contract is formed. Cal Civ. Code, § 1636. Such intent is to be inferred, if possible, solely
25 from the written provisions of the contract. *AIU Ins. Co. v. Superior Court*, 51 Cal. 3d 807, 821
26 (1990). When the meaning of the words used in a contract is disputed, the court must
27 “provisionally receive any proffered extrinsic evidence that is relevant to prove a meaning to
28 which the language of the instrument is reasonably susceptible,” determine if the language is

1 reasonably susceptible to the interpretation urged, and if so admit the evidence to aid its
2 interpretation. *Wolf v. Walt Disney Pictures & Television*, 162 Cal. App. 4th 1107, 1126 (Cal.
3 Ct. App. 2008). “[A] court gives the contract terms their ordinary and popular meaning unless
4 the contracting parties use them in a technical or a special sense.” *Id.* Where the contract is
5 between sophisticated parties who regularly apply the basic tenets of patent law, the court
6 assumes the “parties would have negotiated the clauses of the patent license agreement with
7 knowledge of patent law.” *Texas Instruments*, 231 F.3d at 1330.

8 **C. Discussion**

9 **1. Abbott is not a licensee**

10 The parties dispute the meaning of the terms “ sublicense ” and “ sublicensee ” in the
11 License Agreement. While the agreement itself does not define these terms, § 2.01 grants
12 MedImmune “ a nonexclusive license under PDL ’ s patent rights, . . . including the right to
13 sublicense (subject to section 2.02), to make, import, have made, use or sell ” licensed products.
14 Section 2.02 sets forth the conditions on which MedImmune may exercise its right to sublicense,
15 providing that MedImmune

16 shall have the right to grant sublicenses of its rights under Section 2.01 only in
17 connection with the assignment or license by it of a Licensed Product to a third
18 party and only with respect to that Licensed Product. The right to grant
sublicenses under Section 2.01 shall be on terms and conditions which are subject
to and subordinate to the terms of this Agreement.

19 Sections 3.03 and 3.04 govern the payment of royalties where MedImmune has granted such a
20 sublicense. Section 3.03 provides that MedImmune will pay PDL a three-percent royalty of the
21 net sales of all licensed products sold “ by MedImmune or its Affiliates or sublicensees to non-
22 Affiliated third parties, ” while § 3.04 provides that

23 [s]ales between and among MedImmune, its sublicensees and its Affiliates of
24 Licensed Products which are subsequently resold to or to be resold by such
25 sublicensees or Affiliates shall be subject to a royalty, but in such cases royalties
shall accrue and be calculated on any subsequent sale of such Licensed Product to
a non-affiliated third party.

26 PDL contends that any entity that contracts with MedImmune to sell licensed products
27 for resale may be considered a sublicensee. Because the License Agreement contemplates that
28 MedImmune will sell products to “ sublicensees ” who then resell them to “ a non-affiliated third

1 party,” PDL contends that “sublicensee” encompasses distribution agreements in which licensed
2 products are sold by MedImmune for resale. PDL points to the exclusive nature of
3 MedImmune’s distribution agreement with Abbott, the fact that MedImmune’s revenues are
4 fixed to a percentage of Abbott’s end-user sales, and Abbott’s role in obtaining foreign
5 regulatory approval of the product. However, this interpretation cannot be squared with the
6 ordinary understanding of a patent license or the language of the License Agreement.

7 The License Agreement identifies the right to grant sublicenses as one arising “under
8 PDL’s patent rights” and specifies that MedImmune has the “right to grant sublicenses *of its*
9 *rights.*” Thus the License Agreement is clear that a sublicense must be a conveyance of some
10 portion of the rights that *MedImmune* has been granted by PDL pursuant to the patent, not
11 merely the sale of patented products. Nothing in the MedImmune-Abbott Distribution
12 Agreement purports to convey any rights under PDL’s patents to Abbott. Instead, the agreement
13 provides for the sale of patented products, a right expressly granted to MedImmune by the
14 License Agreement.

15 The right to practice a patent normally is conveyed expressly. *McCoy v. Mitsubishi*
16 *Cutlery Inc.*, 67 F.3d 917, 920 at *6 (Fed. Cir. 1995); *see Nano-Proprietary, Inc. v. Canon, Inc.*,
17 No. A-05CA-258-SS, 2007 WL 628792 (W.D. Tex. Feb. 22, 2007) (finding that a sublicense
18 existed because of express contractual grant of “intellectual property” to third party). While in
19 some circumstances a license may be implied by the course of conduct between the parties,
20 *McCoy*, 67 F.3d at 920, in this case, although the Distribution Agreement provides an exclusive
21 geographic area in which Abbott may resell the product, nothing in the agreement suggests that
22 MedImmune has conveyed any of PDL’s patent rights to Abbott. Under controlling law, the
23 mere sale of the product to a distributor for resale “does not create a sublicense.” *Lisle Corp. v.*
24 *Edwards*, 777 F.2d 693, 695 (Fed Cir. 1985) (sale to distributor for resale under its trademark did
25 not constitute a sublicense), and this is true even where the distribution agreement is exclusive,
26 *Unidisco, Inc. v. Schattner*, 824 F.2d 965 (Fed. Cir. 1987).¹³ Because the License Agreement

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28 ¹³ PDL notes that its United States patent rights are not exhausted when a patented
product is manufactured and sold outside the United States. Def.’s Op. at 8 (citing *Jazz Photo*

1 makes no distinction between the scope of foreign and domestic sales, it would be unreasonable
2 to infer that the parties intended that foreign distribution agreements would be considered
3 sublicenses while domestic distribution agreements would not. Moreover, PDL has not directed
4 the Court’s attention to any way in which its foreign patents would be implicated by Abbott’s
5 resale of Synagis.

6 To be sure, MedImmune and Abbott *could* have contracted to extend to Abbott the same
7 protection from infringement actions that the License Agreement affords to MedImmune. Had
8 Abbott sought the right to import Synagis into the United States, or to manufacture it for itself,
9 the royalty provision regarding sales by sublicensees clearly would apply to Abbott’s sales.
10 However, MedImmune and Abbott did not make such a contract.

11 Likewise, PDL could have contracted to create a royalty scheme under which
12 MedImmune would pay royalties based on sales to end-users if MedImmune entered into any
13 distribution agreements. However, by using the term “sublicensee” without any indication that
14 the term would be understood in any way other than its normal sense, and by delineating
15 explicitly the right to grant sublicenses as one arising under PDL’s patent rights, the parties
16 restricted the meaning of “sublicensee” to a conveyance of rights under PDL’s patents.

17 PDL nonetheless argues that extrinsic evidence supports its construction. It notes that
18 Abbott has referred to itself as a licensee and that PDL wrote to both Abbott and MedImmune
19 referring to Abbott as sublicensee and was not corrected by MedImmune. LaMagna Decl. Ex. 2,
20 3. PDL also highlights a presentation in which MedImmune refers to its share of Synagis sales
21 as a “royalty,” *id.*, Ex. 4. It asserts that in the use of other licenses involving the Queen patents,
22 the “international commercialization partners” of licensees have been treated as sublicensees. *Id.*
23 Ex 9. Finally, PDL cites an industry practice of license agreements involving only the sale of

24 _____
25 *Corp. v. ITC*, 264 F.3d 1094, 1105 (Fed. Cir. 2001)). This is true, but these rights are not
26 exhausted precisely because they are not implicated by such sale. *Fujifim Corp. v Benum*, 605
27 F.3d 1366 (Fed. Cir. 2010) (“[A]n infringing use must occur in the country where the patent is
28 enforceable.”). If Abbott were to buy Synagis overseas and import it into the United States, the
foreign sale would not act as a license but instead would afford no protection at all from charges
of infringement.

1 products.

2 None of this extrinsic evidence is sufficient to show that the disputed terms are
3 reasonably susceptible to PDL’s interpretation. Abbott’s Rule 30(b)(6) witness confirmed that
4 Abbott’s understanding that Abbott does not have a license to Synagis. Gaffney Decl., Ex. 1.
5 Indeed, an Abbott representative indicated that it sought but did not receive a license and instead
6 settled for a distribution agreement. Fletcher Decl., Ex. 4 at 19. MedImmune was not obligated
7 to correct PDL’s characterization of Abbott as a sublicensee because the contract itself sets forth
8 the means for designating sublicensees. *See* License Agreement § 2.02 (requiring MedImmune
9 to promptly inform PDL following the execution of a sublicense). PDL’s evidence regarding the
10 “international commercialization partners” of its other licensees does not provide any details
11 about the relevant agreements. In particular, the contracts between the licensees and their
12 partners, which conceivably could show that the relationships are analogous, are not in the
13 record. Finally, the testimony of PDL’s expert that “an entity need not manufacture a licensed
14 product to be considered a ‘sublicensee’ as that term is used in the industry,” Lentz Decl. ¶ 7,
15 provides no support for the proposition that a distribution agreement that expressly does *not*
16 purport to convey patent rights nonetheless is a sublicense.

17 **2. Abbott is not a *de facto* licensee**

18 PDL argues alternatively that even though the MedImmune-Abbott agreement does not
19 expressly convey a license to practice a patent, the terms of the agreement constitute a *de facto*
20 sublicense. However, courts have found *de facto* sublicenses only where a licensee exercised its
21 right to “have made” and to “sell” licensed products so as to grant a third-party an unlimited
22 right to make and use the patented product. *See EI du Pont de Nemours v. Shell Oil Co.*, 498 A.
23 2d 1108 (Del. S. Ct. 1985). The theory never has been applied where the licensee has separate
24 contracts with a manufacturer and distributor. *Cyrix v. Intel Corp.*, 77 F.3d 1381 (Fed. Cir.
25 1996) (distinguishing *du Pont* on the grounds that the licensee had separate agreements with a
26 manufacturer and distributor).

27 In *EI du Pont de Nemours v. Shell Oil Co.*, du Pont refused to grant Carbide a license to
28 produce a patented product. Carbide then contracted with Shell, which held a license to make,

1 have made, use, and sell product covered under du Pont’s patent but was precluded from entering
2 into sublicenses. Shell agreed to sell Carbide as much of the product as Carbide required, while
3 simultaneously contracting to have Carbide manufacture exactly that amount of product. The
4 Supreme Court of Delaware held that Shell had exercised its right to “have made” and to “sell”
5 so as give Carbide full rights to make and use the product—rights that amounted to a full
6 sublicense. *See Cyrix Corp. v. Intel Corp.*, 77 F.3d 1381, 1387 (Fed. Cir. 1996) (explaining and
7 distinguishing *du Pont*). Here, however, the Distribution Agreement involved only the sale of
8 licensed products. There is no allegation, let alone evidence, that Abbott was authorized to make
9 any licensed products.

10 PDL also contends that MedImmune’s separate contracts with Abbott and Thomae taken
11 together amount to a *de facto* sublicense. It proffers evidence that MedImmune contemplated an
12 agreement with Boehringer, a European pharmaceutical company of which Thomae is a
13 subsidiary, under which Thomae would manufacture and Boehringer would distribute Synagis.
14 If such an agreement in fact had materialized, it is conceivable that it could have constituted a *de*
15 *facto* license. However, PDL does not allege, nor is there any evidence, that Thomae and Abbott
16 are affiliated or that MedImmune’s contracts with them are anything other than separate arms-
17 length business agreements.

18 At oral argument, PDL attempted to distinguish *Cyrix* on the basis that in that case both
19 the licensee and the sublicensee manufactured products for the buyer, while in this case, Thomae
20 produces all of the Synagis intended for Abbott and delivers it directly to Abbott. PDL argues
21 that this circumstance means that Thomae is producing Synagis for *Abbott* rather than for
22 MedImmune. However, because MedImmune’s contracts with Abbott and Thomae are separate
23 arms-length contracts and there is no evidence that Abbott and Thomae are affiliated, PDL does
24 not explain why Thomae’s production capacity or delivery arrangements are relevant.

25 MedImmune’s failure to pay royalties based on Abbott’s sales to third parties is a
26 necessary element of both PDL’s sixth counterclaim for breach of contract and PDL’s tenth
27
28

1 counterclaim for breach of the implied covenant of good faith and fair dealing.¹⁴ Because Abbott
2 is not a sublicensee under the contract, neither claim can survive summary judgment. PDL's
3 ninth counterclaim for fraud alleges that MedImmune did not intend to keep its promise to pay
4 royalties on the sales of its sublicensees. Because MedImmune was not required by the contract
5 to make royalty payments on Abbott's sales, this claim necessarily fails as well.

6 **3. Summary Judgment Is Not Appropriate with Respect to PDL's Counterclaim for**
7 **Breach of the License Agreement's Inspection Provision.**

8 PDL's seventh counterclaim is for breach of contract based on MedImmune's alleged
9 refusal to "permit [PDL's] auditor to conduct the examination agreed to in the Patent License."
10 MedImmune contends that the License Agreement is clear that the "examination agreed to" is
11 one of "books and records" only, and that the undisputed facts show that MedImmune permitted
12 such an examination.¹⁵ Because the Court concludes that the License Agreement is ambiguous
13 as to the scope of PDL's inspection rights and there is a conflict in the evidence as to the
14 industry standard, summary judgment as to this counterclaim will be denied.

15 Although "the intention of the parties is to be ascertained from the writing alone if

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17 ¹⁴ PDL makes the alternative argument that MedImmune failed to calculate royalties on
18 cash and non-cash consideration MedImmune received as a result of Abbott's procurement of
19 regulatory approvals and trademark filings. The License Agreement does not support this claim.
20 The agreement defines "Net Sales" as "revenues, whether in cash or in kind, derived by or
21 payable from or *on account of the sale of Licensed Products*" including the fair market value of
22 "non-cash consideration." License Agreement §1.05 (emphasis added). PDL has not
23 demonstrated that the milestone payments made by Abbott in consideration for clinical and other
24 data provided in support of regulatory approvals, *see* Fletcher Decl., Ex. 2 (MedImmune-Abbott
25 Distribution Agreement) at 12; Abbott's own expenditures to obtain regulatory approvals; or
26 Abbott's expenses marketing, distributing, and selling of Synagis fall within a permissible
27 interpretation of revenues "on account of the sales of Licensed Products." Because the intent of
28 the parties ordinarily is inferred solely from the written provisions of the contract, *AIU Ins. Co.*,
51 Cal. 3d at 821, the conclusory declarations of PDL's experts that these expenditures are
payments on account of the sale of licensed products are insufficient to raise a triable issue of
fact.

¹⁵ Section 3.09 of the License Agreement reads, in relevant part: "MedImmune . . .
agrees to permit its books and records to be examined by an independent accounting firm
selected by PDL and reasonably satisfactory to MedImmune, from time-to-time to the extent
necessary, during normal business hours and upon reasonable notice, but not more than once a
year."

1 possible,” *AIU Ins. Co.*, 51 Cal. 3d at 821, a contract “apparently unambiguous on its face may
2 still contain latent ambiguity that can only be exposed by extrinsic evidence.” *Wolf*, 162 Cal
3 App. 4th at 1133. PDL contends that MedImmune’s agreement to “permit its books and records
4 to be examined by an independent accounting firm,” entails several other obligations. Based on
5 expert testimony regarding the scope of typical inspection provisions, PDL claims that
6 MedImmune’s conduct was inconsistent with standard industry practices. For example,
7 MedImmune required PDL’s accounting firm to submit all requests for information in writing to
8 MedImmune’s outside counsel and refused to allow the auditors any direct access to
9 MedImmune personnel. According to PDL’s expert, these restrictions would have made it very
10 difficult for an accounting firm to investigate and verify the accuracy and completeness of the
11 data it received from MedImmune and would have required the auditors to expend significantly
12 more resources than otherwise would be required for an inspection consistent with standard
13 industry practice. O’Bryan Decl. ¶¶ 4-6.

14 MedImmune’s expert, while agreeing that the inspection provision was typical, disagrees
15 with PDL’s expert regarding industry practice. LaMagna Decl., Ex. 27 at 50, 76-77.
16 MedImmune cites three cases for the proposition that audit requests “unmoored from the text of
17 License agreement” cannot form the basis for a counterclaim. *See Revson v. Claire’s Stores,*
18 *Inc.*, 120 F. Supp. 2d 322, 326 (S.D.N.Y. 2000); *Nano-Proprietary, Inc. v. Keesmann*, No. 06 C
19 2689, 2007 WL 433100 (N.D. Ill. Jan. 30, 2007); *Discovision Assocs. v. Toshiba Corp.*, No. 08-
20 cv-3693, 2008 WL 4500693 (S.D.N.Y Oct. 7, 2008). However, none of the cases supports
21 summary judgment when there is a dispute among experts as to the scope of an inspection
22 provision; the courts in two of the cases denied motions for summary judgment, and the other
23 involved a motion for preliminary injunction. The court in *Discovision Assocs.* denied summary
24 judgment expressly on the basis of a dispute concerning the permissible scope of the inspection.
25 *Discovision Assoc.*, 2008 WL 4500693, at *4.

26 **IV. PDL’s Motion for Summary Judgment on MedImmune’s Count VII.**

27 Under the License Agreement, MedImmune paid approximately \$42 million in quarterly
28 royalty payments based on a PDL foreign patent that since has been invalidated. MedImmune

1 now seeks restitution of that sum based on the principle that a licensee that brings a successful
2 challenge to a patent has no contractual liability for royalties after the date of its challenge even
3 if the license agreement provides to the contrary. *See Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).
4 PDL moves for summary judgment on the ground that federal patent law does not preempt state
5 contract law with respect to the licensing of foreign patents, and nothing in California law
6 justifies a refund or restitution of MedImmune’s payments.

7 **A. Undisputed Facts**

8 The License Agreement grants MedImmune a nonexclusive license to PDL’s Queen
9 patents, including one that became European Patent No. 0 682 040 (“the ’040 patent”). The
10 License Agreement states that

11 MedImmune shall pay to PDL a royalty of Three Percent (3%) of the Net Sales of
12 all Licensed Products sold by MedImmune . . . in each country in the Territory
13 *until the last date on which there is a Valid Claim* that, but for the licenses
14 granted to MedImmune under this Agreement, would be infringed by the making,
15 importing using, having made or sale of that Licensed Product in the Territory or
16 by the manufacturer of Licensed Product in the country of manufacture.

17 License Agreement § 3.03(a) (emphasis added). The royalties were to be paid quarterly. *Id.* §
18 3.08(a). A “Valid Claim” is defined as “any claim in any issued patent included in the PDL
19 Patent Rights which has not been disclaimed or held unenforceable or invalid by a governmental
20 agency or court of competent jurisdiction by a decision *beyond the right of review.*” *Id.* § 1.08
21 (emphasis added). The parties agreed that “[t]he validity, performance, construction, and effect
22 of the Agreement shall be governed by the laws of the State of California without regard to
23 choice of law principles.” *Id.* § 8.05.

24 The ’040 Patent, the sole foreign patent at issue, was issued by the European Patent
25 Office (EPO) on August 25, 1999. On May 23, 2000, along with several other
26 biopharmaceutical companies, MedImmune challenged the issuance of the ’040 Patent by filing
27 a formal notice of opposition with the EPO. LaMagna Decl., Ex. B, Notice of Opposition to
28 European Patent. On March 11, 2005, the EPO’s Opposition Division revoked the ’040 Patent,
holding that it was not validly issued. Fletcher Decl., Ex. 4 (Opposition Division Revocation
Order). PDL appealed that decision to the EPO’s Technical Board of Appeal, the final
reviewing authority. That tribunal issued a final, unappealable decision affirming the revocation

1 on October 14, 2009. Fletcher Decl., Ex. 5 (Order of EPO Technical Board).

2 Article 68 of the European Patent Convention states that “[t]he European patent
3 application and the resulting patent shall be deemed not to have had, *as from the outset*, the
4 effects specified in Articles 64 and 67, to the extent that the patent has been revoked in
5 opposition proceedings.” Fletcher Decl., Ex. 7 (European Patent Convention, art. 68) (emphasis
6 added). The foreign law experts retained by both MedImmune and PDL agree that revocation of
7 the ’040 patent is retroactive. Bausch Decl., Ex. A at ¶¶ 7-8; Fletcher Decl., Ex. 6 at 104-05.

8 **B. Legal Standard**

9 “Commercial agreements traditionally are the domain of state law. State law is
10 not displaced because the contract relates to intellectual property which may or
11 may not be patentable; the states are free to regulate the use of such intellectual
12 property in any manner not inconsistent with federal law. In this as in other
13 fields, the question of whether federal law preempts state law involves a
14 consideration of whether the law stands as an obstacle to the accomplishment and
15 execution of the full purposes and objectives of Congress. If not, state law
16 governs.”

17 *Aronson v. Wuick Pint Pencil*, 440 U.S. 257, 262 (1979) (quotation marks and internal citations
18 removed).

19 **C. Discussion**

20 **1. Interpretation of the License Agreement Under California Law**

21 The License Agreement provides that MedImmune must make quarterly royalty
22 payments until the last date on which there is a valid claim. It further provides that a valid claim
23 is “any claim in any issued patent . . . which has not been . . . held unenforceable or invalid by a . .
24 . decision beyond the right of review.” License Agreement § 1.08. PDL contends that these
25 provisions required MedImmune to make contract payments at least until the final, unreviewable
26 decision invalidating the patent.

27 MedImmune does not dispute PDL’s interpretation of this aspect of the License
28 Agreement. Instead, it contends that there was a failure of consideration under California law
because it received nothing of value in exchange for its royalty payments. It argues that because
the ’040 Patent was held void *ab initio*, PDL never possessed any patent rights relevant to
foreign sales of Synagis, nor did it ever have a “Valid Claim” that would entitle it to a royalty
payment on foreign sales. *See Witkin, Summary of California Law* § 1042(1) (10th ed. 2005).

1 PDL points out that under California law the adequacy of consideration to support a
2 contract must be determined as of the date the contract was entered into and not in the light of
3 subsequent events. *Crail v. Blakely*, 8 Cal. 3d 744, 753 (1973). When the contract was formed,
4 PDL held enforceable patents and absent the License Agreement could have sued MedImmune
5 for infringement and to enjoin European sales of Synagis. While MedImmune would have been
6 entitled to raise invalidity in defense to such a suit, it elected to pursue a license agreement
7 instead. California law long has recognized forbearance from bringing suit as sufficient
8 consideration for a contract. *Schumm v. Berg*, 37 Cal. 2d 174, 185 (1951). Intellectual property
9 licenses are based almost exclusively on this form of consideration. For example, under German
10 law a European patent remains enforceable and a claim for patent infringement may be brought
11 even while a patent is the subject of an opposition proceeding before the EPO and a subsequent
12 appeal. Meibom Decl. Ex. A at 7, 17. This is true even if the patent is initially deemed invalid
13 by the EPO and on appeal. *Id.*

14 PDL has the better of this argument. In entering into the License Agreement,
15 MedImmune clearly received something that at least at the time it considered to be of value.
16 MedImmune's license protected it from an infringement action that could have enjoined
17 European sales of Synagis. Moreover, the parties obviously crafted the language concerning
18 "Valid Claims" in contemplation of patent challenges, License Agreement § 1.08, agreeing, for
19 example, that royalty payments would be due while any invalidity litigation was pending.
20 Nothing in California law entitles MedImmune to a refund or restitution under such
21 circumstances.

22 **2. California Law Is Not Preempted.**

23 By its express terms, the contractual provisions of the License Agreement are to be
24 governed by California law. License Agreement § 8.05. State contract law is preempted only
25 where its application "stands as an obstacle to the accomplishment and execution of the full
26 purposes and objectives of Congress." *Aronson*, 440 U.S. at 262. MedImmune asserts that
27 enforcing the License Agreement would be contrary to the federal policy discouraging the
28 restraint of ideas in the public domain. *See Lear*, 395 U.S. at 667.

1 In *Lear*, the Supreme Court articulated a federal policy that “the important public interest
2 in permitting full and free competition in the use of ideas which are in reality a part of the public
3 domain,” and indicated that “federal law requires that all ideas in general circulation be
4 dedicated to the common good unless protected by a patent.” *Id.* Because of these
5 considerations, the Court determined that federal law preempted state contract law enforcing
6 royalty payments from a licensee who stopped paying them while successfully challenging the
7 patent. *Id.* at 673. The logic behind the Court’s decision was that in many cases licensees would
8 be the only parties with incentive to challenge invalid patents, and the public benefits from such
9 patents being challenged.

10 MedImmune contends that the *Lear* doctrine requires that it receive restitution of its
11 royalty payments here. *See Warner-Jenkinson Co. v. Allied Chem. Corp.* 567 F.2d 185, 188 (2d
12 Cir. 1977). PDL observes correctly that the Federal Circuit has limited the application of *Lear* to
13 licensees that both (i) actually cease payment of royalties, and (ii) provide notice to the licensor
14 that the reason for ceasing payment is that it believes the relevant claims to be invalid. *See*
15 *Studiengesellschaft Kohle, m.b.H v. Shell Oil Co.*, 112 F.3d 1561 (“SGK”). MedImmune
16 nevertheless contends that the same federal policy that requires preemption of state law contract
17 claims upon the successful challenge of a United States patent also requires preemption of state
18 law with respect to a successful challenge of a foreign patent.

19 United States patents are a “federally-bestowed monopoly,” created pursuant to the
20 powers delegated to Congress by the Constitution. *Zila, Inc. v. Tinnel*, 502 F.3d 1014 (9th Cir.
21 2007). The federal government has an interest in defining the scope of that monopoly that
22 implicates the Supremacy Clause. *See id.* (“Patents are in the federal domain.”). The Supreme
23 Court observed in *Lear* that “the Sherman Act made it clear that the grant of monopoly power to
24 a patent owner constituted a limited exception to the general federal policy favoring free
25 competition,” 395 U.S. at 663, and expressed concern about limiting access to U.S. courts to
26 challenge a monopoly created by U.S. law, *see id.* at 622 (“A patent, in the last analysis, simply
27 represents a legal conclusion reached by the Patent Office.”)

28 A foreign patent, however, is an “an entirely separate asset from [a] U.S. patent.” *Zila*,

1 *Inc.*, 502 F.3d at 1014 (*citing* Paris Convention for the Protection of Industrial Property, July 14,
2 1967, Art. 4*bis*, 21 U.S.T. 1583, (“Patents applied for in the various countries of the Union . . .
3 shall be independent of patents obtained for the same invention in other countries”)). A
4 foreign patent is not a creature of United States law, and United States courts do not determine
5 the validity of such patents.

6 In *Zila*, the Ninth Circuit held that the strictures of the *Brulotte* doctrine,¹⁶ which limits
7 state contract law with respect to enforcing royalties on expired patents, did not and could not
8 apply to contracts made under state law pertaining to foreign patents. The court held that “[t]he
9 fact that the asset is a foreign patent, as opposed to foreign real estate or other real property held
10 outside the country, does nothing to change the propriety of state contract law to dispose of it.”
11 *Zila*, 502 F.3d at 1024. MedImmune interprets *Zila* as holding merely that a licensor could
12 collect royalties under a valid and enforceable Canadian patent, even though its rights under a
13 parallel U.S. patent had expired.¹⁷ It contends that where the foreign patent is unenforceable, the
14 federal policy precluding states from enforcing contracts that charge for the use of an idea in the
15 public domain preempts state contract law.

16 This position is untenable. While MedImmune invokes federal policy limiting the
17 restriction on ideas in the public domain, it fails to acknowledge that those cases involve federal
18 regulation of federally- bestowed monopoly rights. In addition, MedImmune’s own brief
19 acknowledges the many differences between United States and foreign patent laws. For
20 example, it points out that under European law invalidated patents are treated as void *ab initio*,

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22 ¹⁶ See *Brulotte v. Thys*, 379 U.S. 29 (1964).

23 ¹⁷ MedImmune relies upon *Adm’rs of the Tulane Educ. Fund v. Devio Holding, S.A.*,
24 C.A. No. 99-2207, 2001 U.S. Dist. LEXIS 21823, at *6-*7 (E.D. La. December 28, 2001), and
25 *Forbo-Giubiasco, S.A. v. Congoleum Corp.*, No. 78 Civ. 5390 (MEL), 1985 U.S. Dist. LEXIS
26 18504, *22-*24 (S.D.N.Y. June 26, 1985). In *Devio Holding*, the court found that there “valid
27 concerns” regarding the application of the *Brulotte* doctrine to foreign patents, but it did not
28 analyze the issue fully because the license agreement in question also included contract language
terminating royalty obligations upon expiration of a patent in the country where a patent issued.
2001 U.S. Dist. LEXIS 21823, at *6-*7. Similarly, *Forbo-Giubiasco* involved the interpretation
of express terms of the license, not application of U.S. patent doctrine to foreign patents. 1985
U.S. Dist. LEXIS 18504, *22-24.

1 while in the United States patents are considered valid until there is an adverse finding. Op. at
2 11:1-4.

3 MedImmune's position would require U.S. courts to apply an already questionable
4 extension of the *Lear* doctrine to foreign patent schemes which may be based upon different,
5 even conflicting, policy decisions about promoting the progress of science and the useful arts.

6 **III. ORDER**

7 For the reasons discussed above, MedImmune's motion for summary judgment with
8 respect to invalidity and PDL's 6th, 8th, 9th, and 10th counterclaims is GRANTED.

9 MedImmune's motion for summary judgment on PDL's 7th counterclaim is DENIED. PDL's
10 motion for summary judgment on MedImmune's Count VII is GRANTED. PDL's motion for
11 summary judgment on MedImmune's prior invention defense is terminated as moot.

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14
15 IT IS SO ORDERED.

16 DATED: 1/7/2011

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19 JEREMY FOGEL
20 United States District Judge
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