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IN THE SUPREME COURT OF THE STATE OF DELAWARE

E. I. DU PONT DE NEMOURS AND COMPANY,	)	No. 280,2013
Plaintiff Below/Appellant,	)	Court Below – Superior Court of the State of Delaware,
v.	)	in and for New Castle County
MEDTRONIC VASCULAR, INC.,	)	C.A. No. N10C-09-058 (MMJ)
Defendant Below/Appellee.	)	**REDACTED PUBLIC VERSION**

OPENING BRIEF OF PLAINTIFF BELOW/APPELLANT

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* Although DuPont is not appealing this April 24, 2013 decision, it is attached hereto at the request of the Supreme Court Clerk.

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NATURE OF PROCEEDINGS

This is a royalty dispute between Medtronic and DuPont involving a 1989 patent assignment and cooperative research agreement ("PACRA") originally entered into by DuPont and C.R. Bard, Inc. ("Bard"). A106.[1] Among the DuPont scientists who helped develop new products for Bard was Stan Levy, who made trailblazing discoveries about balloons used in coronary angioplasty for which he received patents ("The Levy Patents"). *See, e.g.,* A100. The PACRA obligates Medtronic (which purchased the PACRA from Bard) to pay DuPont royalties on the "Selling Price" of "Products" that utilize a DuPont "Material" or "Technology," which includes the Levy Patents. One type of "Product" is a "Catheter." This dispute is about the royalties that Medtronic was obligated to pay on certain "Catheters"—stent systems used in coronary angioplasty that included balloons covered by the Levy Patents. The PACRA specifically defines "Catheter" to include the entire tubular medical device having particular functions (*i.e.*, occluding, dilating, or keeping open passages in the human body). If that "Catheter" "utilizes" DuPont Material or Technology, then the Catheter's entire Selling Price is royalty bearing, not just the part of the Selling Price attributable to a DuPont Material or Technology. Yet Medtronic secretly applied various formulas that underpaid DuPont on both Medtronic's own stent systems and those

[1] Citations in the format "A___" refer to the separately bound joint appendix. Citations in the format "Add. __" refer to the addenda at the end of this brief.

of its licensee Cordis, including deducting the value of the stent part altogether.

This appeal arises from four rulings the Superior Court made on cross-motions for summary judgment and in discovery. First, the court held that, as a matter of contract interpretation, the stent portion is not a "part" of the stent system under the PACRA and is therefore not royalty bearing. The court's analysis demonstrated, however, that, as a matter of plain English, the stent system as a whole meets the PACRA's definition of "Catheter," and the stent is a part of that device. The court erred by importing requirements into the definition of Catheter that do not appear in the PACRA, thereby departing from the definition's plain language. In the second and third rulings, the court granted summary judgment in favor of Medtronic on its statute-of-limitations defense to two of DuPont's claims for royalties. In so ruling, the court improperly made credibility determinations, weighed evidence, failed to consider evidence favoring DuPont, and construed inferences in favor of Medtronic, rather than DuPont. The fourth ruling concerns the court's refusal to consider on summary judgment an admission by Medtronic's general counsel [redacted]—an assertion to which Medtronic never responded. Medtronic claimed the statement was privileged, but facts are not privileged—as Medtronic's own production in discovery of a very similar statement by its general counsel demonstrates.

SUMMARY OF ARGUMENT

1. The stent systems at issue—including all of their parts—indisputably meet the PACRA's definition of "Catheter." Indeed, the Superior Court's analysis of this definition repeatedly used language such as "part," "portion," "consist of," and "comprise" in describing the stent's relationship to the stent system. Having thereby demonstrated that the stent part should not, as a matter of plain English, be excluded from the "Catheter," the court nonetheless added certain requirements to that definition—ones that cannot be found in the PACRA. The court then found the stent part did not meet those requirements, and therefore excluded it from the definition of "Catheter." The court erred in adding terms to the parties' agreement that were never negotiated or agreed upon. Since it is undisputed that a stent system qualifies as a "Catheter," the court should not have re-written the parties' agreement to exclude the stent part from the definition of "Catheter."

2. In addressing Medtronic's statute-of-limitations defense, the Superior Court, in its own words, "struggled mightily on all questions presented," with several issues being "close calls," and noted that the case was "replete with complex legal issues," A1718, A1721. Unfortunately, the court made three incorrect limitations-related rulings that should be reversed.

3. Under the discovery rule tolling doctrine, "inquiry notice" is not proven unless there were "red flags" that would have "clearly and unmistakably …

led a prudent person of ordinary intelligence to inquire" whether facts existed showing the elements of the claim. *Coleman v. PwC, LLC,* 854 A.2d 838, 842-43 (Del. 2004). Even if a plaintiff is on inquiry notice, the statute remains tolled unless it is shown that "a more diligent investigation, even if pursued, would have uncovered facts sufficient to enable the plaintiff [] to discover the basis of [its particular] claim." *Id.* In this regard, the court should consider what information was available to the plaintiff that a more diligent inquiry would have uncovered. *Id.* DuPont seeks royalties owed by Medtronic for the period of 1999 to 2003. The only way that DuPont could obtain information about Medtronic's calculations was by hiring an independent royalty auditor—and that auditor was subject to Medtronic's consent and owed *Medtronic* a duty of confidentiality. DuPont filed this suit on September 9, 2010 (and not earlier) because DuPont did not discover any of its claims until fall 2006 (from its auditor Deloitte), after which the parties attempted to resolve their issues privately and entered into a tolling agreement.

4. First, the Superior Court's ruling that DuPont's claim based on Medtronic's underpayment to DuPont of royalties received by Medtronic from its licensee Cordis was time barred ignored the myriad issues of genuine fact as to whether there were "red flags" about this claim. DuPont hired two auditors—PricewaterhouseCoopers ("PwC") in 2000 and Deloitte in 2003—but it is undisputed that neither discovered that Medtronic was underpaying royalties on the

moneys that it was receiving from Cordis, and DuPont only learned of this issue in December 2006 at a post-audit meeting with Medtronic. This alone creates fact issues as to whether DuPont was on inquiry notice of Medtronic's underpayments and as to whether a more diligent inquiry would have uncovered this breach.

5. Second, the Superior Court's ruling that DuPont's claim based on Medtronic's underpayment of royalties on its own stent systems was time barred also ignored multiple pieces of evidence demonstrating the existence of genuine issues of material fact as to: (a) the existence of "red flags" warning of the underpayments; and (b) whether further inquiry by DuPont would have been futile. The court also overlooked evidence demonstrating Medtronic's fraudulent concealment of its underpayments.

6. Finally, the Superior Court incorrectly excluded from the summary judgment record an admission in an unsent April 1, 1999 letter written by Medtronic's in-house counsel [redacted]

Counsel's statement was a fact, and thus not protected by the attorney-client privilege. Moreover, Medtronic produced highly similar facts in another letter written by the same counsel around the same time. Since the factual material in the April 1, 1999 letter can easily be separated from any arguably privileged material, it should have been produced and considered on summary judgment.

STATEMENT OF FACTS

Stent catheters are used in coronary angioplasty to keep blocked vessels open. They are approved by the FDA and sold as a single medical device. A400. Indeed, Medtronic's own patents and technical drawings show that it considers stent catheters to be single devices consisting of a balloon, a stent, a louer, and shafts—all of which comprise a "catheter." A389; A398-400. Under the PACRA, royalties must be paid on the full "Selling Price" of "Products." A123. One type of "Product" is a "Catheter." A "Catheter" is royalty bearing if it contains DuPont "Material" or "Technology." A110. It is undisputed that stent catheters sold by Medtronic and its licensee Cordis contain DuPont "Material" or "Technology"—the balloon covered by the Levy Patents. Accordingly, if these stent catheters meet the definition of "Catheter," their full "Selling Price" is royalty bearing.

The PACRA defines "Catheter" as "any tubular medical device or parts thereof designed for insertion into the vessels or channels of the human body to permit injection or withdrawal of fluids or to occlude, dilate, or keep a passage open." A107-8. In negotiating the PACRA, DuPont "wanted as broad a definition [of Catheter] as possible to cover the developments that we knew about … and the ones that may … come up later on down the road." A633-38; A653-54; A1218-19. "Catheter" was discussed with Bard as needing to cover stents, and Bard agreed to make it "as broad as possible, to make sure there was an incentive for DuPont to

work with them to get this technology to the marketplace." A658; A655. Accordingly, the PACRA does not provide that royalties are paid only on the specific portion of the "Product" to which DuPont contributed a "Material" or "Technology" or that is covered by a particular claim in a patent. Rather, if a "Catheter" "utilizes" a "Material" or "Technology" developed in conjunction with DuPont, it is a "Product." A110. And if something is a "Product," then that Product's entire "Selling Price" is subject to royalties, regardless of whether DuPont contributed to just one part of it. A110; A121; *see also* A186; A1218-19.

A. Medtronic and DuPont Negotiate the October 1999 Amendment

In January 1999, Medtronic acquired an entity that had bought the angioplasty division of Bard so that Medtronic could obtain an assignment of the PACRA. A227. Under that assignment agreement, a payment of $1.25 million was creditable against royalties from third parties (such as Cordis) and another $1.25 million was creditable against royalties on Medtronic products. A232. This meant that, for much of 1999, Medtronic did not need to make any payments to DuPont on Medtronic Products. A351 (showing "Unused Prepaid Royalty"). In the spring of 1999, Medtronic sought to lower its royalty obligations by arguing that its nylon balloon products were not covered by the Levy Patents. A871-72; A727-29. Medtronic's general counsel led negotiations that led to an October 1999 amendment to the PACRA (the "1999 Amendment"). A870-71; A731-33;

A344. During these negotiations, DuPont's Kitty Knox informed Medtronic that DuPont believed that, under the PACRA, Medtronic had to pay royalties on the stent portion of Medtronic's stent systems. A235. Medtronic never told her that it disagreed; if it had, she would have considered it unacceptable. A685-86. Indeed, Medtronic implicitly acknowledged that the PACRA required that royalties be paid on stents, since it proposed changing the definitions of "Product" so as to permit it to avoid paying royalties on the stent part of its own stent systems. A247; A582-86, A589-90. But DuPont rejected this proposal, and Medtronic abandoned its efforts to amend the PACRA to avoid paying royalties on the stent part. A251; A679-83. Instead, at some point after these negotiations concluded, Medtronic decided to obtain what it could not get through legitimate negotiations by secretly deducting the value of the stent in calculating royalties. A561-63; A566-67; A595-97; A715-18; A720-722; A736-37. Medtronic considered sending a letter arguing that the stent was not royalty bearing, but decided not to. A555-59.

B. Medtronic Decides Secretly to Apply a More Advantageous Formula on Sales of Cordis' Catheters

Under the PACRA, Medtronic was obligated to pay royalties not only on its own qualifying sales, but also on qualifying sales of third parties to whom it had licensed the Levy Patents—like Cordis. A123. Cordis' royalty obligations to Medtronic under the Levy Patents arose from a license agreement between Cordis and Bard, which Medtronic assumed in 1999. The Bard-Cordis license was

modified in 1996, unbeknownst to DuPont, in an agreement (the "Cordis Addendum") that was part of a complex cross-licensing agreement deal involving various patents owned by Cordis and Bard. A188-A220. DuPont was never a party to or privy to the negotiations over the Cordis Addendum and was not even aware of it until December 2006. A676; A839; A859-62; A1216. As the Superior Court correctly recognized, Medtronic's royalty obligations to DuPont arose under the PACRA, not some other agreement. Hence, Medtronic was obligated to pay DuPont under the PACRA; it could not simply pass through whatever terms were agreed to in Medtronic's license with Cordis. Add. 9, 12.

After stepping into Bard's shoes, Medtronic gave considerable thought as to how it would account to DuPont for the royalty payments that it received from Cordis, even preparing flowcharts documenting the calculations. A387; A499. Medtronic decided to apply aspects of Cordis' method of calculating royalties to Bard under the 1996 Cordis Addendum when that methodology proved more financially advantageous to it than following the PACRA. For example, Cordis did not pay royalties on stent system components like the louer and shafts, only on the balloon. In calculating its own obligations to DuPont under the PACRA, Medtronic chose this same approach even though it conceded in this suit that such components are properly royalty-bearing under the PACRA. A1024-25. Likewise, with respect to the stent component, Medtronic capitalized on the different royalty

rates in the Cordis license versus the PACRA: Medtronic received 8% from Cordis, but only had to pay DuPont 3% under the PACRA because Medtronic aggregated the payments that it received from Cordis with the sales of Medtronic's own stent devices so that it could qualify for the PACRA's lowest, 3%, royalty tier rate. A955-956; A960-961. And Medtronic, like Cordis under the Cordis Addendum, treated the stent portion of Cordis' device as not being royalty-bearing, even though that part would be royalty-bearing under the PACRA.

C. PwC Does Not Discover That Medtronic Is Failing to Follow the PACRA Regarding Cordis Payments

DuPont tried to get more information about how Medtronic was calculating royalties "multiple times, and multiple ways, in writing, and without a response." A741; A744-45; A755; A776-77; A780. DuPont "had trouble getting Medtronic to talk about anything." A793. Medtronic sent quarterly reports consisting of only one page, scrubbed of any information from which DuPont could figure out how Medtronic was calculating royalties. A358; A702. By phone and in writing, DuPont asked for more informative royalty reports, but was met with silence. A253. In 2000, DuPont engaged PwC as part of a "best practices" initiative of auditing its larger licensees to "determine amounts due DuPont" under the PACRA. A352; A360; A788; A621-23. The PACRA required DuPont to use an "independent auditor acceptable to Medtronic." A126. According to Medtronic's chief patent counsel, this meant that DuPont could not be present during the

auditor's fact gathering and related discussions. A452. The work was conducted under the AICPA's Standards for Consulting Services, which require the exercise of professional competence and due care. A354; A1224. PwC, led by Mike Swan, conducted its field work—without DuPont—in October 2000. A521-22. Per his usual practice, Swan did not share any documentation, his underlying work, or calculations with DuPont, A527-28, and he asked Medtronic for permission before sharing any of its confidential information with DuPont, A513-15.

The documentation provided by Medtronic to PwC gave PwC the impression that Medtronic was applying the correct PACRA formula to the Cordis revenues. A545. If PwC had had the opposite impression, then Swan would have put that in the report. A544-45. DuPont was not provided with any Cordis licenses, since Swan considered them confidential. A518. During the audit, Medtronic informed PwC that it paid royalties on stents and that it was paying the royalty rates agreed to in the 1999 Amendment. A361; A522-23; A530-531; A533-34; A537; A547-49. Medtronic told PwC which products it did not pay royalties on; tellingly, that list did not include angioplasty stents. A364; A537; A368-9; A372; A383. Swan testified that, if Medtronic had told PwC that it was not paying royalties on stents, then PwC would have mentioned that in its report. A522-23; A530-31; A533-34; A537; A547-51. Based on what Medtronic had told PwC, PwC informed DuPont that Medtronic was paying royalties on various

stents. A363-64 ("In calculating royalties, Medtronics [sic] has considered the following stents to be AV 100 products and thus, applied the reduced royalty rate of 1.5% ... . Based upon our examination, it appears that Medtronics [sic] does not pay royalties relative to any products other than balloons and stents that incorporate balloons."). At the end of its audit, PwC found no "questionable items," "red flags," or "contract interpretation issues." A511; A546-47. DuPont's impression was that PwC was satisfied with what it had found, A783, and it therefore had no reason to believe that Medtronic was underpaying. A761.

D. Deloitte Discovers Medtronic's Failure to Pay Royalties on Medtronic Stents but not Its Underpayment on Cordis Sales

In 2003, DuPont hired Deloitte to conduct another royalty inspection of Medtronic because it hoped to understand how Medtronic was calculating royalties to help negotiate a future agreement that Medtronic had requested. A818; A820; A843; A425. DuPont had no suspicions that it was being underpaid, but was concerned about the lack of information. A818. Medtronic continued to refuse to provide DuPont with more information than what was in the one-page royalty reports, saying that DuPont was receiving all to which it was entitled. A807-12; A835-36; A846; A849.[2] Medtronic insisted on a very restrictive NDA with Deloitte so that Deloitte had to get Medtronic's permission before sharing any

[2] Indeed, Medtronic conceded in this litigation that it would not have provided any additional information to DuPont because DuPont was not entitled to it. A1591-92.

information with DuPont. A453; A460. Throughout the audit, Medtronic "was very focused on not sharing Medtronic information with DuPont." A972.

Deloitte's audit lasted three years, a record for the Deloitte team, A1014, and it was not able to conduct its field work until June 2006, A472. Medtronic "provided Deloitte with very little cooperation." A465; A 823; A1014-17. During the audit, Medtronic's in-house counsel Marlon Housman refused to provide the Cordis license agreement to Deloitte. A1004-05. Deloitte sent its first and only report to DuPont on September 18, 2006. A470. The report did not even mention Cordis, much less note Medtronic's failure to follow the PACRA's royalty provisions with regard to Cordis sales. Deloitte did, however, find that Medtronic had under-reported Medtronic's own stent system sales by deducting 56% from the sales price of stent systems before applying the PACRA's royalty rates. A474. DuPont sent Deloitte's report to Medtronic and then met with it in December 2006 to see if they could resolve the issues raised in the report. A486; A498; A1216. It was only after the December 2006 meeting that DuPont was finally provided with a copy of the Cordis Addendum. A1111-13. On August 25, 2009, DuPont and Medtronic entered into a tolling agreement, and this lawsuit was filed while the agreement was still in effect. A503. Given the three-year statute of limitations for breach of contract actions, if equitable tolling principles were in effect as of August 25, 2006, DuPont's claims are not barred by the statute.

ARGUMENT

I. THE SUPERIOR COURT ERRED IN HOLDING THAT THE STENT PORTION OF A STENT DELIVERY SYSTEM IS NOT PART OF A "CATHETER."

A. Question Presented: As a matter of contract interpretation and plain English, is the stent portion of a stent delivery system a part of a "Catheter" within the meaning of the PACRA? This question was preserved in DuPont's summary judgment briefing and oral argument. *See, e.g.*, A1276-79; A1282-83; A1680.

B. Scope of Review

This Court reviews a trial court's grant of summary judgment *de novo*. *See ConAgra Foods, Inc. v. Lexington Ins. Co.*, 21 A.3d 62, 68 (Del. 2011). Issues of contract interpretation are also reviewed *de novo*. *GMG Capital Invs., LLC v. Athenian Venture Partners I, L.P.*, 36 A.3d 776, 779 (Del. 2012).

C. Merits of Argument

The PACRA provides that royalties must be paid on the "Selling Price" of all "Products." One way that a device qualifies as a "Product" is if it meets the definition of "Catheter," provided that the "Catheter" "utilizes" a DuPont "Material" or "Technology." The PACRA defines a "Catheter" as being "any tubular medical device or parts thereof designed for insertion into the vessels and channels of the human body ... to occlude, dilate or keep a passage open." A107. Medtronic did not dispute below that its stent systems satisfy all these criteria, and the Superior Court appeared to have agreed. Nonetheless, the Superior Court

concluded that the stent part of a catheter is not royalty bearing because, "viewing the PACRA in its entirety," it should not be considered a part. Add. 68.

Ironically, in describing the stent systems, the Superior Court repeatedly used language that demonstrated that, as a matter of plain English, once a stent system qualifies as a "Catheter," that Catheter includes the stent as a part. The court acknowledged that "the Medtronic catheter is sold as a single product," which Medtronic describes as "a single medical device that includes a stent," which is approved by FDA "as a single device," and that "[o]ne item number or product code applies to the entire stent system." Add. 65. Since that product contains the stent, as a matter of plain English, one would consider the stent to be a part of that single product, device, or system. A1115; A179 (dictionaries defining "part" to mean, *e.g.*, "[t]hat which together with another or others makes up a whole; a portion ... constituent, ... piece."). Then, the court described the stent system as being "composed" of, *inter alia*, a stent and balloon, and characterized the stent as a "component" of the catheter. Add. 64, 67. The court also referred to "the stent part" of the catheter, Add. 43, and described the stent as being "mounted on other parts of the catheter." Add. 65. And the court used words like "portion" and "piece" to indicate that the stent is part of what makes up a whole Catheter. Add. 68. Having compellingly demonstrated that, as a matter of plain English, the stent is indeed a part of the "Catheter," the Superior Court nonetheless went on to

improperly add three new requirements to the definition of "Catheter" that do not appear in the PACRA and that the parties did not negotiate.

First, the court added a requirement about the means by which the stent is attached to the catheter, *i.e.*, "not glued, bonded, fused." Add. 68. But the PACRA does not provide that a part need be attached in a particular way in order to qualify as a part of a "Catheter," much less that it be glued, bonded, or fused. Second, the court required that the stent be "permanently attached" and never be separated from the other parts. *Id.* But the definition of "Catheter" says nothing about how long any part must remain in the body before it can qualify as a "part." Indeed, a "Catheter" need only be "designed" for insertion; whether, once inserted, some parts remain in the body and some do not is irrelevant. A108. Further, the PACRA provides that royalties are paid on the "Selling Price." Accordingly, one should analyze which parts comprise a "Catheter" when it is ready to be sold, not at some undefined, later time. Since a stent system that qualifies as a "Catheter"—including the stent—is designed for insertion and for occluding, dilating, or keeping a vessel open, there is no basis in the PACRA's plain language to exclude one of the parts of that device because of what happens *after* the sale.

Finally, the court adopted a requirement based on the extent to which the stent is dependent on the other parts "to perform its continuing function." Add. 68. But the definition of "Catheter" does not provide that, if a part's continuing

function is not dependent on the other parts, it ceases to be part of a "Catheter." Indeed, analyzing all the parts this way would lead to the absurd conclusion that the balloon itself would not be royalty bearing, since its function of inflating and deflating, once in place, is not dependent on the other parts of the "Catheter."

Aside from importing non-existent requirements into the definition of Catheter, the Superior Court implied that some part of the PACRA other than the definition of "Catheter" was behind its conclusion. The court stated that its conclusion was justified by "[v]iewing the PACRA in its entirety," Add. 68, yet it never identified which specific provisions of the PACRA it had in mind. In fact, nothing in the PACRA addresses what is or is not a "part" of a "Catheter" other than the definition of "Catheter" itself. The court appeared to have concluded that this definition was unambiguous, as Medtronic had conceded below. A1205-06. Yet the court then rewrote the contract to find requirements that the parties never negotiated or agreed to, thereby straying far from fundamental precepts of Delaware law. *Apotas v. Allstate Ins. Co.*, 246 A.2d 923, 925 (Del. 1968) ("To construe unambiguous language to cover a situation plainly not covered is under the guise of construction to judicially rewrite the contract. This, the courts may not do.").[3] The Superior Court's interpretation should accordingly be reversed.

[3] *See also Nemec v. Shrader*, 991 A.2d 1120, 1126 (Del. 2010); *Judah v. Shanghai Power Co.*, 546 A.2d 981, 987 (Del. 1988) ("rewriting the Agreement" is "an act contrary to the practice of this

II. THE SUPERIOR COURT ERRED IN GRANTING SUMMARY JUDGMENT BASED ON THE STATUTE OF LIMITATIONS.

A. Questions Presented: Did the Superior Court err in granting Medtronic summary judgment on statute-of-limitations grounds where disputed facts exist on which a jury could conclude that the statute of limitations was tolled? This question was preserved in DuPont's summary judgment briefing and oral argument. *See, e.g.*, A1234-75; A1661-1677. Did the Superior Court err in excluding a draft letter's factual statements under a misapplication of the attorney-client privilege? This question was preserved in DuPont's briefing and oral argument on two motions to compel, as well as on summary judgment. *See, e.g.*, A610-18; A1038-41; A1700-02.

B. Scope of Review

This Court reviews a trial court's grant of summary judgment *de novo*. *See ConAgra Foods, Inc.*, 21 A.3d at 62, 68. Questions regarding the interpretation of a statute of limitations and the attorney-client privilege are also reviewed *de novo*. *Reid v. Spazio*, 970 A.2d 176, 180 (Del. 2009); *Zirn v. VLI Corp.*, 621 A.2d 773, 780 (Del. 1993).

C. Merits of Argument

The Superior Court erred in concluding that there were "red flags" that "clearly and unmistakably" should have led DuPont to discover its claim based on

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Court"); *Gertrude L.Q. v. Stephen P.Q.*, 466 A.2d 1213, 1217 (Del. 1983); *Conner v. Phoenix Steel Corp.*, 249 A.2d 866, 868 (Del. 1969); *In Re Int'l Re-Ins. Corp.*, 86 A.2d 647, 652 (Del. 1952).

Medtronic's underpayment of royalties owed on its licensee Cordis' sales (the "Cordis Claim"). Indeed, there was nothing at all in the record suggesting that DuPont should have known Medtronic failed to follow the PACRA in computing royalties owed on Cordis sales. The only way DuPont was permitted to obtain information about how Medtronic was calculating royalties was by conducting an audit. DuPont hired two auditors, yet neither discovered the basis for the Cordis Claim. Accordingly, there are clearly jury issues as to whether "red flags" existed for DuPont and whether an even more diligent inquiry by DuPont could have uncovered the basis for the Cordis claim given Medtronic's chronic silence.

The Superior Court also erred in granting summary judgment on DuPont's claim against Medtronic for underpayment of royalties on sales of Medtronic's own stent systems (the "Medtronic Claim"). The court emphasized discussions in the spring of 1999 about "apportionment." But those discussions all involved proposed changes to the PACRA—changes that were never agreed upon. The court ignored the fact that Medtronic proposed changing the language in the PACRA so that it would not have to pay royalties on stents—a proposal that DuPont expressly rejected. And the court ignored the fact that DuPont told Medtronic that it was obligated to pay royalties on stents—yet Medtronic never told DuPont it disagreed. Other materials that the court relied upon raise issues of credibility, which should not have been decided on summary judgment, and

inferences, which should have been drawn in DuPont's favor, not Medtronic's.

1. Factual Issues Exist as to the Timeliness of the Cordis Claim

a. Whether "Red Flags" Existed for DuPont Is a Triable Issue

As the Superior Court held, Medtronic was "obligated to pay DuPont royalties on Cordis sales pursuant to the terms of the PACRA – not pursuant to the terms of its license with Cordis." Add. 72. Moreover, "[t]he royalty-calculation provisions under the PACRA differ in many ways from the method of calculating royalties in the agreement between Cordis and Bard." *Id*. DuPont discovered for the first time in 2007 that, instead of applying all of the PACRA's royalty provisions to these payments, Medtronic only applied those provisions favorable to it, ignoring others that would have reduced the huge profits it was making on Cordis' sales. A221; A668; A758-59; A769-70; A772-73; A1111-13.

The Superior Court nonetheless concluded that "DuPont was on inquiry notice [of the Cordis Claim] by December 2000 when PwC issued its Final Report." Add. 49. Yet PwC's report does not even hint that Medtronic was failing to compute royalties on the revenues it received from Cordis in accordance with the PACRA. The report's only comment about Cordis simply notes that Medtronic had never audited the royalty statements it received from Cordis, saying nothing about how Medtronic was calculating royalties. A380. PwC did suggest that DuPont ask Medtronic to do an audit on Cordis, but that implies that PwC was

unaware of any problems with *Medtronic's* calculations of royalties on Cordis sales, and instead was focused on possible inaccuracies in *Cordis'* reports of its sales. Yet DuPont's Cordis Claim is not based on flaws in Cordis' calculations or reports, but rather with Medtronic's failure to follow the terms of the PACRA.

Most striking is the fact that the court simply ignored the unequivocal testimony of PwC's lead auditor, Mike Swan, that he believed Medtronic was calculating royalties in accordance with the PACRA and that, if he had noticed that it was not, he would have noted that in the report. A545. This testimony alone creates a genuine issue of material fact, precluding summary judgment. Moreover, the Superior Court ignored the fact that the second independent auditor's report commissioned by DuPont – delivered after more than three years of work – does not even mention Cordis, much less report that Medtronic had not followed the PACRA in calculating Cordis royalties. A470-82. A jury could therefore reasonably conclude that DuPont should not have been on inquiry notice.

b. Whether Further Inquiry by DuPont Would Have Uncovered Facts Sufficient to Assert the Cordis Claim Is a Triable Issue

The Superior Court concluded that "[d]iligent inquiry by DuPont into the calculation of Cordis royalty payments should have uncovered facts sufficient to assert a breach of contract claim." Add. 49. The court, though, never explained how DuPont could have acquired that information. The lynchpin of the court's decision is its belief that DuPont "elected not to follow up with PwC's

recommendation that AVE perform a royalty examination of the reports submitted by Cordis," *id.*, referring to PwC's recommendation that DuPont "suggest that Medtronic AVE perform a royalty examination of the reports submitted by Cordis. ..." A380.[4] Presumably, the court concluded that, if DuPont had asked, Medtronic would have explained how it was calculating the royalties. But on February 23, 2001, DuPont *did* ask Medtronic's chief patent counsel whether Medtronic would "support [an] audit of sublicensees," which included Cordis. A386. Medtronic ignored this request. A606-07; A765-66. DuPont took the very course of action that the court concluded it did not take. Medtronic's silence demonstrates that more inquiry would not have uncovered the facts underlying the Cordis Claim.

Moreover, the court ignored other evidence in the record suggesting that additional inquiries to Medtronic would have been futile. Medtronic has conceded that DuPont was not entitled to any more information than what appeared in the royalty reports, or that DuPont could uncover by hiring a royalty auditor. A1508; A1591-92. And the Superior Court itself noted that the way in which DuPont was supposed to obtain additional information about Medtronic's calculations was by conducting an audit. Add. 38, n.106. Where a party is relying on professionals, such as accountants, for its inquiry into potential wrongdoing, there are usually issues of material fact as to what a diligent inquiry would have uncovered. *Island*

[4] DuPont was not permitted, under the PACRA, to perform a royalty exam of Medtronic's licensees, such as Cordis, and DuPont did not have the right to demand one. A375; A541; A544.

Farm, Inc. v. Master Sidlow & Assocs., P.A., 2007 WL 2758775, at *3-4 (Del. Super. Sept. 20, 2007). Since neither PwC nor Deloitte uncovered this breach, it cannot be said as a matter of law that a more diligent inquiry would have discovered it. And a jury could certainly take into account Medtronic's long history of rebuffing DuPont's requests for more information, its stonewalling of the Deloitte audit (which the Superior Court characterized as showing "a general lack of availability and unresponsiveness," Add. 40), and its insistence that DuPont be kept out of the loop. A808-10; A812-13; A826-27; A834-37. As Medtronic admitted, "it would be hard to argue" that a further inquiry would have led DuPont anywhere. A1352. A jury could reasonably conclude that, since silence was the response in the past, it would have been the response to any additional inquiries.

c. The Court Misunderstood the Cordis Addendum and Incorrectly Imputed PwC's Knowledge to DuPont

The Superior Court concluded that PwC received a copy of the Cordis Addendum, "which set forth the formula for apportionment on Cordis sales" and that "[u]nder agency principles, PwC's notice and knowledge of the Cordis formula, as set forth in the [Cordis] Addendum, is imputed to DuPont." Add. 47-48. The Superior Court erred when it relied on this conclusion in deciding that DuPont was on inquiry notice of "red flags" and that it would have discovered the facts underlying the Cordis Claim upon further inquiry. First, even if PwC had reviewed the Cordis Addendum, that would not be sufficient to justify summary

judgment on the Cordis Claim. The Cordis Addendum showed how Cordis was paying royalties to Bard, and later to Medtronic, Bard's successor. But the Cordis Addendum did *not* disclose the salient fact relevant to the Cordis Claim—how Medtronic was accounting *to DuPont* for the payments it received from Cordis. As the Superior Court properly recognized in another portion of its opinion, that royalty calculation question was governed solely by the PACRA, not the Cordis Addendum or any other agreement. Indeed, the court acknowledged that the "royalty-calculation provisions under the PACRA differ in many ways from the method of calculating royalties in the agreement between Cordis and Bard." Add. 72. Moreover, there is simply no evidence that PwC, Deloitte, or DuPont knew about Medtronic's practice of underpaying DuPont on the Cordis sales.

Second, in holding that PwC's knowledge is imputed to DuPont, the Superior Court did not take into account the fact issues involved in a finding of agency or the rule that, where an agent is under a duty of confidentiality, no information may be imputed to the principal. The question of agency is inherently "depend[ent] on the presence of factual elements … [and] is thus a question usually reserved to the factfinder." *Lang v. Morant*, 867 A.2d 182, 186 (Del. 2005). Agency hinges on the degree of control exercised by the principal over the details of the work, whether the one employed is in an occupation or specialty requiring little supervision, how much skill is required, whether the employer

supplies the instrumentalities, tools, and the place of work for the person doing the work, and the length of time of the engagement. *Fisher v. Townsends, Inc.*, 695 A.2d 53, 59 (Del. 1997). An agent's knowledge may be imputed to its principal under certain circumstances, but an independent contractor's knowledge may not. *WaveDivision Holdings, LLC v. Highland Capital Mgmt. L.P.*, 2011 WL 5314507, at *15-16 (Del. Super. Nov. 2, 2011).

DuPont was not in the business of conducting royalty inquiries, and it viewed PwC and Deloitte as the "experts." A1105. Conducting a royalty inspection requires a high level of skill, and these inspections were therefore conducted by experienced auditors with little or no supervision, who were required to adhere to professional standards. A786-87; A354; A1224. DuPont did not provide PwC with detailed instructions as to how the work was to be performed, nor did it provide equipment or personnel. A1105. Moreover, because of confidentiality concerns, PwC and Deloitte shared almost no information with DuPont until the reports were issued, and they were both on their own in deciding how to perform their work. There is thus ample evidence to send the issue of whether PwC and Deloitte were independent contractors to the jury.

The Superior Court also ignored the fact that both PwC and Deloitte considered themselves bound not to share any information received from Medtronic without its express permission. Under such circumstances, even if the

accounting firms were deemed DuPont's "agents," their knowledge cannot be imputed to DuPont. *See* Restatement (2d) of Agency, § 281 at Reporter's Notes ("universal agreement" that "where an agent's duties to others prevent him from disclosing facts to the principal, the latter is not bound because of the agent's knowledge.");[5] Restatement (2d) of Agency, §§ 276, 281; *accord* Restatement (3d) of Agency § 5.03.[6] Any other outcome would be perverse, since it would bind the principal with knowledge that it was actually forbidden to know.

Here, there is evidence from which a jury could conclude that, even if PwC had become aware that Medtronic was underpaying royalties to DuPont (which, in fact, is none too clear), that information would not have been shared with DuPont because of PwC's confidentiality concerns and practice. A527-28; A513-15. There is therefore more than sufficient evidence in the record from which a jury could conclude that whatever information PwC and Deloitte acquired cannot be imputed to DuPont given the limitations placed on their ability to disclose information to DuPont, making summary judgment inappropriate. *Floyd v. Hefner*, 556 F. Supp. 2d 617, 655-656 (S.D. Tex. 2008).

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[5] *Lang v. Koziarz*, 1989 WL 44029, at *1 (Del. Ch. May 2, 1989) (agent's knowledge imputed to principal where knowledge not obtained confidentially); *see also Skiff-Murray v. Murray*, 17 A.D.3d 807, 809-810 (N.Y. App. 2005) (knowledge of attorney acting as agent cannot be imputed if acquired confidentially); *Reinninger v. Prestige Fabricators, Inc.*, 523 S.E.2d 720, 725 (N.C. App. 1999) (company physician who treats employee has ethical obligation to withhold confidential communications of patients; such knowledge is not imputed to employer).

[6] Delaware courts follow the Restatement of Agency. *Harmon v. State, Del. Harness Racing Comm'n*, 2011 WL 5966717, at *4-5 (Del. Super. Nov. 17, 2011); *Pisano v. Del. Solid Waste Auth.*, 2006 WL 3457686, at *9-10 (Del. Super. Nov. 30, 2006).

2. Factual Issues Exist as to the Timeliness of the Medtronic Claim

Aside from failing to follow the terms of the PACRA in calculating royalties on Cordis' sales, Medtronic failed to pay proper royalties to DuPont on its own products' sales (the "Medtronic Claim"). Specifically, Medtronic paid DuPont royalties on all the parts of its catheters—not just the balloon—but it secretly deducted up to 61% of the selling price of the catheter because it did not consider one part—the stent—to be a part of the catheter. In granting summary judgment to Medtronic on its statute-of-limitations defense, the Superior Court concluded as a matter of law that: (1) there was no fraudulent concealment because there was no evidence of "an affirmative act of actual artifice"; (2) DuPont was on inquiry notice; and (3) no reasonable jury could have concluded that, if DuPont had inquired further, it would not have uncovered the facts necessary to assert the Medtronic Claim. Add. 38, 45-46, 49. All three conclusions were erroneous.

a. The Court Misunderstood Medtronic's Fraudulent Royalty Reports

Under the fraudulent concealment rule, the statute of limitations is tolled where a defendant like Medtronic performed an "affirmative act of 'actual artifice' ... that either prevented the plaintiff from gaining knowledge of material facts or led the plaintiff away from the truth." *Petroplast Petrofisa Plastico S.A. v. Ameron Int'l Corp.*, 2011 WL 2623991, at *16 (Del. Ch. Jul. 1, 2011). Under this tolling principle, the statute is tolled "until the plaintiff discovers (or by exercising

reasonable diligence should have discovered) his injury." *Pomeranz v. Museum Partners, L.P.*, 2005 WL 217039, at *3 (Del. Ch. Jan. 24, 2005). The record shows that Medtronic engaged in fraudulent concealment because it kept two books: its internal set, which correctly reflected the actual sales price of its products and the improper deductions that it was taking, and its "DuPont" set, which misstated the sales prices for its products and was scrubbed of information from which DuPont could determine how the royalties were actually being calculated.

Medtronic produced its internal royalty calculations for the first time in discovery in this suit—they were never previously disclosed. Those internal spreadsheets recorded the "net sales" of Medtronic's stent products as including the entire selling price of the relevant stent systems—the stent part included. Thus, internally, Medtronic calculated the net sales of its stent products as [redacted]. A312. Below that total, Medtronic then made a second calculation, which it dubbed [redacted] That figure [redacted] deducted [redacted] from the net sales of the [redacted] figure to arrive at a total of [redacted]. And then Medtronic carried this reduced [redacted] figure onto the following page of its internal report, which was the "DuPont Royalty Summary Rollup" and clearly labeled the figure as reflecting an apportionment that reduced the net sales figure based on Medtronic's (incorrect) position that the stent was not a part of the stent system. Internally, Medtronic explained the [redacted] figure as "Sales of

Mounted Stents apportioned to Balloon." A313.

In the royalty reports that Medtronic actually sent to DuPont, however, all references to apportionment were deleted. The [redacted] figure was no longer labeled "Sales of Mounted Stents apportioned to Balloon" or [redacted] these descriptions were removed, and, in their place, Medtronic's royalty report to DuPont referred to the [redacted] amount as the "net sales" of Medtronic's stent systems. A342. Moreover, Medtronic's royalty reports to DuPont used the same unit of measure—"net sales"—for its stent products as for other royalty-bearing products (like balloons), making it appear that Medtronic was calculating royalties on its stent products just as on all other products, *i.e.*, without an apportionment or deduction. A255; A281-82. Medtronic's two sets of books and inconsistent representations concerning net sales were false statements to DuPont regarding how Medtronic was calculating or planning on calculating royalties—"actual act[s] of artifice" that a jury could credit as fraudulent concealment. *Petroplast*, 2011 WL 2623991, at *16.

The court concluded, however, that Medtronic's royalty reports were doing no more and no less than what the PACRA required: provide the "cumulative Selling Price" of all Products. Add. 37-38. But Medtronic's royalty reports to DuPont did not show the "cumulative Selling Price" of the products listed. Rather, they purported to state the "net sales" of those products. And it is undisputed that,

based on Medtronic's internal records, the "net sales" stated were simply not the net sales for the stent products but rather "net sales" minus 61%—i.e., 39% of "net sales." The court therefore erred when it characterized the issue as Medtronic's "failure to provide more detailed reports than was required by the PACRA." Add. 38. Medtronic was not entitled to provide false reports, and a jury is certainly entitled to conclude that such reporting constitutes an actual act of artifice.

b. The Court Erred in Holding That DuPont Was on Inquiry Notice

As shown below, in ruling that DuPont was on inquiry notice as a matter of law, the Superior Court improperly weighed evidence or found facts in at least four instances: (1) when it made credibility determinations concerning the testimony of one of DuPont's witnesses; (2) when it found that draft auditor reports had been sent to DuPont despite the undisputed fact that they had *never* been sent; (3) when it determined that DuPont should have known of Medtronic's position regarding non-payment of royalties at a time when Medtronic's own witnesses testified Medtronic had *not* yet decided whether to pay those royalties; and (4) when it drew improper inferences about the scope of the disclosures in the PwC report.

(1) The Court Impermissibly Made Credibility Determinations

In finding no triable issues on DuPont's purported inquiry notice, the Superior Court found "most compelling" a self-described "rough draft" term sheet prepared by DuPont's Blake Bichlmeir, which incorrectly stated that DuPont was

paid "solely on royalties on patents" and that "[p]ayments were based on a percentage of the cost of manufacture for the product subunit in question, in that case the balloon structure itself." Add. 42. It is undisputed that, shortly after writing this draft memo, Mr. Bichlmeir corrected this statement, and also acknowledged at his deposition that his statement was mistaken as a result of his writing it quickly and without referring to the PACRA. A802-04. Moreover, the Superior Court had credited Mr. Bichlmeir's testimony that he had no understanding of Medtronic's royalty payments while he was licensing manager as creating a genuine issue of material fact on another issue. Add. 36, n.99. Yet, inexplicably, the court decided that Mr. Bichlmeir's testimony about his mistake carried no weight: "Bichlmeir testified that this draft sheet was a mistake and that he later corrected the statement. The court, however, cannot ignore the fact that this document shows that Bichlmeir, DuPont's own Licensing Manager, acknowledged that apportionment between the balloon part of the assembly and the stent part of the assembly was one method for calculating royalties." Add. 43.

In dismissing testimony it had previously credited, choosing to disbelieve Mr. Bichlmeir's explanation, and deciding that the mistaken note carried more weight than his testimony, the court usurped the jury's function. "It is not permissible for the trial judge … to weigh the evidence or to resolve conflicts arising from pretrial documents, affidavits, depositions or other evidence."

Cerberus Int'l, Ltd. v. Apollo Mgmt., L.P., 794 A.2d 1141, 1149 (Del. 2002).

Moreover, the court ignored other evidence besides Bichlmeir's testimony that was contrary to its conclusion, including: (a) evidence that DuPont told Medtronic that it was owed royalties on the entire Catheter, including the stent; and (b) evidence from other DuPont witnesses that they were not aware of the stent apportionment and if they had been, they would have raised the issue. A235; A685-86; A947-48; A1216. "Inquiry notice" is not established unless there were "red flags" that would have "clearly and unmistakably … led a prudent person of ordinary intelligence to inquire" whether facts existed showing its claim. *Coleman*, 854 A.2d at 843. The court erred in giving more weight to evidence it felt that it "could not ignore," while denigrating other legitimate evidence.

Additionally, the court's characterization of Mr. Bichlmeir's note as acknowledging that apportionment between balloon and stent is "one method for calculating royalties" is no basis for granting summary judgment on statute of limitations. The question is not whether apportionment is "one method" for calculating royalties on stent delivery systems; it is whether such apportionment was *the* method that Medtronic *in fact* used—and, more precisely for limitations purposes, whether DuPont was aware of "red flags" showing "clearly and unmistakably" that Medtronic was in fact undertaking such apportionment. One rough draft of a term sheet that the author under oath testifies was mistaken and

corrected—and that does not refer at all to stents—does not come close to the type of evidence that would justify taking this case away from the jury.

The court similarly erred in relying upon an email from Mr. Bichlmeir stating that Medtronic's stent systems were selling well, and that "the nylon balloon part of [Medtronic's stent system] generate[s] royalties to DuPont." Add. 42. Since the court had earlier credited Mr. Bichlmeir's testimony that he had no understanding of Medtronic's royalty payments, Add. 36, it is puzzling that the court would consider this email as bearing on the issue of what DuPont knew about how Medtronic was calculating royalties. Moreover, the email just stated the obvious: because the product incorporated Levy's balloon technology, the balloon was responsible for driving royalties payable to DuPont. Bichlmeir's email was certainly not some kind of admission that Medtronic need not pay royalties on the stent part of its stent systems, and in fact, he has explained that was not his understanding. A768. Instead of drawing inferences in non-movant DuPont's favor, as required on summary judgment, the Superior Court construed this email against DuPont, and thereby erred. *Coleman*, 854 A.2d at 843.

(2) The Court Erroneously Concluded That Draft Reports Were Sent to DuPont Despite the Undisputed Fact That They Were Not

The Superior Court concluded that DuPont was "put on notice" because two of Deloitte's draft reports were sent to DuPont in August 2006. Add. 45. But the record is crystal clear that the first (and only) report from Deloitte to DuPont was

the "draft report" provided to DuPont in September 2006. A853. It is undisputed that the draft reports dated August 4, 2006 and August 25, 2006 that the court concluded put DuPont "on notice" were never sent to DuPont. A853; A983-84; A987-989; A991-93; A995-96; A1000-02.

(3) The Court Erroneously Relied on Spring 1999 Negotiations

The court also mistakenly concluded that discussions that took place in the spring of 1999—before Medtronic had even decided whether or not to pay royalties on stents—and before any claim had accrued, somehow put DuPont on notice that at some point in the future, Medtronic "might not" pay royalties on the stent portion of a stent delivery system. Add. 45. The first problem with this conclusion is that the standard is not "might" but "clearly and unmistakably." That aside, the 1999 discussions were all taking place at a time when the parties were negotiating an amendment to the PACRA, and before Medtronic had decided whether it would apportion royalties on stents or not. A561-63; A566-67. At this point, as noted in the Statement of Facts, Medtronic owed no money—because of the credit against future royalties that had not yet been worked off. Without owing DuPont any money, no claim had accrued. *Tanner v. Exxon Corp.*, 1981 WL 191398, at *1-2 (Del. Super. Jul. 23, 1981) (breach of contract claim does not accrue until there is injury, i.e., damages); *Gutridge v. Iffland*, 889 A.2d 283, n.11 (Del. 2005) (elements of breach of contract claim include damages). The court's

conclusion that "[t]he breach of contract accrued no later than June 1999 when DuPont received a royalty report for that quarter, reflecting the apportionment," Add. 36, is simply incorrect. During this period of time, there was nothing for DuPont to inquire into; there can be no "red flags" if there is no wrongdoing yet to "flag." Accordingly, all of the pre-accrual conduct (*i.e.*, spring 1999) is irrelevant, since plaintiffs do not have a duty to "inquire into possible future wrongful conduct." *William A. Graham Co. v. Haughey*, 568 F.3d 425, 439 (3d Cir. 2009).

In addition, the Superior Court ignored the fact that, at the time of the 1999 discussions and notes referenced, Medtronic had made an offer that would have apportioned stent royalties such that the stent portion would not be royalty bearing on Medtronic products. A247. But that offer was rejected, and DuPont was left to believe Medtronic would not be withholding royalties on stents. A251; A343. The court also ignored the fact that, having told Medtronic its position and heard nothing to the contrary back, and having rejected Medtronic's offer to apportion royalties, DuPont could reasonably believe that the matter had been put to bed—as a jury certainly could conclude. Instead, the court implicitly concluded that, even though DuPont thought the matter resolved, it nonetheless needed to remain continually suspicious of Medtronic's motives and practices. That is not the law.

Even if one were to consider this pre-accrual information, there is substantial evidence that any discussions were about changes which Medtronic wanted to

make to the PACRA, and were not stating Medtronic's position that a stent is not part of a Catheter. For example, the Superior Court referred to an internal DuPont document that copied information from a table of marketing data which was sent by Medtronic in April 1999. Add. 41. But these tables were not about how Medtronic interpreted the PACRA, but rather a response to a request by Ms. Knox for a sales forecast for nylon products for 1999 and 2000. A234; A239; A887; A919-20. Indeed, in testimony ignored by the court, Medtronic's own Rule 30(b)(6) designee on the calculation of royalties to DuPont under the PACRA testified that these documents have nothing to do with royalty calculations or interpretations of the PACRA. A964-66; *see also* A575.

Moreover, these documents clearly do not refer to the PACRA—and its definition of "Catheter"—as it in fact existed. Rather, they refer to how the PACRA *might* be applied in the event that negotiations resulted in changes to how royalties would be calculated—changes to the PACRA that never went into effect. The documents cited by the court refer to various concepts not found in the PACRA but instead proposed by the parties, such as "ASP" ("average selling price"), A889; A923, and a royalty rate of 1.5% as compared to the PACRA's 3%. For DuPont to have been put on inquiry notice of what Medtronic did—interpreting "Catheter" as not including the stent part—it needed to know how Medtronic interpreted that provision. Substantial evidence shows that Medtronic

never told DuPont how it interpreted "Catheter" (*see, e.g.*, A555-59; A603), and the documents relied upon by the court do not refer to that contract definition.

(4) The Court Erroneously Concluded That DuPont Would Have Uncovered Medtronic's Breach Earlier Than It Did.

The Superior Court concluded that, as a matter of law, inquiry by DuPont would have uncovered Medtronic's breach because the PwC report "reflected that Medtronic was apportioning royalties to some extent on stent products." Add. 45. While the PwC report is not, in fact, even clear about that, the court's conclusion misses the point. The PACRA provides that things sold "in conjunction with" Products, but that are not Products themselves, are "Related Products." A109. For example, stent system kits may include "Related Products" when the system is sold in conjunction with items that are not designed for insertion into the human body and are not "part" of a "Catheter," such as pumps, guidewires, or introducers. A762; A672-73; A944. Medtronic sells introducers and pumps in conjunction with stent systems. A927-28. DuPont thus expected that Medtronic would consider as "Related Products" items that were sold "in conjunction" with stent systems such as pumps, introducers, and guidewires. A762; A672-73; A944; A927-28. Accordingly, PwC's bland statement that "stents include related products" is a far cry from reporting that Medtronic had decided not to pay royalties on the stent parts of Catheters. Moreover, the Superior Court ignored the affidavit of Michelle Riley, an expert in royalty investigations, who pointed out various statements in

the PwC report that would lead the reasonable reader to believe that Medtronic *was* paying royalties on stents. A1221-22. Where "an inference" of wrongdoing "could be drawn" from documents but "opposite inferences could be drawn as well," summary judgment should be denied. *Coleman*, 854 A.2d at 843. Indeed, even Medtronic admits that PwC did not "identify the issue being litigated" as Medtronic's failure to pay royalties on the stent part of its devices. A1365.

3. The Court Incorrectly Limited the Summary Judgment Record Through an Erroneous Attorney-Client Privilege Ruling

In moving for summary judgment on the statute of limitations, one of Medtronic's principal arguments was that, before this lawsuit, DuPont had never taken the position that royalties were owed on the stent part of stent systems. *See* A1171-72 ("There is no evidence that DuPont ever disputed ... that the sales price of the stent system should be allocated between the balloon catheter and the stent for purposes of calculating royalties."). But Medtronic produced in discovery an April 1, 1999 internal draft letter from its general counsel that directly contradicted this. In the letter, Medtronic's counsel memorialized [redacted] A235. The letter went on [redacted], but it was never sent to DuPont, so DuPont was never informed of Medtronic's position.

Medtronic kept the April 1 letter out of the record by clawing it back in

discovery, claiming that all of it was protected by the attorney-client privilege. The Superior Court denied DuPont's motion asking that, at a minimum, the production of a redacted version of the April 1 letter be compelled—a version that leaves unredacted the factual, non-privileged information in the letter, including the fact that, as of April 1, 1999, [redacted] Add. 78-79; 82-87.

The attorney-client privilege protects legal advice, not business advice or underlying facts. Where privileged material can be easily separated from nonprivileged, the nonprivileged material should be produced and the privileged material redacted. *Cephalon, Inc. v. Johns Hopkins Univ.*, 2009 WL 5103266, at *1 (Del. Ch. Dec. 4, 2009). Medtronic's own discovery behavior shows how easy it would be to redact any privileged material and produce the factual material. Just a few months after the Superior Court denied DuPont's motion to compel, Medtronic produced an April 6, 1999 email from its same in-house counsel. A237. Just like the April 1 letter, in the April 6 email, Medtronic's counsel characterizes DuPont's position on royalty structure under the PACRA. While most of this email was redacted on privilege grounds, Medtronic left unredacted the portions of the email describing the facts—the things that Medtronic's counsel said "DuPont has pointed out" about the PACRA royalty structure. *Id.* [redacted] The

Superior Court erred in denying DuPont's motion to compel production of a redacted version of the April 1 letter, disclosing the first two non-privileged, easily separable sentences. Moreover, even if the first two sentences of the April 1 letter can be considered privileged, Medtronic has waived that privilege by putting its subject matter at issue—arguing that Medtronic always agreed that stents were not royalty bearing. "[T]he party holding the privilege cannot use it as both a sword and a shield."[7] Medtronic should not be allowed to do that here.

CONCLUSION AND RELIEF SOUGHT

The judgment of the Superior Court should be reversed, or at least vacated, and the case should be remanded for further proceedings. The Superior Court's orders on the April 1, 1999 letter should be reversed, and Medtronic should be ordered to produce at least the first two sentences of that document.

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[7] *Baxter Int'l v. Rhone-Poulenc Rorer*, 2004 WL 2158051, at *3 (Del. Ch. Sept. 17, 2004); *Hoechst Celanese Corp. v. Nat'l Union Fire Ins. Co.*, 623 A.2d 1118, 1125 (Del. Super. 1992).

IN THE SUPERIOR COURT OF THE STATE OF DELAWARE
IN AND FOR NEW CASTLE COUNTY

E.I. DU PONT DE NEMOURS AND COMPANY,	)	
Plaintiff,	)	
	)	
	)	**C.A. No. N10C-09-058-MMJ CCLD**
v.	)	
	)	
MEDTRONIC VASCULAR, INC.,	)	
Defendant.	)	

Submitted: November 26, 2012
Decided: January 18, 2013
Corrected: January 29, 2013

On Motions for Summary Judgment

CORRECTED OPINION

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JOHNSTON, J.

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I. PROCEDURAL CONTEXT

Plaintiff E.I. duPont de Nemours and Company ("DuPont") filed this action against Defendant Medtronic Vascular, Inc. ("Medtronic") on September 9, 2010. DuPont asserted claims of Breach of Contract (Count I); Fraudulent Misrepresentation (Count II); and Negligent Misrepresentation (Count III). By Order dated November 26, 2012, the Court dismissed Counts II and III.

DuPont and Bard/Medtronic worked together to develop and market devices to be used in medical procedures. The device at issue in this case is a balloon catheter system, which is used in coronary angioplasty. DuPont and Medtronic's predecessor in interest, C.R. Bard, Inc. ("Bard"), entered into a Patent Assignment and Cooperative Agreement ("PACRA"). The overarching purpose of the PACRA was to establish a system of royalty payments to DuPont, for Products sold by Medtronic that utilize DuPont Materials and Technology.

The following summary judgment motions are pending:

(1) Medtronic's summary judgment motion on the issue of whether this action is barred by the applicable statute of limitations;

(2) DuPont's summary judgment motion on the issue of whether the January 1995 Amendment to the PACRA affects royalty provisions;

(3) DuPont's summary judgment motion on the issue of whether the April 1995 Amendment to the PACRA affects royalties on stents;

(4) Medtronic's cross-motion for summary judgment on the issue of whether the April 1995 Amendment to the PACRA waives royalties on stents;

(5) DuPont's summary judgment motion on the issue of whether a stent is "part" of a "Catheter" under the PACRA;

(6) Medtronic's cross-motion for summary judgment on the issue of whether a stent is a "Related Product" and a separate "Catheter" under the PACRA;

(7) DuPont's summary judgment motion on the issue of whether royalties under Paragraph 3 of the 1999 Amendment to the PACRA revert to the royalty rate after July 5, 2003;

(8) Medtronic's cross-motion for summary judgment on the issue of whether royalties under Paragraph 3 of the 1999 Amendment to the PACRA terminated on July 5, 2003;

(9) DuPont's summary judgment motion on the issue of whether the PACRA applies to Cordis sales;

(10) Medtronic's summary judgment motion on the issue of whether apportionment is applicable to Cordis sales; and

(11) Medtronic's summary judgment motion on the issue of whether Medtronic owes royalties on Abbott sales.

The Court heard oral argument on these motions on November 26, 2012. Trial is scheduled to begin on March 4, 2013.

II. FACTUAL SUMMARY

For purposes of these motions, the following facts are undisputed.

A. Background of the PACRA

In September 1982, Bard, a manufacturer of various medical devices, entered into a Collaborative Development and Supply Agreement ("CDSA") with DuPont.[1] Pursuant to the CDSA, DuPont agreed to provide Bard with access to its materials scientists to help Bard develop material for certain cardiovascular catheters. During this collaboration, DuPont provided Bard with research conducted by employee Stanley Levy, which concentrated on the use of balloon catheters in medical dilation procedures. Levy's research on balloon catheters led to the issuance of a patent referred to as the "Levy Patent."[2]

Finding that the CDSA did not adequately address the parties' existing relationship, Bard and DuPont elected to terminate the CDSA, and enter into a new agreement - the Patent Assignment and Cooperative Agreement ("PACRA") – on December 22, 1989.[3]

B. Relevant Provisions of the PACRA

Under the PACRA, DuPont assigned its rights under the Levy Patent and foreign counterparts to Bard.[4] The PACRA further provides that Bard and DuPont

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[1] MT Ex. 115. Citations to Medtronic's exhibits are cited herein as "MT Ex. ___ ," and citations to DuPont's exhibits are cited herein as "DP Ex. ___ ."

[2] MT Exs. 100, 101. DuPont is the assignee of the Levy Patent.

[3] MT Ex. 32.

[4] PACRA, Art. V(A).

would collaborate on new projects supporting Bard's research and development efforts, with Bard receiving worldwide exclusive licenses on resulting products within the defined Field of Use.[5]

Article VII of the PACRA obligates Bard to pay DuPont royalties only on "Products." The term "Products" is limited to certain medical devices that utilize Material and Technology developed by DuPont[6] under the CDSA or the PACRA.[7] Specifically, Article II of the PACRA defines "Products" as:

> (i) any Catheter which utilizes a Material[8] or Technology[9]; (ii) any medical device or system, other than a Catheter, which is sold for application within the Field of Use and which utilizes a Material or Technology, except [for certain devices]; and (iii) any other device that the parties may mutually agree to in writing.

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[5] PACRA, Art. III. "Field of Use" is defined as: "(i) all actual or potential applications within the vessels and channels of the human body, including, but not limited to, the following: coronary, peripheral and neurological arteries; gastric and urological tracts; reproductive system, tear ducts and nerve centers for pain control; and (ii) any other medical applications that the parties may mutually agree to in writing." PACRA, Art. II(J).

[6] "Products" include material developed by DuPont individually or jointly with Bard under the CDSA or the PACRA. PACRA, Art. II(K).

[7] Conversely, medical devices that *do not* utilize Material or Technology developed by DuPont under the CDSA or the PACRA are not considered "Products," and therefore, Bard need not pay royalties on such devices.

[8] "Material" is defined as "any material developed by DuPont pursuant to the Collaborative Development and Supply Agreement as well as any material developed by DuPont individually or jointly with Bard pursuant to Article III [of the PACRA] or a material substantially corresponding in composition, properties and/or structure to any such material." PACRA, Art. II(B).

[9] "Technology" is defined as "any technology as developed by DuPont pursuant to the Collaborative Development and Supply Agreement as well as any technology developed by DuPont individually or jointly with Bard pursuant to Article III." PACRA, Art. II(L).

Relevant to the instant action is the definition of "Catheter," as set forth in Article II of the PACRA. A "Catheter" is defined as "any tubular medical device or parts thereof designed for insertion into the vessels and channels of the human body to permit injection or withdrawal of fluid or to occlude, dilate or keep a passage open."[10]

C. Calculating Royalty Payments on "Products"

Pursuant to the PACRA, Bard is obligated to pay royalties to DuPont for the sale of any "Product." Article VII sets forth the payment schedule for royalties:

> (A) Bard shall pay to DuPont, beginning June 1, 1989, the following fees, which shall not be returnable in any event, based on the cumulative Selling Price of all quantities of Products sold annually worldwide during the term of this Agreement by:
>
> (i) Bard,
> (ii) any sublicensee of Bard,
> (iii) any Affiliate of Bard, and
> (iv) any third party that has been given the right to do so by Bard or any sublicense or Affiliate of Bard,
>
> to any party other than any aforesaid party and DuPont and its Affiliates:
>
> - on the first Five Million Dollars ($5,000,000) in worldwide sales – ten percent (10%) of the Selling Price;
> - on the next Five Million Dollars ($5,000,000) in worldwide sales – seven percent (7%) of the Selling Price;

[10] PACRA, Art. II(A). Balloon catheters are used by angioplasty surgeons for the purpose of opening constricted blood vessels. During a balloon angioplasty, a catheter, with a small balloon attached at the tip, is inserted in the patient. The balloon is then inflated to push apart the plaque in the clogged arteries so as to improve blood flow. During another type of angioplasty procedure, a coronary stent is placed in the diseased area to help keep the artery open. The stent is mounted on a balloon catheter, which is inflated to expand the stent. Once the stent is fully expanded, the balloon is deflated and removed. The stent stays in place permanently.

- on the next Sixteen Million, Two Hundred Fifty Thousand Dollars ($16,250,000) in worldwide sales – four percent (4%) of the Selling Price; and,
- above Twenty-Six Million, Two Hundred Fifty Thousand Dollars ($26,250,000) in worldwide sales – three percent (3%) of the Selling Price.[11]

"Selling Price," as defined by the PACRA, is the invoice price charged on the sale of any "Product," less certain fees.[12]

D. Apportioning Royalty Payments on "Related Products"

Under the PACRA, Bard only is obligated to pay royalties on the sale of a "Product"[13] - that is, any medical device which utilizes Material and Technology developed by DuPont. In instances when a "Product" is sold in conjunction with a non-product, or "Related Product,"[14] for a single price, DuPont is owed royalty payments on only the fraction of the "Selling Price" attributable to the "Product." Article II provides a formula to calculate royalties due DuPont when a "Product" is sold in conjunction with a "Related Product":

$$\frac{\text{Product's Factory Cost}}{(\text{Product's Factory Cost}) + (\text{Related Product's Factory Cost})}$$

[11] PACRA, Art. VII(A).

[12] PACRA, Art. II(D).

[13] PACRA, Art. VII(A).

[14] A "Related Product" is defined as "any and all other materials or products sold by any party listed in Article VII(A)(i)-(iv) to any party other than a party listed in Article VII(A)(i)-(iv), DuPont or any of its affiliates in conjunction with a Product." PACRA, Art. II(I).

This ratio is then applied to the invoice price of the entire unit to determine the "Selling Price" attributable to the "Product."[15]

E. Quarterly Reports

Pursuant to Subsection D of Article VII, Bard is required to submit and maintain quarterly reports on the sale of Products:

> BARD shall report in writing to DU PONT within sixty (60) days next following December 31, 1989 and thereafter within sixty (60) days next following the end of each calendar quarter the cumulative Selling Price of all Products which were sold….
>
> BARD shall keep accurate records of the Selling Price of all Products for which it is required to render a report to DU PONT hereunder….
>
> If DU PONT requests an audit, BARD will permit DU PONT, at its sole expense, to have an independent auditor acceptable to BARD examine and make copies of appropriate records at such time as DU PONT may reasonably request in writing during normal business hours at the facility where BARD maintains such records.

F. Cordis Sublicense

In December 1993, Bard entered into a license agreement ("Levy License Agreement") with Cordis Corporation ("Cordis"), whereby Bard granted Cordis a non-exclusive license to make, use and sell products under the Levy Patent.[16] The Levy License Agreement obligates Cordis to pay royalties to Bard as follows:

> 3.01 For the rights granted under this Agreement, Cordis shall [ ]:

[15] PACRA, Art. II(D)(i)-(ii).

[16] MT Ex. 35.

> (a) pay to Bard the sum of $3,000,000 within 10 days of entering into this Agreement …
>
> 3.02 In addition, Cordis shall pay to Bard a royalty in the amount of eight percent (8%) of the Net Selling Price for each Licensed Product …

Pursuant to the Levy License Agreement, Cordis began paying royalties to Bard, which were then passed on to DuPont pursuant to the PACRA.

At some point in 1994, Cordis stopped making royalty payments to Bard. Bard moved to enforce the Levy License Agreement. Cordis and Bard ultimately reached a settlement agreement, and executed an Addendum to the Levy License Agreement ("Levy Addendum").[17]

G. Addendum to Levy License Agreement

In December 1996, the Levy Addendum was executed by Bard and Cordis. The Levy Addendum provided, in relevant part:

> It is further agreed that if Licensed Products are bundled with other goods, such as stents, or provided in kits, apportionment will be on a formula of:
>
> $$\text{Net Selling Price} = \frac{a}{a + b}$$
>
> where "a" is the Net Selling Price of the Licensed Products, and "b" is the net Average Selling Price of the unpatented portion of the bundle or kit.[18]

[17] MT Ex. 36.

[18] *Id.* at ¶ 6.

It is undisputed that the formula set forth in the Levy Addendum for apportioning the "Selling Price" – when a "Product" is sold in conjunction with a non-product – differs from the formula set forth in the PACRA. The Levy Addendum formula is based on relative selling price rather than relative manufacturing cost.

H. Amendments to the PACRA

On January 17, 1995, Bard and Dupont executed an amendment to the PACRA ("January 1995 Amendment"), which was intended to limit DuPont's product liability risk.[19] The January 1995 Amendment added the following provisions to the PACRA:

> (B) BARD will not use any Material in any medical applications involving permanent implantation in the human body or permanent contact with internal body fluids or tissues (where permanent means residing for more than 30 days).
>
> (C) BARD will indemnify DU PONT for all direct and consequential costs and damages caused to DU PONT due to a recall of a BARD product developed under a program of work described in Article III A, provided such recall is not a result of the negligence or willful misconduct of DU PONT, its agents or employees.[20]

On April 11, 1995, Bard and DuPont executed a second amendment to the PACRA ("April 1995 Amendment").[21] Under the April 1995 Amendment, DuPont

[19] MT Ex. 33.

[20] *Id.* at ¶ 2.

[21] MT Ex. 34.

agreed to waive certain royalties due under the PACRA. Paragraph 4 of the April 1995 Amendment provides:

> 4. DuPont and Bard had previously conducted work under the [PACRA] in the areas of stents and aortic aneurysm liners. DuPont agrees to waive any royalties due under the [PACRA] attributable to stents (unless bioresorbable) and aortic aneurysm liners.

Paragraph 6 of the April 1995 Amendment clarifies that such a waiver is specific to certain projects:

> 6. The waivers and reduction in royalties described above are specific to the projects enumerated herein. All other terms and conditions of the [PACRA] continue in full force and effect regarding these projects except where expressly modified herein. Moreover, the waivers and reduction in royalties described above do not constitute a loss of any other rights under the [PACRA] or applicable law, including without limitation the right to collect fees for other Products.

I. Medtronic's Acquisition of Bard's Coronary Catheter Business

On July 9, 1998, Bard sold its coronary catheter business to Arterial Vascular Engineering, Inc. ("AVE").[22] In the parties' Stock and Asset Purchase Agreement, Bard represented to AVE that Bard was not "in breach of or default in the performance of its obligations under any Business Contract," including the PACRA and the Levy Addendum.[23]

[22] *See* MT Ex. 139 (Bard and AVE Stock and Asset Purchase Agreement).

[23] *Id.*

On January 1, 1999, Bard assigned to AVE all of "Bard's rights and interest under the R&D Agreement [*i.e.,* the PACRA]" (the "1999 Assignment Agreement").[24] The 1999 Assignment Agreement provides, in pertinent part:

> Effective as of January 1, 1999, AVE assumes all of the liabilities and obligations of Bard under the R&D Agreement, except for the payment of fees with respect to (i) any sales of Products (as defined in the R&D Agreement) made prior to January 1, 1999, (ii) any sales of products made on or after January 1, 1999 by Bard or any Affiliate (as defined in the R&D Agreement) of Bard and (iii) any sales of Products made on or after January 1, 1999 by any party identified in clause (ii) or (iv) pursuant to a sublicense or other grant of right granted on or after January 1, 1999.[25]

"[C]lause (ii) or (iv)" refers to Article VII(A)(ii) or (iv) of the PACRA, which provide for royalties on sales by Bard's sublicensees or licensees.

J. Medtronic and DuPont Discuss Apportionment

On January 28, 1999, Medtronic, Inc. ("Medtronic") acquired AVE.[26] Following Medtronic's acquisition, DuPont and Medtronic engaged in a series of discussions regarding how to calculate royalties when a "Product" is sold in conjunction with a non-product. A March 25, 1999 email from DuPont's Kitty Knox to Mark Brister, Medtronic's Vice President of Research and Development,

[24] MT Ex. 37 (Assignment, Assumption and Consent Agreement).

[25] *Id.* at ¶ 2.

[26] MT Ex. 150 (SEC Form 8k); MT Ex. 151 (SEC Form 10k).

lists the "[c]alculation of royalty for balloons sold as part of a stent delivery package" as an issue that the parties discussed at a meeting the previous day.[27]

During a March 31, 1999 conference call between DuPont employee Charles Molnar and Medtronic in-house attorney Rick Klein, the parties discussed how to calculate royalties when a balloon catheter is sold with a stent.[28] Molnar's handwritten notes from the conference call reflect that royalties were only to be paid on the balloon catheter portion of the stent system.[29]

On April 13, 1999, Brister sent a letter to Knox, attaching a two-page spreadsheet reflecting projected royalties due DuPont from the sale of coronary

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[27] MT Ex. 44 (3/25/99 email from Knox to Brister).

[28] *See* MT Ex. 80 (Molnar's handwritten notes from 3/31/99).

[29] *Id.* Molnar's notes provide an example of how to calculate royalty when a balloon catheter is sold with a stent.

How to calculate royalty

Ratio of $\frac{\text{mfg cost balloon}}{\text{mfg stent}}$ $\frac{50}{50}$

\$1500 kit $\frac{50}{50}$ $\frac{750}{750}$

Royalty 750 x 1.5% = \$11.25

In Molnar's example, the kit, or stent system, sells for \$1500. This selling price is apportioned 50/50 between the balloon catheter and stent, so that royalty is only paid on the balloon portion of the stent system.

catheters.[30] Brister's projected royalty calculations were based on the average selling price of the balloon catheter only.

Thereafter, on April 16, 1999, Knox created her own spreadsheet from Brister's projections, whereby she apportioned the sales price of the stent system between the balloon catheter and the stent in calculating royalties.[31] Knox performed additional calculations to determine whether it would be more advantageous for DuPont to use the manufacturing cost or the average sales price for apportioning the sales price of balloon catheters in stent systems. Knox ultimately determined that DuPont's royalties would be higher if revenues were apportioned based on relative manufacturing costs.

K. The 1999 Amendment to the PACRA

On October 19, 1999, DuPont and Medtronic executed an amendment to the PACRA (the "1999 Amendment"), which established reduced royalty rates for certain medical devices.[32] As to balloon catheters being developed for future products, Paragraph 2 of the 1999 Amendment provides:

> 2. Article VII, Section (A) of the Research Agreement is hereby amended so that, with respect to the Product described in the immediately preceding Section (1), Medtronic AVE shall pay to Dupont, beginning the effective date of this Agreement a fee of one and one-half percent (1.5%), which shall not be returnable in any

[30] MT Ex. 38 (4/13/99 letter from Brister to Knox).

[31] MT Ex. 81 (Knox royalty calculations).

[32] MT Ex. 42 (1999 Amendment).

> event, based on the cumulative Selling Price of all quantities of such Products sold annually worldwide until July 5, 2003. Except as provided in Section (8) herein, no other fees shall be due with respect to any such Products.

With respect to balloon catheters presently sold, Paragraph 3 of the 1999 Amendment provides:

> 3. Effective January 1, 2000, catheters with nylon balloons presently sold under the names GX and LTX, and substantially equivalent or similar nylon balloon products or derivatives, will be deemed to be a Product under the Research Agreement, subject to a fee of one percent (1.0%), which shall not be returnable in any event, also based on the cumulative Selling Price of all quantities of such Products sold annually worldwide until July 5, 2003.

In consideration for the 1999 Amendment's "advantageous royalties," Medtronic agreed to pay DuPont a one-time fee of $1.75 million.[33] The 1999 Amendment further provides:

> Neither said fee nor the royalties provided in Sections (2) or (3) above constitute an admission of any kind by Medtronic AVE regarding the relationship of the GX and LTX balloons to the intellectual property identified in the Research Agreement.[34]

L. PriceWaterhouseCoopers Audit

In August 2000, DuPont engaged PriceWaterhouseCoopers ("PwC") to conduct an audit of Medtronic's royalty payments to DuPont under the PACRA for

[33] *Id.* at ¶ 8.

[34] *Id.*

the period of October 1, 1998 through June 30, 2000.[35] The parties' agreement, dated September 18, 2000, provided that the work performed by PwC was "only for the use and benefit of DuPont."[36]

By letter dated September 8, 2000, PwC advised Medtronic that it had been retained by DuPont to conduct a royalty audit under the PACRA, the 1999 Assignment and the 1999 Amendment.[37] PwC requested certain documents necessary for completion of the royalty audit:

> (1) Provide detailed description of the sales and royalty calculation systems;
>
> (2) Provide detailed description of methodology used to identify all royalty-bearing sales, as well as the procedures for calculating the relevant royalties under the [PACRA, 1999 Assignment, and 1999 Amendment];
>
> (3) Provide a list of all products offered through Medtronic's Vascular business unit. From that list, please identify the following: (i) all catheters and medical devices sold for application in the Field of Use that utilise a Material or Technology and thus, are royalty bearing Products under the [PACRA, 1999 Assignment, and 1999 Amendment] … and (ii) all catheters and medical devices in the Field of Use that don't utilise a Material of [T]echnology and thus, are excluded from the royalty calculation; …

[35] *See* MT Ex. 21 (audit engagement letter from PwC to DuPont). DuPont contends that the PwC audit was merely part of DuPont's initiative to audit its larger licensing arrangements, rather than in response to any particular suspicions of Medtronic's under-reporting.

[36] *Id*.

[37] MT Ex. 28.

> (10) Provide access to the following: (i) all sublicense agreements entered into by Medtronics (i.e., Cordis …); (ii) copies of royalty statements and checks submitted to Medtronics by sublicensees; and (iii) copies or any reports and/or correspondence obtained in connection with the examination of the books and records of any sublicensee.[38]

From October 15, 2000 through October 19, 2000, PwC was on-site at Medtronic's office, meeting with Medtronic employees and reviewing Medtronic's records. During the audit, PwC requested additional information from Medtronic.[39]

1. PwC October 2000 Memorandum

On October 25, 2000, PwC sent DuPont a memorandum outlining key issues uncovered by PwC during the audit.[40] According to PwC, Medtronic identified those products that were subject to the 1999 Amendment's reduced royalty rate of 1.5%, as well as those products subject to the 1999 Amendment's reduced royalty rate of 1.0%.[41] PwC also noted the following: "Based upon our examination, it

[38] MT Ex. 29.

[39] *See* MT Ex. 22 (memorandum listing issues to be discussed); MT Ex. 23 (memorandum listing items to be discussed).

[40] MT Ex. 30.

[41] *Id.* at ¶¶ 1, 2.

appears that Medtronics does not pay royalties relative to any products other than balloons and stents that incorporate balloons."[42]

2. PwC Final Report

PwC issued its Final Report on December 12, 2000.[43] The Final Report again identified those products that were subject to the 1999 Amendment's 1.5% reduced royalty rate, those products that were subject to the 1999 Amendment's 1.0% reduced royalty rate, and those products that were non-royalty bearing. The Final Report recommended that DuPont and Medtronic engineers meet to determine whether these products were, in fact, entitled to reduced royalty rates:

> PwC … recommends that DuPont and Medtronic AVE engineers discuss the underlying specifications of these products to determine whether application of the reduced royalty rate is appropriate. If application of the reduced royalty rate is not warranted, PwC shall calculate the amount of additional royalties due DuPont using the appropriate royalty rates.[44]

The Final Report found that Medtronic was apportioning the Selling Price of stent systems when calculating royalties. According to PwC:

> Pursuant to Article II (D)(i) of the [PACRA], "If any such Product is sold with any Related Product, Selling Price [i.e., the royalty base] means the amount obtained by multiplying the invoice price for such sale by a fraction, the numerator of which is the Factory Cost of such Product to Bard … and the denominator of which is the Factory Cost of such Product plus the Related Product sold in conjunction

[42] *Id.* at ¶ 3.

[43] MT Ex. 25 (PwC Final Report).

[44] *Id*. at DUP0000445.

> therewith." In connection with this engagement, we noted that Medtronic AVE applies this provision to the Selling Price of stent products. This appears reasonable given that stents include Related Products. Furthermore, based upon the testing performed in connection with this engagement, the factor Medtronics AVE applies to the Selling Price of the stents appears reasonable and in conformity with the terms of the [PACRA].[45]

With respect to the sublicense agreement between Medtronic and Cordis, the Final Report noted that PwC did not audit the royalty statements submitted by Cordis. Therefore, the Final Report made the following recommendation:

> Given the materiality of the net revenues included in the Royalty Reports relative to Cordis, it is recommended that DuPont suggest that Medtronic AVE perform a royalty examination of the reports submitted by Cordis under the sublicense agreement between Cordis and Medtronic AVE.[46]

PwC ultimately found that Medtronic owed DuPont an additional $2,083.00 as a result of unreported royalty bearing revenues.[47] Medtronic promptly paid this amount.

M. DuPont's Internal Correspondence Regarding Apportionment

During the PwC audit and after issuance of PwC's Final Report, Blake Bichlmeir, DuPont's manager of the PACRA relationship at that time, sent several internal emails concerning royalty payments under the PACRA. Three separate

[45] *Id*. at DUP0000443.

[46] *Id.*

[47] MT Ex. 25.

emails, dated March 2, 2000,[48] June 1, 2000,[49] and September 1, 2000,[50] state that DuPont will benefit from the sales of a new line of Medtronic stent systems (S670 system) because "the nylon balloons, part of the S670 system, generate royalties to DuPont."

Thereafter, on June 29, 2001, Bichlmeir sent another internal email, attaching a rough draft of Medtronic's "Working Term Sheet."[51] The Working Term Sheet was intended as DuPont's proposed term sheet for a new licensing and development agreement with Medtronic on polymer coated stents. Under the heading "Payments," the Working Term Sheet describes several payment options for Medtronic, which Bichlmeir then contrasts with the current practice under the PACRA:

> We propose to change payments significantly from current practice. Under the old Bard angioplasty balloon agreement, compensation to DuPont depended solely on royalties on patents. Payments were based on a percentage of the cost of manufacture for the product sub-unit in question, in that case the balloon structure itself. **The calculation was based on the manufacturing cost of the balloon as a percent of the manufacturing cost of the total catheter system** times a stepped set of royalty rates.[52]

[48] MT Ex. 48.

[49] MT Ex. 63.

[50] MT Ex. 49.

[51] MT Ex. 66.

[52] MT Ex. 66 at DUP0011978.

(emphasis added).

N. Abbott Sales

On May 9, 2002, Medtronic and Abbott Laboratories ("Abbott") entered into an OEM Agreement, whereby Medtronic agreed to supply Abbott with balloon catheters to incorporate into Abbott's stent systems.[53] In 2005, Medtronic began selling Products to Abbott.[54] It is undisputed that Medtronic never paid any royalties to DuPont on Abbott's sales.

O. Termination of Royalty Payments

On July 5, 2003, Medtronic stopped paying royalties to DuPont on Medtronic sales.

Following Medtronic's July 2003 termination of royalty payments, DuPont disseminated several internal emails and/or notes regarding the termination of such payments. For example, handwritten notes by Craig Evans, DuPont's in-house counsel, dated August 28, 2003, state: "Mike Jaro [Patent and Intellectual Property Counsel for Medtronic] did internal check and says no more royalty due … no more products benefit … no more agmt due to no royalty."[55]

[53] MT Ex. 83 (OEM Agreement).

[54] DP Ex. JJJJ (Abbott Royalty Report); DP Ex. KKKK (Product List).

[55] MT Ex. 93 (Evans handwritten notes).

Thereafter, on September 8, 2003, Donald Loveday, Bichlmeir's successor at DuPont, sent an email, stating: "Mike Jaro believes that the Agreement with terminate with the termination of the Levy side-agreement [the 1999 Amendment]."[56] By email dated September 21, 2004, DuPont's William Cotreau confirmed that certain royalty obligations would end in July 2003.[57]

P. Medtronic's Quarterly Reports

On October 8, 2003, DuPont received the second quarter royalty report from Medtronic for the period of April through July 5, 2003.[58] The report reflects the total amount of royalty payments due DuPont on Medtronic sales.

On January 1, 2004, Medtronic produced the third quarter royalty report, for the period of July through September 2003.[59] The report shows no royalty payments due DuPont on Medtronic sales. Similarly, subsequent quarterly royalty reports sent to DuPont from Medtronic show that no royalties were being paid to DuPont on Medtronic sales after July 5, 2003.[60]

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[56] MT Ex. 51 (9/9/03 internal email from Loveday)

[57] MT Ex. 73 (9/21/04 email from Cotreau).

[58] MT Ex. 119 (DuPont Royalty Calculation: CY2003 Quarter 2 April –July 5, 2003).

[59] MT Ex. 96 (DuPont Royalty Payment Calculation: CY2003 Quarter 3 July – September 2003).

[60] MT Ex. 97 (DuPont Royalty Payment Calculation: CY2003 Quarter 4 October – December 2003); MT Ex. 98 (DuPont Royalty Payment Calculation: CY2004 Quarter 2 April – June 2004).

Q. Medtronic Advises DuPont that Royalty Payments Terminated

By letter dated December 30, 2005, Robert Allred, Financial Analyst for Medtronic, advised DuPont:

> As per the terms of the Amendment to Patent Assignment and Cooperative Research Agreement between DuPont and C.R. Bard dated December 22, 1989, all royalty obligations terminated upon expiration of the U.S. Levy patent, which occurred on July 5, 2004 [sic].[61]

R. Deloitte and Touche Audit

1. Purpose and Process

On October 13, 2003, DuPont retained Deloitte and Touche LLP ("Deloitte") to conduct a second audit of Medtronic.[62] The apparent catalyst for the second audit was DuPont's belief that Medtronic had decided on its own that certain products were not subject to the PACRA.[63] DuPont requested that Deloitte determine whether: (1) Medtronic owed any royalty to DuPont due to devices subject to the PACRA not included in a reported royalty calculation; (2) Medtronic owed any royalty to DuPont due to ongoing issues as noted in the 2000 PwC audit;

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[61] MT Ex. 91.

[62] Mt Ex. 87 (Deloitte audit engagement letter).

[63] MT Ex. 64 (Loveday email dated 11/04/2003). The email provides: "DuPont is not choosing to audit arbitrarily: our 2000 audit indicated that AVE had decided on its own that some renal catheter products were not 'subject to the agreement.' The audit firm (then, PriceWaterhouseCoopers) told DuPont that this did not appear to be correct, although DuPont did not bring this finding to the attention of AVE. Dupont feels that there exists a possibility of non-compliance just based on past experience and observation of PWC in 2000."

and (3) Medtronic owed any royalty to DuPont due to any other noncompliance on the part of Medtronic.[64]

By letter dated December 18, 2003, Deloitte advised Medtronic that it would be conducting a royalty inspection pursuant to the PACRA.[65] Deloitte requested that Medtronic provide specific information, including:

> (1) A description of the processes and sources of information used to generate the royalty reports submitted to DuPont by AVE.
>
> (2) A listing of all sublicensees of AVE and copies of royalty reports received by AVE from those sublicensees.

On December 24, 2003 Medtronic's Housman sent DuPont an email stating that although he did not believe an audit was necessary, he understood "the dynamics in light of the Amendment ending worldwide royalties on covered balloon products."[66]

2. Deloitte's Audit Report

On August 25, 2006, Deloitte issued its audit report.[67] With regard to apportionment, the report found:

> Based on our discussions with Mr. Housman and Mr. Jaro [Medtronic employees], we understand that AVE calculated royalties only on the

[64] *Id*.

[65] MT Ex. 75.

[66] MT Ex. 53 (12/24/03 Housman email).

[67] MT Ex. 61 (8/14/06 Deloitte Draft Report); MT Ex. 74 (8/25/06 Deloitte Draft Report).

> balloon portion of the stent sales. AVE allocated 44% of the sales price of the stent product (i.e., the POBA percentage) as the balloon portion of the sale, which was used as the basis for AVE's royalty calculation. We discussed this matter with DuPont and DuPont disagreed with AVE's interpretation of the Agreements ….
>
> In accordance with DuPont's interpretation of the Agreements, stents are considered Product [sic] and are thus royalty bearing in their entirety.

S. Tolling Agreement

On August 25, 2009, Medtronic and DuPont executed a Tolling Agreement.[68] The Tolling Agreement provides:

> From the date of the last signature of the parties executing this Agreement until either party terminates this Agreement as set forth below, the running of any statute of limitations, period of repose, or time within which to act in connection with any and all rights, claims, or causes of actions arising from or relating to the PACRA are hereby tolled.

III. STANDARD OF REVIEW

The standard of review on a motion for summary judgment in Delaware is well-settled. The function of the court when considering a party's motion for summary judgment is to determine whether genuine issues of material fact exist, but not to render decisions on those issues.[69] The court will grant summary judgment if, after viewing the record in the light most favorable to the non-moving

[68] MT Ex. 114 (Tolling Agreement).

[69] *In re Asbestos Litig.*, 2007 WL 2410879, at *2 (Del. Super.) (citing *Merrill v. Crothall-American Inc.*, 606 A.2d 96, 99-100 (Del. 1992) (internal citations omitted)).

party, no genuine issues of material fact exist and the moving party is entitled to judgment as a matter of law.[70] If an issue of material fact exists, or if the record has not been sufficiently developed to allow the court to apply the law to the factual record, then summary judgment will be denied.[71] The initial burden of demonstrating that the undisputed facts support its claims or defenses falls upon the moving party.[72] When the moving party meets its burden, the non-moving party then must show that there are material issues of fact for resolution by the fact-finder.[73]

"In the case of a motion for summary judgment based on a statute of limitations defense, the Court must grant the motion if the record reveals that no genuine issues of fact exist[] regarding the date on which the applicable statute of limitations began to run, the date to which the statute of limitations may have been tolled, and the date on which the plaintiff filed her complaint with the court."[74]

Where the parties have filed cross motions for summary judgment, and have not argued that there are genuine issues of material fact, "the Court shall deem the motions to be the equivalent of a stipulation for decision on the merits based on the

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[70] Super. Ct. Civ. R. 56.

[71] *Ebersole v. Lowengrub*, 180 A.2d 467, 470 (Del. 1962).

[72] *Moore v. Sizemore*, 405 A.2d 679, 680 (Del. 1979) (citing *Ebersole*, 180 A.2d at 470).

[73] *See Brzoska v. Olson*, 668 A.2d 1355, 1364 (Del. 1995).

[74] *Burrell v. Astrazeneca LP*, 2010 WL 3706584, at *2 (Del. Super.) (citation omitted).

record submitted with the motions."[75] Neither party's motion will be granted unless no genuine issue of material fact exists and one of the parties is entitled to judgment as a matter of law.[76]

IV. ANALYSIS

A. STATUTE OF LIMITATIONS

DuPont alleges that Medtronic breached its contractual obligations under the PACRA by: (1) discontinuing royalty payments on sales of its products as of July 5, 2003; (2) apportioning the selling price of stent systems between the balloon catheter and the stent, rather than paying royalties on the entire selling price;[77] (3) making royalty payments based on Cordis' "reduced" payment formula pursuant to the Levy Addendum; (4) misclassifying Products for purposes of royalty calculations; and (5) failing to pay royalties on Abbott Laboratories' sales.[78]

Medtronic contends that each of DuPont's purported breach of contract claims is time-barred. Medtronic further argues that the facts of the case do not warrant the application of a tolling doctrine to any of DuPont's claims. Medtronic

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[75] Super. Ct. Civ. R. 56(h).

[76] *Emmons v. Hartford Underwriters Ins. Co.,* 697 A.2d 742, 744-45 (Del. 1997).

[77] DuPont's apportionment claim concerns both Medtronic's product sales and Cordis product sales.

[78] In DuPont's Opposition Brief to Medtronic's Motion for Summary Judgment, DuPont withdrew its breach of contract claim stemming from Medtronic's alleged failure to pay royalties on world-wide Cordis sales. *See* DuPont's Brf. in Opp. at 2 n.1.

argues that there are no genuine issues of matter fact and that it is entitled to judgment as a matter of law.

1. Applicable Statute of Limitations

Under Delaware law, the statute of limitations for a breach of contract claim is three years.[79] The cause of action accrues "at the time of the wrongful act, even if the plaintiff is ignorant of the cause of action."[80] The wrongful act in a breach of contract claim is the breach and the cause of action accrues at the time of breach.[81] In this case, the parties entered into a tolling agreement on August 25, 2009. Thus, if DuPont's claims accrued before August 25, 2006, they are time-barred unless a tolling doctrine applies.

2. Tolling and Inquiry Notice

Under Delaware law, it is plaintiff's burden to plead facts to demonstrate that the statute of limitations was, in fact, tolled.[82] The statute of limitations can only be tolled until a plaintiff discovers, or by exercising reasonable diligence should have discovered, facts constituting the basis of the cause of action (*i.e.,* breach and injury).[83]

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[79] 10 *Del. C.* § 8106.

[80] *Wal-Mart Stores, Inc. v. AIG Life Ins. Co.*, 860 A.2d 312, 319 (Del. 2004) (per curiam).

[81] *Wright v. Dumizo*, 2002 WL 31357891, at *2 (Del. Super.).

[82] *Burrell*, 2010 WL 3706584, at *4.

[83] *Wal-Mart*, 860 A.2d at 319.

"Inquiry notice does not require a plaintiff to have actual knowledge of a wrong, but simply an objective awareness of the facts giving rise to the wrong."[84] Inquiry notice is determined objectively.[85] The Court must find that the facts known to the plaintiff would have "clearly and unmistakably . . . led a prudent person of ordinary intelligence to inquire," and if pursued, would have led to discovery of the elements of the claim being asserted.[86]

DuPont asserts two theories to support tolling the statute of limitations in this case: (1) inherently unknowable injuries; and (2) fraudulent concealment. Under the "inherently unknowable injury" doctrine, also known as the "discovery rule," the statute of limitations is tolled "where it would be practically impossible for a plaintiff to discover the existence of a cause of action" and "the claimant is blamelessly ignorant of the wrongful act and the injury complained of."[87]

The statute of limitations also will be tolled if a defendant engaged in fraudulent concealment of the facts necessary to put a plaintiff on notice of the truth.[88] Fraudulent concealment requires an affirmative act of concealment or

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[84] *Sunrise Ventures, LLC et al. v. Rehoboth Canal Ventures, LLC et al*., 2010 WL 363845, at *7 (Del. Ch.).

[85] *Id.*

[86] *Coleman v. Pricewaterhousecoopers LLC*, 854 A.2d 838, 842 (Del. 2004).

[87] *Cent. Mortgage Co. v. Morgan Stanley Mortgage Capital Holdings LLC*, 2012 WL 3201139, at *22 (Del. Ch.) (citations omitted).

[88] *Albert v. Alex. Brown Mgmt. Servs., Inc*., 2005 WL 5750601, at *19 (Del. Ch.).

some misrepresentation by a defendant that prevents a plaintiff from gaining knowledge of the facts.[89] Mere nondisclosure is not enough to toll the limitations period.[90]

3. Medtronic's Termination of Royalty Payments

a. Parties' Contentions

Medtronic argues that DuPont's breach of contract claim based on Medtronic's termination of royalty payments is time-barred. Medtronic contends that in 2003, DuPont was informed multiple times that Medtronic's obligation to pay royalties on sales of its Products would terminate as of July 5, 2003. On that date, and in accordance with the 1999 Amendment, Medtronic discontinued its royalty payments. Because Medtronic's November 30, 2003 royalty report reflected that cessation in payments, Medtronic contends that DuPont's purported claim accrued no later than November 30, 2003.

DuPont concedes that it had actual notice that Medtronic intended to, and in fact, did, terminate royalty payments on July 5, 2003, upon expiration of the Levy Patents. However, DuPont contends that its claim did not accrue until issuance of

[89] *Id*.

[90] *Ruger v. Funk,* 1996 WL 110072, at *7 (Del. Super.).

Deloitte's Final Report in September 2006, when DuPont could "learn whether or not there were any damages as a result of this breach."[91]

b. Actual Notice

The Court finds that DuPont's claim as to Medtronic's July 5, 2003 termination of royalty payments is time-barred. The undisputed evidence demonstrates that DuPont had actual knowledge of Medtronic's termination of royalty payments by the end of November 2003. Medtronic's royalty report for July through September 2003 showed no royalties due to DuPont on Medtronic sales.[92] All subsequent royalty reports provided to DuPont likewise showed no royalties due DuPont on Medtronic sales.[93] In light of Medtronic's royalty report for April through July 5, 2003[94] (the last royalty report provided to DuPont which reflected any royalties due DuPont on Medtronic sales), DuPont clearly was on notice that Medtronic intended to stop, and in fact, did stop, paying royalties on Medtronic sales.

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[91] *See* DuPont's Brf. in Opp. 39.

[92] MT Ex. 96 (DuPont Royalty Payment Calculation: CY2003 Quarter 3 July – September 2003).

[93] *See* MT Ex. 97 (DuPont Royalty Payment Calculation: CY2003 Quarter 4 October – December 2003); MT Ex. 98 (DuPont Royalty Payment Calculation: CY2004 Quarter 2 April – June 2004).

[94] MT Ex. 119 (DuPont Royalty Calculation: CY2003 Quarter 2 April –July 5, 2003). DuPont received that document in October 2003.

Moreover, there is record evidence of ongoing discussions between Medtronic and DuPont beginning in August 2003, and continuing through December 2005, regarding Medtronic's termination.[95] The Court need not address inquiry notice on this issue because DuPont had actual knowledge of Medtronic's intention to stop paying royalties, and Medtronic's subsequent failure to pay.

Further, DuPont's argument – that its cause of action did not accrue until it learned whether or not it had been damaged – is inconsistent with Delaware law. In Delaware, the cause of action accrues at the time of the wrongful act, "even if the plaintiff is ignorant of the cause of action."[96] The claim does not arise only after the plaintiff suffers a loss.[97]

DuPont was aware as early as November 2003 of Medtronic's decision not to pay royalty payments after July 5, 2003. The doctrines of inherently unknowable injury, and fraudulent concealment, do not apply when the plaintiff

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[95] *See, e.g.*, MT Ex. 93 (8/28/2003 internal notes by Evans noting that Medtronic did an internal check and decided no royalty payments were due any more); MT Ex. 51 (9/8/2003 internal Dupont email explaining that Medtronic informed DuPont that royalty payments would end with the termination of the Levy Patent); MT Ex. 138 (12/3/2003 email within Medtronic regarding DuPont's position that royalty payments were still due); MT Ex. 53 (12/24/2003 email from Medtronic's Housman to DuPont's Loveday stating that the 1999 Amendment ends worldwide royalties on the covered balloon products); MT Ex. 91 (12/30/2005 letter from Medtronic to DuPont stating that all royalty obligations terminated on July 5, 2004 [sic] with the expiration of the Levy patent). *See also* MT Ex. 118 (internal Medtronic meeting agenda notes for July 31, 2002 meeting with DuPont noting the expiration of the Levy patent as one topic to discuss).

[96] *Wal-Mart*, 860 A.2d at 319.

[97] *Albert*, 2005 WL 5750601, at *18.

has actual knowledge of the breach and potential injuries to follow. DuPont's suggested application of the rule – allowing a plaintiff to accrue more damages over time before filing an action – would, in effect, defeat the purpose of a statute of limitations for a breach of contract claim.[98]

4. Medtronic's Royalty Apportionment on Medtronic's Sales and Quarterly Reports

Medtronic's alleged breach of the PACRA by apportioning the sales price between the balloon catheter and the stent system occurred by March 1999, when Medtronic first apportioned its royalty payments to DuPont in that fashion. The breach of contract accrued no later than June 1999 when DuPont received a royalty report for that quarter, reflecting the apportionment. This claim is barred unless DuPont can prove the statute of limitations is tolled. Unlike DuPont's 2003 termination claim, the Court finds genuine issues of disputed fact about whether DuPont had actual knowledge of Medtronic's royalty apportionment. Therefore, the Court must analyze the application of tolling doctrines.[99]

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[98] The Court rejects DuPont's argument that "even if the statute arguably ran on this claim, DuPont would still be entitled to recover any royalties that became due for three years before the parties' tolling agreement was signed - in other words, any royalties due from August 25, 2006 on." DuPont provided no case law in support of this proposition, and the Court is not aware of any such support.

[99] *See* DP Ex. G, Knox Dep. 302:22-303:17 (explaining that she would have found Medtronic's decision not to pay royalties on stents in stent delivery systems "unacceptable"); DP Ex. F, Bichlmeir Dep. 54:9-13 (explaining that he did not have an understanding of Medtronic's royalty payments while he was licensing manager); MT Ex. 3, Brister Dep. 75:11-77:8 (explaining that he told Ms. Knox before April 1999 how Medtronic was going to interpret the PACRA); DP Ex. H, Evans Dep. 182:24-183:11 (explaining that he first found out how Medtronic apportioned

a. Fraudulent Concealment Standard

Fraudulent concealment requires that the plaintiff show an affirmative act of concealment by defendant to put the plaintiff off the trail of inquiry or to prevent the plaintiff from gaining knowledge of the facts.[100]

b. Medtronic Complied with the PACRA's Reporting Provisions

DuPont's main assertion of fraudulent concealment is that Medtronic purposefully doctored its quarterly reports so that DuPont would not realize how it was paying royalties.[101] Specifically, DuPont contends that Medtronic made a "hefty deduction before calculating royalties on the 'net sales' of stent systems," "scrubbed the [royalty calculation] spreadsheet of any incrimination information," and then "sent the tampered version to unsuspecting DuPont."[102]

The Court finds no record evidence to support DuPont's allegations. Rather, the evidence establishes that Medtronic provided DuPont with quarterly reports as required under the PACRA. Pursuant to Article VII(D), Medtronic was required to "report in writing to DuPont . . . within sixty (60) days following the end of each calendar quarter the cumulative Selling Price of all Products which were sold by

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royalty payments on stent delivery systems in Deloitte's prelimary report to DuPont); DP Ex. MMM, Koopmans Dep. 30(b)(6) 35:14-24 (explaining that Medtronic's royalty reports did not specifically include the percentage deducted from its payments to DuPont).

[100] *Burrell*, 2010 WL 3706584, at *7; *Smith v. McGee*, 2006 WL 3000363, at *3 (Del. Ch.).

[101] *See* DuPont's Brf. in Opp. at 30-33.

[102] *Id.* at 31.

the parties listed [therein]."[103] The PACRA did not require Medtronic to provide calculations or more detailed reports. Medtronic disclosed the data required, based on its interpretation.[104] There is no indication of an "affirmative act of actual artifice" that led DuPont away from the truth.[105] Based on the evidence, the Court finds that no reasonable juror could find that Medtronic's failure - to give more detailed reports than was required by the PACRA - constitutes fraudulent concealment.[106]

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[103] PACRA, Art. VII(D).

[104] *Compare* DP Ex. UUU *with* DP Ex. TTT. DuPont's argument that Medtronic should have sent more detailed reports, as requested by Bichlmeir in October 1999 (*see* DP Ex. SSS), is of little significance. The evidence indicates that DuPont requested more detailed reports after it received one such report and did not identify the underlying "problem" with Medtronic's apportionment within that report. *See* DP Ex. SSS (describing revenue for "RELY *on* Stent Products" - - where RELY is a balloon catheter) (emphasis supplied).

[105] DuPont points to the fact that Medtronic drafted a letter explaining its position on royalty payments of stents, which was never sent, as an indication that Medtronic was hiding its position. The Court does not find that this act rises to the level of fraud, especially in light of the evidence that shows DuPont had inquiry notice of Medtronic's royalty apportionment.

[106] *See, e.g.*, *SmithKlineBeecham Pharm. Co. v. Merck & Co.*, 766 A.2d 442, 450-51 (Del. 2000) (affirming the Court of Chancery's finding that "while there may have been some acts of concealment committed, . . . there was no evidence of fraudulent concealment presented"); *Ruger*, 1996 WL 110072, at *7 ("[F]raudulent misrepresentation for pur[poses] of tolling the statute of limitations requires an affirmative act. The argument that a fiduciary's silence tolls the statute has been specifically rejected . . . ."). Had DuPont wanted to inquire into Medtronic's calculations, the PACRA provided ways to do so. *See* Art. VII(D) (requiring that Medtronic keep accurate records of the Selling Price of all Products for two years from the date of the report and allowing DuPont to audit Medtronic).

c. Apportionment Discovered

There is ample record evidence that Medtronic and DuPont discussed apportionment of royalty payments between the balloon catheter and the stent throughout 1999 and into 2000.[107]

d. No Evidence of Fraudulent Concealment During Audits

DuPont's only other allegation of fraudulent concealment stems from the two audits performed by PwC and Deloitte on behalf of DuPont.[108] DuPont argues that: (1) Medtronic hid information from PwC about apportioned payments; and (2) Medtronic intentionally prolonged the Deloitte audit so that DuPont could not learn the facts of its claims before the running of the statute of limitations.

As to DuPont's first claim, the Court has not found any record evidence to support DuPont's contention that Medtronic hid information from PwC. The PwC auditors testified that they were not under the impression that anyone at Medtronic was "hiding the ball" or was dishonest.[109] Further, Medtronic's 30(b)(6) deponent, Barbara Crandell, remembers being part of the discussion with PwC about calculating the Plain Old Balloon Angioplasty ("POBA" – *i.e.*, an angioplasty

[107] *See* discussion *infra* A.4.e.

[108] *See* DuPont's Brf. in Opp. at 32-33.

[109] DP Ex. OO, Swan Dep. 79:18-80:16.

procedure using a balloon catheter without a stent) percentage, which PwC's report then describes.[110]

With regard to the Deloitte audit, the evidence shows a general lack of availability and unresponsiveness by Medtronic.[111] However, even DuPont understood this as pushback from Medtronic because of the disruption the audit was causing Medtronic's business.[112] In the end, Deloitte and DuPont received the information requested. DuPont has not pointed to any affirmative acts of concealment that could constitute fraudulent concealment.

e. Inquiry Notice Evidenced by DuPont's Internal Correspondence about Apportionment

The Court finds undisputed record evidence of inquiry notice by 1999.[113] In April 1999, during negotiations over whether Medtronic's nylon balloons were

[110] MT Ex. 6, Crandell Dep. 79:6-80:25.

[111] *See* DP Ex. ZZ (7/15/2003 letter from Bahl to Housman with a list of failures to cooperate); DP Ex. YY, Bahl Dep. 152:14-155:24.

[112] *See* DP Ex. XX, Loveday Dep. 83:11-15 ("My understanding from Medtronic was they were -- their key objection was the disruption to the ongoing business, that an audit could not [sic] be onerous or a disruption to business.").

[113] DuPont argues that the evidence prior to June 1999 may not be considered by the Court as evidence of inquiry notice because its claim against Medtronic had not accrued at that time. Although the Court agrees that the discovery rule does not place a duty on prospective plaintiffs to inquire into possible future wrongful conduct, the Court sees no reason why it may not consider pre-accrual evidence of DuPont's knowledge of royalty apportionment within the broader "mix of information" known to DuPont in the case. The post-accrual evidence in light of the pre-accrual evidence shows clearly that "red flags" existed as early as June 2000 which would have led a prudent person to inquire about facts sufficient to then enable the plaintiff to discover the basis of its claim.

covered by the Levy Patent and therefore fell within the PACRA, DuPont considered whether it would benefit from *apportioning* the balloon portion of the assembly based on manufacturing cost (as is stated in the PACRA) or *apportioning* the balloon portion of the assembly based on selling price. The relevant documents do not discuss whether the stent system would be apportioned, but how it would be apportioned.

Specifically, during the 1999 negotiations, DuPont's Kitty Knox requested sales projections for Medtronic's nylon balloons.[114] In response, Medtronic provided projections for DuPont royalties for the next five years.[115] Subsequently, Knox broke down the spreadsheet provided by Medtronic and internally calculated the apportionment of the sales price of stent systems based on two methods: the manufacturing costs of the balloon and stent (noted as DuPont's calculation) and the average sales price (noted as Medtronic's calculation).[116] In May 1999, Knox wrote to Mark Brister, Medtronic's Vice President of Research and Development, suggesting that the royalty base calculation remain as it was in the PACRA [*i.e.*,

[114] MT Ex. 44 (3/25/99 email from Knox to Brister).

[115] MT Ex. 38 (4/13/99 from Brister to Knox enclosing sales projection report).

[116] MT Ex. 81.

based on manufacturing cost] until January 1, 2001, at which time it would be reduced to two-times the average selling price.[117]

Thereafter, beginning in March 2000, Blake Bichlmeir, DuPont's Licensing Manager, disseminated three internal emails concerning royalties on the balloon portion of the stent systems. These emails, dated March 2, 2000,[118] June 1, 2000,[119] and September 1, 2000,[120] state that DuPont will benefit from the sales of a new line of Medtronic stent systems because "the nylon balloons, part of the S670 system, generate royalties to DuPont."[121]

Perhaps most compelling to the Court is the draft term sheet for a new licensing and development agreement written by Bichlmeir in the hope of replacing the PACRA. Bichlmeir forwarded the document internally to others at DuPont on June 29, 2001. The proposed term sheet states:

> We propose to change payments significantly from current practice. Under the old Bard angioplasty balloon agreement, compensation to DuPont depended solely on royalties on patents. Payments were based on a percentage of the cost of manufacture for the product sub-unit in question, in that case the balloon structure itself. The

[117] MT Ex. 39 (5/4/1999 letter from Knox to Brister)

[118] MT Ex. 48.

[119] MT Ex. 63.

[120] MT Ex. 49.

[121] MT Ex. 48 (3/2/2000 email regarding 1999 fourth quarter royalty payments); MT Ex. 63 (6/1/2000 email regarding 2000 first quarter royalty payments); MT Ex. 49 (9/1/2000 email regarding 2000 second quarter royalty payments).

> calculation was based on the manufacturing cost of the balloon as a percent of the manufacturing cost of the total catheter system times a stepped set of royalty rates.[122]

During his deposition in this litigation, Bichlmeir testified that this draft sheet was a mistake and that he later corrected the statement.[123] The Court, however, cannot ignore the fact that this document shows that Bichlmeir, DuPont's own Licensing Manager, acknowledged that apportionment between the balloon part of the assembly and the stent part of the assembly was one method for calculating royalties.[124]

The Court finds that Knox's calculations and the discussions in 1999 concerning different ways to calculate apportionment, along with the later statements of Bichlmeir, show indisputably that DuPont was aware that apportionment of royalty payments was at least a viable option for calculating royalty payments beginning in 1999. DuPont's knowledge should have led a prudent person to inquire as to how Medtronic calculated its royalties on stent systems.

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[122] MT Ex. 66 at DUP0011978.

[123] Ex. BB, Bichlmeir Dep. 87:24-90:14, attached to DuPont's Reply in Support of Partial Summary Judgment.

[124] *See also* MT Ex. 118 (internal Medtronic meeting agenda for July 31, 2002 meeting with DuPont noting the basis for royalties to DuPont as one topic to discuss).

f. Diligent Inquiry Would Have Uncovered Alleged Breach

The final question is whether diligent inquiry by DuPont should have uncovered facts sufficient to assert a breach of contract claim.[125] The Court must consider what information a diligent inquiry would have uncovered in light of efforts that were undertaken and what information the plaintiff would have had access to.[126]

The record shows that Bichlmeir first attempted to get more fully-detailed royalty reports in 1999, but failed. DuPont conducted an audit of Medtronic in 1999, and again in 2006. DuPont argues that nothing in the audit reports explained how Medtronic was calculating its royalties.

The Court finds DuPont's suggested interpretation of the undisputed evidence unpersuasive. The 2000 Final Report by PwC states that Medtronic applied Article II(D)(i) of the PACRA, or the "Related Product" apportionment formula, to "the Selling Price of stent products" which "appears reasonable given that stents include Related Products."[127] The Report continues: "Furthermore, based upon the testing performed in connection with this engagement, the factor Medtronics AVE applies to the Selling Price of the stents appears reasonable and

[125] *Coleman*, 854 A.2d at 842-43.

[126] *Id.*

[127] MT Ex. 25.

in conformity with the terms of the Bard Agreement."[128] The Court finds that the 2000 PwC Final Report reflected that Medtronic was apportioning royalties to some extent on stent products.

In 2006, DuPont was again put on notice. The Deloitte royalty audit draft report, dated August 4, 2006, states that "AVE calculates royalties on 44% of the stent sales to quantify balloon portion of the stent sales."[129] According to the report, this finding was discussed with DuPont and DuPont disagreed with AVE's interpretation of the Product.[130]

A second draft report, dated August 25, 2006, reiterates that DuPont had been advised of AVE's apportionment of Selling Price and disagreed with that finding.[131] The report further states: "In accordance with DuPont's interpretation of the Agreements, stents are considered Product and are thus royalty bearing in their entirety."[132]

In sum, the evidence shows that on multiple occasions, DuPont was presented with data and calculations suggesting that Medtronic might not be paying royalties on the stent portion of a stent delivery system. The Court finds

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[128] *Id.*

[129] MT Ex. 61 (7/27/06 draft Deloitte audit report).

[130] *Id.*

[131] MT Ex. 74 (8/25/06 draft Deloitte audit report).

[132] *Id.*

that DuPont was at least on inquiry notice prior to August 25, 2006. With diligent inquiry, DuPont should have had sufficient grounds to raise a breach of contract claim before the statute of limitations expired.

5. Cordis Payments

DuPont has raised two breach of contract claims that derive from Medtronic's treatment of Cordis sales. First, DuPont contends that Medtronic erroneously calculated royalties on Cordis sales pursuant to the formula set forth in the Levy Addendum, as opposed to the PACRA formula. Second, DuPont argues that Medtronic improperly apportioned the Selling Price on sales of Cordis products.

Medtronic argues that both claims are time-barred. As to the calculation of royalty payments per the Levy Addendum, Medtronic contends that DuPont had actual notice in 2000 following issuance of PwC's Final Report. With respect to apportionment of Cordis sales, Medtronic argues that DuPont was on inquiry notice as early as December 2000.

a. Calculation of Cordis Royalties Pursuant to Levy Addendum

DuPont retained PwC in August 2000 to conduct an audit of Medtronic's royalty payments to DuPont under the PACRA for the period of October 1, 1998 through June 30, 2000.[133] Pursuant to the parties' agreement, PwC was to

[133] *See* MT Ex. 21 (audit engagement letter from PwC to DuPont).

undertake a multi-phase approach in conducting the royalty audit. The agreement expressly provided that PwC was to obtain DuPont's approval before performing certain work.[134] Additionally, PwC was to defer to DuPont on key issues. After a thorough review of the parties' express agreement and course of dealing, the Court finds the requisite amount of control to establish a principal-agent relationship between DuPont and PwC.[135]

During the 2000 audit, PwC requested and received, *inter alia*, a copy of the Levy License Agreement and the Levy Addendum, which set forth the formula for apportionment on Cordis sales. PwC's Final Report explicitly states that PwC reviewed the sublicense agreements (*i.e.*, Levy License Agreement and Levy Addendum) and relevant correspondence.[136] Under agency principles, PwC's notice and knowledge of the Cordis formula, as set forth in the Levy Addendum, is

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[134] *See, e.g., id.* The engagement letter provides: "After consultation with you and review of available documentation, we will work with you to determine the precise extent and nature of our procedures"; "Meet with DuPont or its representatives to determine expectations …"; "With DuPont approval, additional fieldwork as deemed necessary"; "[T]he work is performed only for the use and benefit of DuPont."

[135] *See Estate of Eller v. Bartron*, 31 A.3d 895, 897 (Del. 2011) ("As a general matter, '[a]gency is the fiduciary relationship that arises when a person (a 'principal') manifests assent to another person that the agent shall act on the principal's behalf and subject to the principal's control, and the agent manifests assent or otherwise consents so to act.'") (citing Restatement (Third) Agency, § 1.01 (2006).

[136] MT Ex. 25 at DUP0000443.

imputed to DuPont.[137] Knowledge is imputed regardless of whether such knowledge or notice is actually communicated.[138] Therefore, the Court finds that DuPont was on notice of the Levy Addendum formula for Cordis sales as early as 2000.[139]

b. Apportionment of Cordis Sales

The Court finds genuine issues of material fact as to whether DuPont had actual knowledge that Medtronic was apportioning the Selling Price on Cordis sales. Therefore, the Court must address the applicability of the inherently unknowable tolling doctrine.

c. No Inherently Unknowable Injury

DuPont contends that Medtronic's apportionment of Cordis sales was inherently unknowable and that DuPont was blamelessly ignorant of the cause of action. In support of this contention, DuPont points to the fact that neither the PwC audit nor the Deloitte audit discovered any "red flags" with respect to Cordis

[137] *See Wavedivision Holdings, LLC v. Highland Capital Mgmt. L.P.*, 2011 WL 5314507, at *15 (Del. Super.) ("Under agency law, knowledge of the agent generally imputes to the principal.").

[138] *See Abrose v. Thomas*, 1992 WL 208478, at *2 (Del. Super.).

[139] In reaching this conclusion, the Court need not address DuPont's argument that Medtronic "hid" the Levy Addendum from DuPont or that DuPont had not way of obtaining such information.

payments. DuPont contends that "this fact … actually proves how hard it was for a reasonably prudent plaintiff to discover the basis for this claim."[140]

In its Final Report, issued in 2000, PwC noted: "Medtronic has never audited the [royalty] statements submitted by the Sublicensees [*i.e.*, Cordis]."[141] Therefore, PwC recommended that DuPont examine the royalty statements:

> Given the materiality of the net revenues included on the Royalty Reports relative to Cordis, it is recommended that DuPont suggest that Medtronic AVE perform a royalty examination of the reports submitted by Cordis under the sublicense agreement between Cordis and Medtronic AVE.[142]

DuPont, however, elected not to follow-up with PwC's recommendation.

The Court finds that PwC's recommendation, coupled with PwC's Final Report's finding that Medtronic was apportioning Medtronic's stent products in some capacity, should have raised DuPont's suspicions that Medtronic also may have been apportioning Cordis sales. Diligent inquiry by DuPont into the calculation of Cordis royalty payments should have uncovered facts sufficient to assert a breach of contract claim. Therefore, the Court finds that DuPont was on inquiry notice by December 2000 when PwC issued its Final Report.

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[140] DuPont's Brf. in Opp. at 26.

[141] MT Ex. 25 at DUP0000443.

[142] *Id*.

6. Misclassification of Products

DuPont contends that Medtronic breached the PACRA by misclassifying certain Products under the 1999 Amendment. According to DuPont, between 1999 and 2000, Medtronic miscategorized certain products as bearing a 1.0% royalty rate, as opposed to the correct royalty rate of 1.5%. Although Medtronic realized its mistake in 2001, DuPont contends that it was neither informed of the error nor paid for the underpayment in sales during the relevant time period.

Medtronic argues that this claim is time-barred because DuPont had actual notice as early as December 2000 when DuPont received a copy of PwC's Final Report. Medtronic contends that the Final Report provided DuPont with "lists of specifically identified products that Medtronic had classified as being subject to the 1999 Amendment's 1.5% royalty rate, or its 1.0% rate, or as not being subject to royalties at all."[143]

The record evidence demonstrates that DuPont had actual knowledge of Medtronic's classification of products in December 2000. During its 2000 audit, PwC reviewed Medtronic's product classifications. In its December 12, 2000 Final Report, PwC specifically identified those products subject to a 1.0% royalty rate and those subject to a 1.5% royalty rate.[144] PwC, however, acknowledged that it

[143] Medtronic's Op. Brf. at 40.

[144] MT Ex. 25 at DUP0000444-446.

did not have sufficient information to determine whether Medtronic's classifications were accurate, and therefore, recommended that DuPont speak with Medtronic:

> PwC … recommends that DuPont and Medtronic AVE engineers discuss the underlying specifications of these products to determine whether application of the reduced royalty rate is appropriate. If application of the reduced royalty rate is not warranted, PwC shall calculate the amount of additional royalties due DuPont using the appropriate royalty rates.[145]

It appears that DuPont and Medtronic never discussed these product classifications.

As it turns out, several of the product classifications identified in PwC's Final Report were erroneous. For example, the Final Report identified the following products as bearing a 1.0% royalty rate – X1S balloons, X2S balloons, D114s balloons, and Be2 RX stents. DuPont contends, however, that these four products (as well as several others) were miscategorized and actually subject to a 1.5% royalty rate.[146] Yet, DuPont never brought these alleged misclassifications to light until this litigation commenced, approximately ten years after receipt of PwC's Final Report. DuPont's apparent failure to adequately review PwC's Final Report, or to recognize the alleged misclassifications, does not provide a basis to invoke any tolling doctrine. Therefore, DuPont's breach of contract claim with respect to product misclassification is time-barred.

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[145] *Id.* at DUP0000445-446.

[146] *See* DuPont's Brf. in Opp. at 41.

7. Abbott Sales

DuPont argues that Medtronic breached the PACRA by failing to pay royalties to DuPont for Abbott sales. Although DuPont acknowledges that it was aware of the underlying OEM Agreement between Medtronic and Abbott, effective May 9, 2002, DuPont contends that it was never informed that Medtronic was selling Products to Abbott on which royalties were due. According to DuPont, it did not learn of Medtronic's breach until this litigation "when certain internal documents showed such sales had been made, apparently beginning in 2005, and which were subject to the PACRA."[147]

The undisputed record establishes that the alleged breach occurred in 2005 when Medtronic sold Products to Abbott but failed to pay any royalties to DuPont.[148] DuPont neither alleges that this breach was inherently unknowable nor fraudulently concealed by Medtronic. Rather, DuPont's entire argument hinges on the fact that Medtronic never revealed to DuPont that it began selling Products to Abbott in 2005. DuPont's ignorance, however, does not operate as a basis for tolling the statute of limitations.[149]

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[147] *See* DuPont's Brf. in Opp. at 42.

[148] *See* DP Ex. JJJJ (Abbott Royalty Report).

[149] *See* Discussion *supra* IV.A.1. *See also Burrell v. Astrazeneca LP,* 2010 WL 3706584, at *7 (Del. Super.) ("Mere ignorance of the facts by a plaintiff, where there has been no [fraudulent] concealment, is no obstacle to operation of the statute [of limitations].") (citing *In re Dean Witter P'ship Litig*., 1998 WL 442456, at *6 (Del. Ch.)).

The Court finds that the cause of action accrued in 2005, more than three years before the parties entered into the tolling agreement, and is therefore time-barred.

8. Conclusion

The Court finds that each of DuPont's breach of contract claims is time-barred. The undisputed record establishes that DuPont was on notice of facts sufficient to lead to the discovery of each of the alleged breaches prior to August 25, 2006 – more than three years before DuPont and Medtronic executed a tolling agreement. DuPont has failed to meet its burden in demonstrating that a tolling doctrine resurrects any of its claims. Therefore, Medtronic is entitled to summary judgment as a matter of law.

B. CONTRACT INTERPRETATION

This case is complicated. It would be an understatement to say that the record is extensive. The attorneys for both parties have provided the Court with excellent written briefs. Oral argument, held over three days, was extremely helpful. All attorneys demonstrated extraordinary advocacy before this bench.

Having exhaustingly reviewed the evidence, written submissions and transcripts, it seems appropriate to provide the parties with a fulsome analysis. Therefore, even having found that this case must be dismissed as barred by the

statute of limitations, by way of alternative holding, a discussion of the substantive claim follows.

1. Principles of Contract Construction

Where the language of a contract is clear and unambiguous, the Court must construe the contract terms by their ordinary and usual meaning.[150] "Contract terms themselves will be controlling when they establish the parties' common meaning so that a reasonable person in the position of either party would have no expectations inconsistent with the contract language."[151] Upon a finding that the contract clearly and unambiguously reflects the parties' intent, the Court must refrain from destroying or twisting the contract's language, and confine its interpretation to the contract's "four corners."[152]

A contract is not rendered ambiguous merely because the parties dispute the meaning of its terms.[153] "Rather, a contract is ambiguous only when the provisions

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[150] *GMG Capital Invs., LLC v. Athenian Venture Partners I, L.P.,* 36 A.3d 776, 780 (Del. 2012) (citing *Paul v. Deloitte & Touche, LLP*, 974 A.2d 140, 145 (Del. 2009)). *See also Rhone-Poulenc Basic Chems. Co v. American Motorists Ins. Co*., 616 A.2d 1192, 1196 (Del. 1992) ("Ambiguity does not exist where the court can determine the meaning of a contract 'without any other guide than a knowledge of the simple facts on which, from the nature of the language in general, its meaning depends.'").

[151] *GMG Capital Invs*, 36 A.3d at 780 (citing *Eagle Indus., Inc. v. DeVilbiss Health Care, Inc*., 702 A.2d 1228, 1232 (Del. 1997)).

[152] *Doe v. Cedars Academy, LLC*, 2010 WL 5825343, at *5 (Del. Super.); *O'Brien v. Progressive Northern Ins. Co*., 785 A.2d 281, 288-89 (Del. 2001).

[153] *GMG Capital Invs*, 36 A.3d at 780 (citing *Rhone-Poulenc*, 616 A.2d at 1195).

in controversy are reasonably or fairly susceptible of different interpretations or may have two or more different meanings."[154] "[W]here reasonable minds could differ as to the contract's meaning, a factual dispute results and the fact-finder must consider admissible extrinsic evidence."[155]

2. PACRA Amendment Signed January 17, 1995 Does Not Affect Royalties

DuPont and Bard signed the 1995 amendment to the PACRA on January 17, 1995.[156] The January 1995 Amendment addressed limitations of DuPont's product liability risk. The following language was added:

> (B) BARD will not use any Material in any medical applications involving permanent implantation in the human body or permanent contact with internal body fluids or tissues (where permanent means residing for more than 30 days.).
>
> (C) BARD will indemnify DUPONT for all direct and consequential costs and damages caused to DUPONT due to a recall of a BARD product developed under a program of work described in Article III A, provided such recall is not a result of the negligence or willful misconduct of DUPONT, its agents or employees.[157]

Medtronic argues that because the January 1995 Amendment prohibited use of any DuPont Material in stents, it is now inconsistent for DuPont to seek summary judgment on its entitlement to collect royalties on stents. DuPont

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[154] *Rhone-Poulenc*, 616 A.2d at 1196.

[155] *GMG Capital Invs*, 36 A.3d at 776.

[156] MT Ex. 33 (January 1995 Amendment).

[157] *Id.* at DUP0000359.

contends that this change to the PACRA does not pertain to any provisions relating to payment of royalties, or to the definition of "Catheter."

The Court finds that the January 1995 Amendment does not alter any definition of "Catheter" in the PACRA. Further, the clear and narrow intent of the January 1995 Amendment was to prohibit DuPont Material from being used in any product or component part that would be left in a human body for more than 30 days; and to add indemnification to DuPont should DuPont be found liable in connection with the recall of a non-DuPont product.

Therefore, the Court grants summary judgment to DuPont on this issue. The amendment signed January 17, 1995 has no bearing on Medtronic's obligation to pay royalties under the PACRA.

3. Interpretation of PACRA Amendment Signed April 13, 1995

In April 1995, the parties amended the PACRA to address royalties on certain products.[158] The explicitly stated purpose of the April 1995 Amendment was to codify the agreement reached following "a series of discussions relating to program direction and royalties due under the [PACRA]."[159] The first numbered paragraph lists 3 areas in which the parties intended to continue collaborative

[158] MT Ex. 34 (April 1995 Amendment).

[159] *Id.* at DUP0000361.

research and development.[160] The second paragraph involves new work statements to be executed.[161]

The third paragraph lists three projects for which no further work will be done - megalumen guide, balloon catheter shaft, and coated guide wire projects.[162] This paragraph further provides:

> The parties recognize that Bard presently offers products in these areas but elected not to incorporate certain developments made via these work statements. DuPont anticipated that these developments would be incorporated into these products to compensate DuPont for its efforts under the work statements. ***Nevertheless, in view of current Bard business circumstances, DuPont agrees to waive any royalties due under the [PACRA] on the presently offered products.*** This concession by DuPont is made despite considerable resources that were expended by DuPont under these work statements. In the event that Bard should at a later time offer a new product incorporating any features developed, proposed or suggested by DuPont pursuant to these work statements (whether individually or jointly with Bard), royalties will be due pursuant to the [PACRA].[163]

(Emphasis added).

Paragraph 4 contains the language most disputed by the parties:

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[160] *Id.*

[161] *Id.* at DUP0000361-362.

[162] *Id.* at DUP0000362.

[163] *Id.*

> DuPont and Bard had previously conducted work under the [PACRA] in the areas of stents and aortic aneurysm liners. DuPont agrees to waive any royalties due under the [PACRA] attributable to stents (unless bioresorbable) and aortic aneurysm liners.[164]

Paragraph 5 addresses the reduction on the royalty rate for a specific product referred to as "RELY polyurethane balloon."[165]

Paragraph 6 states:

> The waivers and reduction in royalties described above are specific to the projects enumerated herein. All other terms and conditions of the [PACRA] continue in full force and effect regarding these projects except where expressly modified herein. Moreover, the waivers and reduction in royalties described above do not constitute a loss of any other rights under the [PACRA] or applicable law, including without limitation the right to collect fees for other Products.[166]

In its motion for summary judgment, DuPont argues that the April 1995 Amendment was not a waiver of royalties on the stent parts of the catheter at issue in this litigation. Rather, the April 1995 Amendment waived royalties only on those materials or technology developed under five specific projects. DuPont claims that it is undisputed that the five projects concerned research done on (1) megalumens, (2) guide wires, (3) balloon shaft development, (4) aortic aneurysm devices, and (5) stents. According to DuPont, the stent components involved in

[164] *Id.* at DUP0000362.

[165] *Id.*

[166] *Id.* at DUP0000363.

this case arose out of, or were related to, the stent project referenced in the April 1995 Agreement.

Medtronic counters that the April 1995 Amendment constitutes DuPont's waiver of any right to receive royalties on Medtronic's sale of any stents, other than bioresorbable stents. Additionally, unlike the other four projects for which DuPont was waiving royalties, Medtronic argues that there were no collaborative projects for stents other than the bioresorbable stent project. Medtronic contends that Paragraph 6 was not intended to apply to stents because other than bioresorbable stents, there were no other stent projects undertaken.

Reading the April 1995 Amendment as a whole, the Court finds the document to be unambiguous on its face. The Court need not refer to extrinsic evidence. Following negotiations, DuPont agreed, as set forth in Paragraph 3, to waive any royalties due under the PACRA on products offered as of the date of the Amendment. Paragraph 4 is DuPont's waiver of royalties on non-bioresorbable stents, to the extent work on those stents previously had been conducted under the PACRA. Paragraph 6 makes clear that the waivers and reduction in royalties are limited to the specifically-enumerated projects. All other terms and conditions of the PACRA continue in full force and effect. All rights to collect fees for other products are not affected.

The only reasonable interpretation of the April 1995 Amendment is that the waiver of royalties applies only to those non-bioresorbable stents, which were part of a product offered as of the date of the Amendment. It would be an overly-broad reading of the Amendment to find that the parties intended to waive royalties on ***all*** stents (other that bioresorbable): regardless of when the stent was developed; regardless of whether DuPont and Bard had previously conducted work under the PACRA in connection with a particular stent; or regardless of whether the stent was part of a product offered as the date of the Amendment.

4. Propriety of Apportionment of Royalties Under the PACRA

DuPont and Bard executed the PACRA on December 22, 1989.[167] Bard agreed to pay to DuPont certain fees. Article VII(A) states that such fees shall be "based on the cumulative Selling Price of all quantities of ***Products*** sold annually worldwide during the term of [the PACRA]." (Emphasis added).[168]

The PACRA defined a "***Product***" as: "any ***Catheter*** which utilizes a ***Material*** or ***Technology***."[169] "'***Material***' means any material developed by DU PONT... individually or jointly with BARD...."[170] "'***Technology***' means any

[167] MT Ex. 32.

[168] PACRA, Art. VII(A).

[169] PACRA, Art. II(K).

[170] PACRA, Art. II(B).

technology as developed by DU PONT...as well as any technology developed by DU PONT individually or jointly with BARD ...."[171] (Emphasis added).

The parties now dispute the definition of "***Catheter***." The PACRA provides: "'***Catheter***' means any tubular medical device or parts thereof designed for insertion into the vessels and channels of the human body to permit injection or withdrawal of fluids, or to occlude, dilate or keep a passage open."[172] (Emphasis added).

DuPont argues that the stent at issue in this case is "part" of the "Catheter." However, Medtronic did not pay royalties on the stent portion of the medical device. Therefore, according to DuPont, Medtronic underpaid DuPont by not calculating royalties on the full Selling Price of the "Catheters."

Medtronic contends that the stent and balloon catheter are separate. According to Medtronic, both the stent and balloon catheter are "Catheters," as defined by the PACRA. Although a stent would not be called a catheter "[i]n the real world," for purposes of the PACRA, a stent is a "Catheter" because it is a "tubular medical device or part[] thereof designed for insertion into vessels and channels of the human body to permit injection or withdrawal of fluids, or to occlude, dilate or keep a passage open." Because the stent is a "Catheter" that

[171] PACRA, Art. II(L).

[172] PACRA, Art. II(A).

does not use any DuPont Material or Technology, it is not a "Product" that generates royalties under the PACRA.

Nevertheless, Medtronic posits, it does not matter whether a stent is called a "Catheter;" a medical device other than a "Catheter;" an undefined catheter; or a stent. This is because a stent is a "Related Product." "Related Products" do not generate royalties.

The precise question before the Court on this issue is whether the stent is part of the total balloon catheter system - and thus subject to royalties; or whether the stent is either a separate "Catheter" or a "Related Product" - neither of which would generate royalties.

a. A Stent is not a "Catheter" as Defined by the PACRA

In its brief in opposition to DuPont's summary judgment motion, Medtronic conceded: "In the real world, a catheter is not a stent, and a stent is not a catheter, and confusing the two could be fatal for a patient."[173] Nevertheless, Medtronic posits:

> In the world that consists only of the four corners of the PACRA, and thus in this Court, a catheter still is not a stent, and a stent still is not a catheter. But within the four corners of the PACRA, and thus in this Court, a "Catheter" (with a capital "C") is an intentional creation of the PACRA drafters defined as "any tubular medical device or parts thereof designed for insertion into the vessels and channels of the human body to permit injection or withdrawal of

[173] Medtronic's Brf. in Opp. at 3.

> fluids, or to occlude, dilate or keep a passage open."...As a result, a catheter is a Catheter (with a capital "C") and a stent is also a Catheter (with a capital "C"). More importantly, and at the heart of the present dispute, within the four corners of the PACRA, and thus in this Court, a Catheter that uses a Material or Technology is a Product (with a capital "P") that generates royalties under the PACRA whereas a Catheter that does not use a Material or Technology is ***not*** a Product, but can be a Related Product (if sold in conjunction with a Product). A stent is a Catheter that does not use a Material or Technology. Thus, no royalties are due to DuPont on stents regardless of whether stents are called a Catheter, a medical device other than a Catheter, a catheter, or a stent, because a stent is a Related Product. And that distinction between a Product and a Related product, intentionally created by the drafters of the PACRA and used exactly in that manner for the 20 years since the PACRA's creation, is the critical distinction that DuPont all but ignores in its summary judgment briefing. That failure is fatal to DuPont's case.[174]

The Court is not persuaded by Medtronic's argument that the parties intended that a stent fall within the definition of "Catheter" for purposes of the PACRA. It strains reason and common sense to call a stent a Catheter. The parties to the agreement are highly sophisticated in the area of medical technology. If the definition of "Catheter" had been intended to include stents, the parties could have so stated. Such a clear definition would have been entirely consistent with the careful and scientifically-precise drafting reflected throughout the agreement. The PACRA simply cannot reasonably be read to reflect any joint intention of the parties that a stent is a "Catheter."

[174] *Id.* at 3-4.

The apparently purely-coincidental fact that a stent happens to be a "tubular medical device...designed for insertion into the vessels and channels of the human body...to occlude, dilate or keep a passage open" does not mean that the parties considered a stent a Catheter. The PACRA cannot reasonably be interpreted so as to convert a stent into a Catheter. Such an interpretation would require the type of convoluted and contorted analysis necessary to wedge a square peg into a round hole.

In any event, this finding is not dispositive on the issue of whether the stent is royalty-generating.

b. A Stent is not a "Part" of a Stent System Catheter Under the PACRA

The device at the center of this case is composed of a stent, balloon, proximal shaft, distal shaft, guidewire lumen, and proximal adapter. It is undisputed that only the balloon portion of the device utilizes DuPont Material and Technology. It is also undisputed that the stent does not utilize DuPont Material and Technology.

The type of catheter at issue in this litigation is used in coronary angioplasty. Angioplasty surgeons use catheters to open constricted or blocked blood vessels. Catheters are designed both with and without stents.

Without a stent, a tubular device is equipped with a balloon. The balloon end of the catheter is inserted into a blood vessel, and the balloon is inflated. The entire device then is removed from the body.

If a stent is used, it is mounted on the outside of the balloon portion of the catheter device. When the balloon is inflated, the stent expands with the balloon until the stent touches the blood vessel wall. The stent remains to hold the vessel open. The rest of the catheter device is removed from the body.

At the present time, the Medtronic catheter is sold as a single product. The tubular device, with attached balloon and mounted stent, are described in the Medtronic marketing materials, which advertise the stent system as a single unit. The catalog describes a single medical device - a "coronary stent...mounted on an extended pressure, semi-compliant, over-the-wire delivery system." One item number or product code applies to the entire catheter system. Customers may purchase the stent system in various sizes, however, the stent is mounted on other parts of the catheter. The catheter system is shipped in a single sterile package. The Food and Drug Administration approved the catheter system as a single device.

The packaging and marketing materials are informative for purposes of determining whether the stent is part of a Catheter. Nevertheless, Medtronic's

choice of the most advantageous means of selling the medical device is not determinative. The terms of the PACRA control this disputed issue.

i. Development of Stents

DuPont contends that at the time the parties negotiated and executed the PACRA in 1989, DuPont intended the term "Catheter" to cover stents. According to DuPont's Patrick Foley, although stents were not completely "evolved" at the time the PACRA was executed, DuPont nonetheless "anticipated [that] stents may play a role" in the development of balloon catheters.[175] Therefore, Dupont contends that it negotiated for a broad definition of the term "Catheter" so as to ensure that stents would be included within this definition.[176]

The Court is not persuaded by DuPont's argument. The undisputed evidence establishes that in 1989, at the time the PACRA was executed, DuPont was not manufacturing or selling stents.[177] Bard's product line did not include

[175] DP Ex. A, Foley Dep. 80:2-80:24 (explaining that DuPont "knew stents were going on, and [was] aware of [stents]" and therefore anticipated that stents may play a role in catheters). *But see* MT Ex. 13, Knox Dep. 62:1-64:10 (explaining that DuPont and Bard collaborated on the development of angioplasty balloons before the existence of stents).

[176] *See* DP Ex. A, Foley Dep. 80:23-80:25.

[177] DP Ex. A, Foley Dep. 79:23-80:19 (explaining that DuPont "knew stents were going on, and [was] aware of [stents]"); DP Ex. 13, Knox Dep. 62:3-65:17 (explaining that at the time Bard and DuPont collaborated on angioplasty balloons, stents were not yet in existence).

any commercial stent products at that time.[178] Indeed, stents were not even commercially available for use in coronary angioplasty procedures in the United States in 1989.[179] It was not until 1993 that the FDA approved the sale of coronary stents in the United States.[180] Therefore, at least initially, the angioplasty balloons developed as a result of the collaboration between Bard and DuPont did not include stents.[181]

ii. A Stent is a Separate Component

Balloon catheters have been commonly used for angioplasty procedures since at least the mid-1980s. Bard first began to sell balloon catheters mounted with stents in the 1990s. It is undisputed that a balloon catheter can be produced, sold and used as a medical device without a stent.

The parties have never disagreed that Medtronic owed royalties to DuPont on balloon catheters attached to balloons that were designed using DuPont Materials and Technology. Only the balloon piece of the catheter uses DuPont Materials and Technology.

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[178] *See* DP Ex. X, Brister Dep. 35:22-36:14 (Bard had no commercial sales of any stent products before AVE's acquisition); MT Ex. 43 (7/9/98 interoffice memorandum from Knox stating that Bard has not had a stent product to date).

[179] Housman Affidavit in Support of Medtronic's Op. Brief at ¶ 4 ("When C.R. Bard, Inc. ('Bard') entered into the PACRA in 1989, stents were not commercially available for use in coronary angioplasty procedures in the United States.").

[180] Housman Affidavit in Support of Medtronic's Op. Brief at ¶ 5.

[181] DP Ex. 13, Knox Dep. 62:3-65:17 (explaining that there was no expectation, early on, that angioplasty balloons would include stents).

With the advance of medical technology, the balloon catheter was repurposed for use, in part, as a stent delivery system. The stent slides onto the balloon portion of the catheter system like a sleeve, and then is compressed onto the balloon in preparation for insertion into the body. The balloon opens the vessel, the balloon catheter is removed, and the stent remains in the body to keep the vessel open.

The stent is not glued, bonded, fused, or otherwise permanently attached to the balloon catheter. The balloon catheter functions as a delivery system for the stent, which remains in place after the balloon catheter is removed. A balloon catheter without a stent is a disposable device. The stent is a permanent implant in the body, and is not dependent on the balloon catheter to perform its continuing function. The stent is the only portion of the balloon catheter system that is not permanently attached, and that ultimately is separated from the other pieces of the catheter.

The Court finds that although used in conjunction with the balloon catheter, the stent is not "part" of the Catheter as defined in the PACRA. Viewing the PACRA in its entirety, the Court finds that the stent is a separate component designed for use with the royalty-bearing balloon catheter system.

iii. A Stent is a "Related Product" When Sold with a Balloon Catheter that Incorporates a "Material" or "Technology"

A "***Related Product***" is any material or product "sold in conjunction with a Product."[182]

The "***Selling Price***" is the invoice price, less certain costs, taxes and other allowances.[183] If a "***Product***" is sold with any "***Related Product***," the "***Selling Price***" is calculated by:

> (i) multiplying the invoice price for such sale by a fraction, the numerator of which is the Factory Cost of such Product to BARD or its Affiliate or sublicensee hereunder and the denominator of which is the Factory Cost of such Product plus the Related Product sold in conjunction therewith to BARD or such Affiliate or sublicensee....[184]

The clear purpose of the PACRA was to reasonably compensate DuPont for its contribution of DuPont Materials and Technology to Medtronic products.

It is undisputed that the balloon is the only piece of the Medtronic catheter system that utilized DuPont Materials and Technology. There is no dispute that stents contain no DuPont Materials or Technology. The remaining pieces of the catheter system, which are permanently attached to the balloon, are not the result of DuPont Materials or Technology.

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[182] PACRA, Art. II(I).

[183] PACRA, Art. II(D).

[184] *Id.*

There is no question that the entire Medtronic catheter system is sold together, and designed to be used at the same time, for the same medical procedure. Having found that the stent is not "part" of the balloon catheter as defined in the PACRA, the only rational conclusion is that the stent is a Related Product.

5. 1999 Amendment Terminated Royalty Obligations on Sales of Medtronic Products as of July 5, 2003

The 1999 Amendment to the PACRA established reduced royalty rates for certain medical devices. Specifically, as to balloon catheters developed for future use, Paragraph 2 provides, in pertinent part:

> 2. Medtronic AVE shall pay to Dupont, beginning the effective date of this Agreement a fee of one and one-half percent (1.5%), which shall not be returnable in any event, based on the cumulative Selling Price of all quantities of such Products sold annually worldwide until July 5, 2003. **Except as provided in Section (8) herein, no other fees shall be due with respect to any such Products.**[185]

(Emphasis added).

Similarly, Paragraph 3 provides for a reduced royalty rate for balloon catheters presently sold:

> 3. Effective January 1, 2000, catheters with nylon balloons … will be deemed to be a Product under the Research Agreement, subject to a fee of one percent (1.0%), which shall not be returnable in any record, also based on the cumulative Selling Price of all quantities of such Products sold annually worldwide until July 5, 2003.

[185] MT Ex. 42 (1999 Amendment).

Because Paragraph 3 does not contain the last sentence of Paragraph 2, DuPont contends that only fees on Paragraph 2 Products expired on July 5, 2003. As to Paragraph 3 Products, sold after July 5, 2003, DuPont claims that Article VII of the PACRA sets forth the appropriate royalty rate.

The Court finds that the clear and unambiguous language of the 1999 Amendment establishes that from January 1, 2000 until July 5, 2003, Paragraph 3 Products would be subject to a 1% royalty rate. Medtronic's royalty obligations, with respect to Paragraph 3 Products, then would terminate on July 5, 2003.

Contrary to DuPont's assertion, the 1999 Amendment is devoid of any language whatsoever suggesting that Medtronic would owe fees on Paragraph 3 Products after July 5, 2003, much less be subject to PACRA's heightened royalty rates. Had the parties intended for Paragraph 3 Products to be subject to royalties after July 5, 2003, such a provision should have been explicitly included in the parties' agreement. The Court declines to insert a new term into the parties' agreement.[186] The Court finds that pursuant to the 1999 Amendment, Medtronic's royalty obligations, with respect to Paragraph 2 and Paragraph 3 Products, terminated on July 5, 2003.

[186] *See Cincinnati SMSA Ltd. P'Ship v. Cincinnati Bell Cellular Sys. Co.,* 708 A.2d 989, 992 (Del. 1998) ("[I]t is not the proper role of a court to rewrite or supply omitted provisions to a written agreement…. In the narrow context governed by principles of good faith and fair dealing, this Court has recognized the occasional necessity of implying such terms in an agreement so as to honor the parties' reasonable expectations. But those cases should be rare and fact-intensive, turning on issues of compelling fairness.") (internal citations omitted).

6. PACRA Applies to Cordis Sales

In December 1993, Bard licensed certain patents to Cordis.[187] Cordis agreed to pay Bard royalties for licensed products. The PACRA provides that Bard was obligated to pay royalties to DuPont on Products sold by its licensees.[188] The royalty-calculation provisions under the PACRA differ in many ways from the method of calculating royalties in the agreement between Cordis and Bard.

It is undisputed that Medtronic succeeded to all obligations of Bard under the PACRA. As successor, Medtronic received royalties from Cordis pursuant to the license agreement. Some royalties were passed on to DuPont. Medtronic does not contest that it is obligated to pay DuPont royalties on Cordis sales pursuant to the terms of the PACRA - not pursuant to the terms of its license with Cordis. However, the parties dispute how such royalties should have been calculated under the PACRA. DuPont claims that it is entitled to royalties on stents. Medtronic contends that royalties should be apportioned.

Medtronic also argues that summary judgment should be denied because DuPont has failed to present evidence that Cordis' method of royalty calculations has resulted in any damage to DuPont. DuPont counters that it need not prove

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[187] MT Ex. 35 (Levy License Agreement).

[188] *See* PACRA, Art. VII(A).

damages at this point because quantification of damages should take place during expert discovery.

On the record before the Court at this juncture, there simply is not sufficient evidence to determine whether or not royalties due to DuPont (from Cordis sales through Medtronic) have been calculated properly. Nor is there record evidence necessary for a finding of whether DuPont has been damaged.[189] There are genuine issues of material fact that cannot be resolved on this summary judgment record. In any event, the correct royalty calculation must be consistent with the Court's prior rulings on interpretation of the PACRA.

7. Abbott Sales

It is undiputed that Medtronic never paid royalties to DuPont on any sales of Catheters to Abbott. The parties, however, dispute whether DuPont was entitled to any royalties from these sales. Medtronic argues that pursuant to the 1999 Assignment Agreement, Medtronic was not obligated to pay royalties on sales by new licensees granted licenses after January 1, 1999. In response, DuPont contends that the PACRA requires Medtronic to pay royalties on any sales by sublicensees, which includes sales by Abbott.

Paragraph 2 of the 1999 Assignment Agreement provides, in pertinent part:

[189]The Court is not opining on the issue of whether DuPont has the burden at this stage in the proceedings to demonstrate the existence of damages.

> Effective as of January 1, 1999, AVE assumes all of the liabilities and obligations of Bard under the R&D Agreement, except for the payment of fees with respect to (i) any sales of Products (as defined in the R&D Agreement) made prior to January 1, 1999, (ii) any sales of products made on or after January 1, 1999 by Bard or any Affiliate (as defined in the R&D Agreement of Bard and **(iii) any sales of Products made on or after January 1, 1999 by any party identified in clause (ii) or (iv) pursuant to a sublicense or other grant of right granted on or after January 1, 1999.**[190]

(Emphasis added). "[C]lause (ii) or (iv)" refers to Article VII(A)(ii) and Article VII(A)(iv) of the PACRA, which provides for royalties on sales by Bard's licensees and sublicensees.[191]

Pursuant to the 1999 Assignment Agreement, AVE/Medtronic "stepped into the shoes"[192] of Bard and assumed all of Bard's obligations, liabilities, rights and interest under the PACRA and its amendments, with some exemptions.[193] As set forth above, Paragraph 2 of the 1999 Assignment Agreement exempts Medtronic from paying royalties to DuPont on any sales made by sublicensees of Bard (PACRA, Article VII(A)(ii)) or any third parties given the right to do so by Bard

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[190] MT Ex. 37 at ¶ 2.

[191] *See* PACRA, Art. VII(A) ("(A) Bard shall pay to DuPont, beginning June 1, 1989, the following fees, which shall not be returnable in any event, based on the cumulative Selling Price of all quantities of Products sold annually worldwide during the term of this Agreement by: (i) Bard, (ii) any sublicensee of Bard, (iii) any Affiliate of Bard, and (iv) any third party that has been given the right to do so by Bard or any sublicense or Affiliate of Bard ….").

[192] *See Price Auto Group v. Dannemann*, 2002 WL 31260007, at *8 (Del. Super.) (citing *Merck & Co. v. Smithkline Beecham Pharms. Co*., 1999 WL 669354, at *44 (Del. Ch.) ("[A]ssignee steps into shoes of the assignor.")).

[193] *See* MT Ex. 37 at ¶¶ 1, 2.

or any sublicensee or Affiliate of Bard (PACRA, Article VII(A)(iv)), if the sublicensee was granted on or after January 1, 1999.

However, by executing the 1999 Assignment Agreement, Bard relinquished all rights and obligations under the PACRA as of January 1, 1999. including Bard's right to grant sublicensees. Therefore, to give any meaning to Paragraph 2 of the 1999 Assignment Agreement, the Court must substitute "Medtronic" for "Bard" in Article VII(A) of the PACRA, and find that Medtronic is exempted from paying royalties on sales of Products made by sublicensees of Medtronic, or any third parties given the right to do so by Medtronic or any sublicensee or Affiliate of Medtronic, if Medtronic granted the sublicense on or after January 1, 1999.[194]

Abbott was granted a sublicense by Medtronic in 2002.[195] Therefore, pursuant to Paragraph 2 of the 1999 Assignment Agreement, Medtronic is exempt from paying royalties to DuPont on any of Abbott's sales of Products.

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[194] *See Sonitrol Holding Co. v, Marceau Investissments*, 602 A.2d 1177, 1183 (Del. 1992) ("Under general principles of contract law, a contract should be interpreted in such a way as to not render any of its provisions illusory or meaningless.") (citing *Seabreak Homeowners Ass'n, Inc. v. Gresser*, 517 A.2d 263, 269 (Del. Ch. 1986)).

[195] MT Ex. 83 (OEM Agreement).

V. CONCLUSION

The Court hold as follows:

(1) Medtronic's summary judgment motion on the issue of whether this action is barred by the applicable statute of limitations is hereby **GRANTED**.

By way of alternative holding, the Court finds as follows:

(2) DuPont's summary judgment motion on the issue of whether the January 1995 Amendment to the PACRA affects royalty provisions is hereby **GRANTED**.

(3) DuPont's summary judgment motion on the issue of whether the April 1995 Amendment to the PACRA affects royalties on stents is hereby **GRANTED**.

(4) Medtronic's cross-motion for summary judgment on the issue of whether the April 1995 Amendment to the PACRA waives royalties on stents is hereby **DENIED**.

(5) DuPont's summary judgment motion on the issue of whether a stent is "part" of a "Catheter" under the PACRA is hereby **DENIED**.

(6) Medtronic's cross-motion for summary judgment on the issue of whether a stent is a "Related Product" and a separate "Catheter" under the PACRA is hereby **GRANTED IN PART AND DENIED IN PART.**

(7) DuPont's summary judgment motion on the issue of whether royalties under Paragraph 3 of the 1999 Amendment to the PACRA revert to the royalty rate after July 5, 2003 is hereby **DENIED**.

(8) Medtronic's cross-motion for summary judgment on the issue of whether royalties under Paragraph 3 of the 1999 PACRA Amendment terminated on July 5, 2003 is hereby **GRANTED**.

(9) DuPont's summary judgment motion on the issue of whether the PACRA applies to Cordis sales is hereby **GRANTED**.

(10) Medtronic's summary judgment motion on the issue of whether apportionment is applicable to Cordis sales is hereby **DENIED**.

(11) Medtronic's summary judgment motion on the issue of whether Medtronic owes royalties on Abbott sales is hereby **GRANTED**.

IT IS SO ORDERED.

/s/ Mary M. Johnston
MARY M. JOHNSTON, JUDGE

Original to Prothonotary
cc: All counsel via File & Serve

SUPERIOR COURT
OF THE
STATE OF DELAWARE

JOSEPH R. SLIGHTS, III
JUDGE

NEW CASTLE COUNTY COURTHOUSE
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November 18, 2011

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Re: ***E.I. DuPont de Nemours & Co. v. Medtronic Vascular, Inc.***
C.A. No. N10C-09-058 JRS CCLD

Dear Counsel:

This letter will address E. I. DuPont de Nemours & Co.'s motion to compel production of Lawrence Fassler's Draft Letter ("draft letter")(Tr. ID 40687667). The Court has now had an opportunity to study the transmittal email, dated March 31, 1999, from Lawrence Fassler, Esq. to Messrs. Rasdal, Brister, Madden, Klein, Esq., and Guibault to which the draft letter at issue was attached. Without revealing its contents, the Court has concluded that the email reflects an attorney-client communication in which Mr. Fassler both delivers and requests legal advice regarding the scope of royalties on Arterial Vascular Engineering, Inc.'s stint systems that would/should be paid to DuPont. The draft letter was a subject of the legal

advice being rendered and requested by Mr. Fassler.[1] Accordingly, the Court is satisfied that the draft letter is protected by the attorney-client privilege. The motion to compel, therefore, must be **DENIED.**

As the Court mentioned at the conclusion of argument on the motion to compel, the Court has not considered whether there has been a waiver of the attorney-client privilege or whether there may be some other basis to find that the privilege is not applicable to this particular document. I will allow the parties to determine and then propose to the Court when/if, and in what manner, these issues should be addressed.

IT IS SO ORDERED.

Very truly yours,

Joseph R. Slights, III

[1] The Court is satisfied that the letter, incorporated within the March 31, 1999 Fassler email, reflects: "(1) a communication, (2) between a client and attorney, (3) that is confidential, and (4) is made to facilitate the attorney's legal services to the client." *In re Circon Corp. Shareholders Litig.*, 1998 Del. Ch. LEXIS 121, at * 10-11 (Del. Ch. July 6, 1998).

IN THE SUPERIOR COURT OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

E.I. DU PONT DE NEMOURS AND COMPANY,	)	
Plaintiff,	)	
v.	)	C.A. No. N10C-09-058 JRS CCLD
MEDTRONIC VASCULAR, INC.,	)	
Defendant.	)	

Date Submitted: February 20, 2012
Date Decided: March 13, 2012

MEMORANDUM OPINION

Upon Consideration of Motions to Compel Discovery.
GRANTED in Part and DENIED in Part.

Richard L. Horwitz, Esquire, Suzanne Hill Holly, Esquire and John A. Sensing, Esquire. POTTER ANDERSON & CORROON LLP, Wilmington, Delaware. David J. Wolfsohn, Esquire and John P. Donohue, Jr.. WOODCOCK WASHBURN LLP. Philadelphia, Pennsylvania. Attorneys for Plaintiff E.I. duPont de Nemours and Company.

David S. Eagle, Esquire and Sally E. Veghte, Esquire, KLEHR HARRISON HARVEY BRANZBURG LLP, Wilmington, Delaware. William Z. Pentelovitch, Esquire, Haley N. Schaffer, Esquire, David Suchar, Esquire and D. Scott Aberson, Esquire, MASLON EDELMAN BORMAN & BRAND LLP, Minneapolis, Minnesota. Attorneys for Defendant Medtronic Vascular, Inc.

SLIGHTS, J.

I.

On February 20, 2012, the Court heard several discovery motions filed by both parties to this breach of contract action - plaintiff, E.I. DuPont de Nemours & Company ("DuPont") and defendant, Medtronic Vascular, Inc. ("Medtronic"). During and at the conclusion of a lengthy hearing, the Court issued oral rulings disposing of all but a few of the disputes presented in the motions. The Court took under advisement the following discreet issues: (1) the extent to which the attorney-client privilege will protect factual content within an attorney-client communication; (2) the extent to which a former employee may assert the attorney-client privilege to protect her communications with counsel for her former employer; and (3) the extent to which a party's document preservation obligation extends to documents created and maintained by an outside auditor.

For the reasons that follow, the Court has determined that: (1) both parties have properly invoked the attorney-client privilege to protect "factual" content within certain documents identified in their respective privilege logs; (2) DuPont has properly invoked the attorney-client privilege on behalf of a former employee in withholding certain documents and in instructing her not to answer certain questions at deposition; and (3) DuPont has complied with its document preservation obligations with regard to documents prepared and maintained by its independent

auditors. The motions to compel this discovery are, therefore, **DENIED.**

II.

This dispute involves a 1989 development and license agreement between DuPont and Medtronic (the "PACRA") pursuant to which a predecessor of Medtronic agreed to pay DuPont royalties for certain designated "Products" that incorporated designated DuPont "Material" or "Technology." DuPont alleges that Medtronic has breached the PACRA by failing to pay royalties on certain Products which DuPont alleges are royalty-bearing. Medtronic denies that it owes royalties to DuPont and, moreover, alleges that DuPont's claims are barred by the statute of limitations. The parties have engaged in substantial discovery and, as noted, have sought the Court's intervention to resolve various discovery disputes that have arisen between them.

III.

A. The Parties' Motions to Compel Factual Content Within Documents Withheld Under The Attorney-Client Privilege

On October 31, 2011, DuPont moved to compel production of a draft letter prepared by a Medtronic in-house attorney, Lawrence Fassler, Esq., dated April 1, 1999, and addressed to Katherine Knox, a DuPont employee (the "Fassler letter"). The Fassler letter had been inadvertently produced but then "clawed back" by Medtronic on the ground that the document was protected by the attorney-client

privilege. After reviewing *in camera* a memorandum prepared by Fassler that explained the context in which he had prepared the Fassler letter (and to which the Fassler letter had been attached), the Court ruled that the entire draft letter (including its "factual" content) reflected a privileged attorney-client communication. The motion to compel production of the letter was denied.

DuPont has now argued that, in denying its motion to compel production of at least the factual content of the Fassler letter, the Court has "adopted [a] fairly broad reading of the attorney-client privilege."[1] This "broad reading" of the privilege, according to DuPont, has allowed Medtronic to resist producing the factual content of privileged documents when it wishes to do so (e.g. the Fassler letter), but to produce factual content within otherwise redacted privileged documents when it senses that such content will enhance its litigation positions. By disclosing what this Court has determined to be privileged information in certain documents, DuPont contends that Medtronic has waived the privilege as to these documents and should be compelled to produce them.[2] Similarly, in its opposition to a Medtronic motion

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[1]Plaintiff E.I. DuPont de Nemours & Co.'s Opposition to Defendant Medtronic Vascular Inc.'s January 13, 2012 Motion to Compel ("DuPont 01/23/12 Response") at 7.

[2]*Id.* at 2. *See also* E.I. DuPont de Nemours & Co.'s Motion to Determine The Sufficiency of Responses to Requests for Admission and Motion to Compel Documents and Reopen Depositions ("DuPont's Motion to Compel Documents Withheld As Privileged") at 1-4 (referring to the Court's ruling denying its motion to compel the Fassler letter).

to compel documents it has withheld as privileged, DuPont argues, *inter alia,* that its practice of designating entire documents containing attorney-client communications as privileged, even when the documents contain some factual content, is entirely consistent with the law of the case, as established in this Court's ruling on the motion to compel the Fassler letter.[3]

DuPont's characterization of the Court's prior ruling gives a faintly bitter nose with a hint of sour grape. It may, however, be the product of legitimate confusion, particularly given the brevity of the Court's written decision denying DuPont's motion to compel the Fassler letter. Although the Court will not revisit that ruling, it will, as promised, explain its view of the settled law regarding the extent to which the attorney-client privilege protects the disclosure of factual content within attorney-client communications. In this regard, the Court does not write on *tabula rasa.*

The attorney-client privilege protects "confidential communications made for the purpose of facilitating the rendition of professional legal services to the client...."[4] This "privilege is the oldest of the privileges for confidential communications known to the common law."[5] As *Upjohn* explained:

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[3]*Id.*

[4]D.U.R.E. 502 (b).

[5]*Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981) (citation omitted).

> Its purpose is to encourage full and frank communication between attorneys and their clients and thereby promote broader public interests in the observance of law and administration of justice. The privilege recognizes that sound legal advise or advocacy serves public ends and that such advice or advocacy depends upon the lawyer's being fully informed by the client.[6]

Of particular relevance here, *Upjohn* observed that "the privilege exists to protect not only the giving of professional advice to those who can act on it but also the giving of information to the lawyer to enable him to give sound and informed advice."[7] On the other hand, *Upjohn* recognized that "[t]he privilege only protects disclosure of communications; it does not protect disclosure of the underlying facts by those who communicated with the attorney."

Any proper application of the rule articulated in *Upjohn* requires a clear understanding of the distinction between a "fact" and a "communication concerning that fact."[8] The distinction was plainly articulated in *Upjohn* itself:

> The protection of the privilege extends only to *communications* and not to facts. A fact is one thing and a communication concerning that fact is an entirely different thing. The client cannot be compelled to answer the question, 'what did you say or write to the attorney?' but may not refuse to disclose any relevant fact within his knowledge merely because he incorporated a statement of such fact into his communication to his

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[6] *Id.*

[7] *Id.* at 390.

[8] *Upjohn*, 449 U.S. at 395.

attorney.[9]

It is clear from *Upjohn*, and the Delaware cases interpreting *Upjohn*, that the attorney-client privilege will protect a confidential factual communication made by a client to counsel or counsel to client "for the purpose of facilitating the rendition of professional legal services to the client."[10] In other words, a party cannot be compelled to disclose the facts he communicated to his attorney to enable the attorney meaningfully to dispense legal advice. But he can be asked to disclose facts he knows personally or knows of from other sources, even if he disclosed those facts to his attorney. The distinction is subtle but significant. In the former scenario, the facts become part of and are integral to the attorney-client communication and are, therefore, protected from disclosure unless the attorney-client privilege as to that communication is waived. In the latter scenario, the facts known to the party through non-privileged means are just that, facts, and they must be disclosed in response to properly propounded discovery unless there is some other legitimate bases upon

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[9] *Id.* at 395-96 (emphasis in original).

[10] *Cincinnati Bell Celluar Systems Co.*, 1995 WL 347799, at * 2. *See also Phillips Elect. North Amer. Corp. v. Universal Elect., Inc.* 892 F.Supp. 108, 110 (D. Del. 1995) (noting that the attorney-client "'privilege recognizes that sound legal advice or advocacy depends upon the lawyer's being fully informed by the client.'") (quoting *Upjohn).*

which to withhold disclosure or resist the discovery.[11] This is the holding in *Upjohn* and the law of attorney-client privilege in Delaware.[12] The Court now turns to the parties' motions to compel "facts" within attorney-client privileged documents.

1. DuPont's Motion To Compel Production Of Documents Withheld By Medtronic Under The Attorney-Client Privilege

DuPont seeks an order compelling Medtronic to produce unredacted versions of two documents, both of which Medtronic has produced in redacted form. The first document is an email, dated April 6, 1999, from Lawrence Fassler, Esq., a former in-house attorney at Medtronic, to members of Medtronic's management team (the "Fassler email"). The unredacted portion of the Fassler email describes DuPont's position with regard to the calculation of royalties Medtronic owes to DuPont upon the sale of certain Medtronic products. It appears that this information was gleaned from conversations between DuPont and Medtronic management. The second document is an email, dated December 3, 2003, from Sarah Koopmans, a Medtronic financial analyst, to Michael Jaro, Esq., Medtronic's chief patent counsel (the

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[11]Thus, for example, with regard to the Fassler letter, DuPont is not entitled to discover what facts were disclosed to Fassler, by Messrs. Madden and Brister or otherwise, that prompted him to recommend to his clients that the Fassler letter be sent to Ms. Knox. DuPont is, however, entitled to inquire of Messrs. Madden and Brister what facts they knew of DuPont's position regarding its entitlement to royalties under the PACRA even if those facts were disclosed to Mr. Fassler.

[12]The protection applies both ways - - factual content embedded within an attorney's confidential communication to a client is also protected by the privilege.

"Koopmans email"). The Koopmans email, in its entirety, reads: "Hi Mike, I received a call today from Don Loveday at DuPont. They believe royalties are still due them. Don would appreciate a call at [phone number] to discuss. Thanks, Sarah." DuPont argues that the production of the unredacted portions of the Fassler email and the entire Koopmans email constitutes a waiver of the attorney-client privilege "with regard to the advice it received regarding how to calculate royalties under the PACRA."

There is no indication in the Koopmans email that legal advice was being requested or delivered. Thus, the email does not implicate the attorney-client privilege and its production by Medtronic does not waive the attorney-client privilege.[13]

As to the Fassler email, Medtronic has listed it in its privilege log and bears "the burden of proving that the privilege applies to [the document]."[14] The privilege log lists the author, recipients and date of the email and describes the document as a "[c]onfidential email from counsel regarding legal advice and made for purposes of facilitating rendition of legal services regarding royalty obligations under PACRA

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[13]*See Dunlap Corp. v. Deering Milliken, Inc.*, 397 F. Supp. 1146, 1191 (D.S.C. 1974) (holding that if a communication is not privileged its disclosure cannot constitute a waiver as to privileged materials dealing with the same subject matter).

[14]*Moyer v. Moyer*, 602 A.2d 68, 72 (Del. 1992).

and discussions with DuPont regarding PACRA Amendment." DuPont has not challenged the adequacy of this description, nor has it raised an earnest challenge to Medtronic's invocation of the attorney-client privilege as to this document.[15] Rather, as stated, DuPont's position is that Medtronic has waived the privilege by disclosing a portion of the factual content of the email.

"Where defendants have adequately demonstrated the privilege, plaintiffs have the burden of showing good cause to pierce the privilege...."[16] Nothing in the unredacted portion of the Fassler email indicates that the facts recited there were necessary to "facilitat[e] the rendition of professional legal services to the client...."[17] Nor does the unredacted portion of the email suggest that Fassler was recounting a confidential communication from a client. Rather, Fassler merely restates his

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[15]Even if DuPont had challenged the adequacy of Medtronic's privilege log entry, the Court would reject that challenge. As noted, the log identifies: "(a) the date of the communication; (b) the parties to the communication; (c) the names of the attorneys who were parties to the communication; and (d) the subject matter of the communication sufficient to show why the privilege applies...." *Klig v. Deloitte LLP*, 2010 WL 3489735, at *5 (Del. Ch. Sept. 7, 2010).

[16]*In re Fuqua Indus. Inc. Shareholders Litig.*, 1999 WL 959182, at *2 (Del. Ch. Sept. 19, 1999). *See also F.D.I.C. v. Ogden Corp.*, 202 F.3d 454, 460 (1st Cir. 2000) (holding that "the devoir of persuasion shifts to the proponent of the exception" to the established privilege). The Court is mindful of contrary authority. *See United States v. Deloitte LLP*, 610 F.3d 129, 139-40 (D.C. Cir. 2010) (holding that the party asserting the attorney-client privilege bears the burden of establishing that the privilege has not been waived). In this case, the Court is satisfied that the production of the unredacted portions of the Fassler email does not constitute a waiver of the attorney-client privilege, either as to the balance of the document or as to the subject matter of the document, regardless of which party bears the burden on the waiver issue.

[17]D.U.R.E. 502 (b).

understanding of DuPont's position with respect to the calculation of royalties under the PACRA in a manner that apparently was readily severable from the confidential communication he intended to share with his client. To the extent facts contained within a communication from attorney to client are incidental to the rendering of legal services, and readily severable from the confidential communication, it is proper for a party to disclose that factual content to his adversary in litigation (if otherwise discoverable) without fear that doing so will waive the privilege.[18]

Medtronic has not waived the attorney-client privilege by producing a portion of the Fassler email. DuPont's motion to compel production of the redacted portions of the email, and other Medtronic documents withheld as privileged dealing with the same subject matter (including the Fassler letter) is, therefore, **DENIED.**

Medtronic produced the Fassler email in redacted form on January 31, 2012, the last day of fact discovery as set by the Court's Trial Scheduling Order. By that time, DuPont had already taken the depositions of both the author and at least some of the recipients of the document. DuPont has moved the Court for leave to reopen these depositions so that it might question authors and recipients about the disclosed

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[18]*See Upjohn*, 449 U.S. at 395-96 (distinguishing "facts" from confidential "communications"); *Garvey v. Nat'l Grange Mut. Ins. Co.*, 167 F.R.D. 391, 395 (W.D. Pa. 1996) (holding that attorney-client privilege will not attach when attorney is merely communicating to his client facts he learned from "persons or sources other than the client" separate and apart from legal advice he is rendering to the client).

portion of the Fassler email. The request is well founded and will be **GRANTED.**[19] The re-opened depositions shall last no longer than one hour and shall be limited to the content of the disclosed portion of the Fassler email and topics reasonably derived from that email.

2. Medtronic's Motion To Compel Production Of Documents Withheld ByDuPont Under The Attorney-Client Privilege

DuPont produced its log of privileged documents to Medtronic on November 7, 2011. Medtronic moves to compel production of several documents from the privilege log arguing that the descriptions on the log reveal that at least portions of the documents contain non-privileged facts which should be excised from the privileged communications and produced to Medtronic.[20] DuPont, of course, points to Medtronic's opposition to DuPont's motion to compel the factual content of the Fassler letter and argues that "Medtronic has had a convenient change of heart" with respect to its position on the discoverability of factual content within otherwise

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[19]*See In re Walt Disney Co. Deriv. Litig.*, 2004 WL 1125185, at *1 (Del. Ch. May 4, 2004) (granting leave to reopen depositions to address information produced late in discovery).

[20]Defendant Medtronic Vascular Inc.'s January 13, 2012 Motion to Compel ("Medtronic 1/13/12 Motion"), at 1-2. In this regard, Medtronic urges the Court to construe the privilege "narrowly"because to do otherwise would "obstruct the truth-finding process." *Id.* (citing *Balin v. Amerimar Realty Co.*, 1995 WL 170421, at * 9 (Del. Ch. Apr. 10, 1995) (citation omitted)).

privileged documents.[21]

The documents at issue here are listed as items 1, 2, 62, 63, and 438 on DuPont's privilege log. Items 1 and 2 are described as documents from David J. Wallan to Willaim J. Cotreau, Esq., an attorney in DuPont's legal department, that are "[c]onfidential meeting notes reflecting communications with counsel made for purposes of facilitating legal advice regarding PACRA and Medtronic compliance therewith." Items 62 and 63 are described as "[c]onfidential email[s] to counsel [dated October 28, 1999] for the purpose of facilitating the rendering of legal advice regarding daft letters to Medtronic:" "relating to sale of products [62]" and "regarding PACRA [63]." The log identifies the author of Items 62 and 63 as Blake Bichlmeir and the recipients as William H. Hamby, Esq. (DuPont legal) with copies to two other members of DuPont's management team. Item 438 is described as a "[c]onfidentail email to counsel [dated March 15, 2001] for the purpose of facilitating the rendering of legal advice relating to past agreements with Medtronic and Bard." The log identifies the author of this document as Blake Bichlmeir and the recipient as Craig H. Evans, Esq. (DuPont legal).

Medtronic has not mounted a meaningful challenge to the sufficiency of DuPont's privilege log descriptions, but rather argues that it "is entitled to discover

[21]DuPont 01/23/12 Response at 1.

relevant facts" that might be contained within the five documents it has identified in its motion.[22] Medtronic invites the Court to conduct an *camera review* of the documents because DuPont, in its privilege log, has demonstrated a pattern of "withholding as privileged other handwritten notes drafted by non-attorneys."[23] The Court declines the invitation. DuPont has appropriately logged each of the five documents and has adequately described them to allow both Medtronic and the Court "to assess the applicability of the privilege."[24] Nothing in the description of the documents suggests that DuPont has improperly withheld "facts" (as opposed to "communications concerning facts") that might be contained within the documents.[25] Medtronic's unfounded suspicion to the contrary is not a legitimate basis for the Court to embark on a fishing expedition through documents DuPont has logged as privileged in search of non privileged facts.[26]

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[22]Medtronic 1/13/12 Motion, at 7-8.

[23]*Id.*

[24]Del. Super. Ct. Civ. R. 26(b)(5).

[25]*See Upjohn,* 449 U.S. at 395.

[26]*See Harris v. Southwest Power Pool, Inc.,* 2012 WL 645908, at *2 (D. Ark. Feb. 28, 2012) (noting that courts should be reluctant to embark on *in camera* "fishing expeditions" through documents withheld by a party on grounds of privilege unless the party challenging the privilege offers a "threshold factual basis" in support of the challenge) (citing *United States v. Zolin,* 491 U.S. 554 (1989)); *E.I. duPont de Nemours & Co. v. MacDermid Printing Solutions LLC,* 2011 WL 4708069, at *3 (D.N.J. Oct. 4, 2011) (noting that party seeking *in camera* review of documents withheld as privileged bore a burden "to establish that *in camera* review is warranted.").

The motion to compel Items 1, 2, 62, 63, and 438 on DuPont's privilege log is **DENIED.**

B. Medtronic's Motion to Compel The Katherine Knox Documents

DuPont has identified several documents on its privilege log either to or from Katherine Knox, a retired DuPont employee who, from the 1980's through 1999, managed DuPont's relationship with Medtronic and its predecessors under the PACRA. The documents at issue were created in 2009 after Ms. Knox left her employment with DuPont. Medtronic argues that the documents are not privileged because Ms. Knox was not a "client" of DuPont's counsel at the time the documents were created. In response, DuPont argues that Ms. Knox, as a former DuPont employee, retains the protection of the attorney-client privilege when she communicates with DuPont attorneys regarding matters "within the scope of her former responsibilities...."[27] Each of the Katherine Knox documents listed in the DuPont privilege log carry either one of two document descriptions: (1) "confidential email to counsel for the purpose of facilitating the rendering of legal advice regarding PACRA and Medtronic compliance therewith;" or (2) "confidential email to counsel for purposes of facilitating rendition of legal advice regarding PACRA and Medtronic obligations thereunder."

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[27] *See In Re Flonase Antitrust Litig.*, 723 F.Supp.2d 761, 765 (E.D. Pa. 2010).

As stated, Ms. Knox was Medtronic's principal contact at DuPont with respect to the PACRA during much of the time-frame at issue in this litigation. While one could quibble regarding the adequacy of DuPont's description of the documents in the privilege log,[28] the adequacy of the log is not the focus of Medtronic's challenge here. Rather, Medtronic argues that the attorney-client privilege does not apply to the documents because Ms. Knox was not a client. By their description, the documents clearly appear to contain confidential communications between Ms. Knox and DuPont attorneys relating to either legal advice or the formulation of legal strategies pertaining to DuPont's relationship with Medtronic under the PACRA. These communications relate directly to "knowledge obtained or conduct that occurred during the course of [Ms. Knox's] employment."[29] Accordingly, the Court is satisfied that Ms. Knox should be deemed a client of DuPont's legal counsel at the time these communications occurred.[30] The documents are privileged.[31]

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[28] *Klig,* 2010 WL 3489735, at *5.

[29] *United States, ex rel Hunt v. Merck-Medco Managed Care, LLC*, 340 F.Supp.2d 554, 558 (E.D. Pa. 2004).

[30] *See In Re Flonase Antitrust Litig.,*, 723 F.Supp.2d at 765.

[31] Medtronic cites *DiOssi v. Edison*, 583 A.2d 1343 (Del. Super. 1990) for the proposition that Ms. Knox, as a former employee, should not be deemed a current client of DuPont's in house legal counsel. In *DiOssi,* the court determined that a party to litigation could contact former employees of an adversary without violating the Delaware Lawyers' Rules of Professional Conduct which prohibit lawyers from directly contacting parties represented by counsel. *Id.* at 1345. The court (continued...)

Medtronic also argues that Ms. Knox waived the privilege by disclosing the content of her discussions with counsel during her deposition. To be sure, Ms. Knox certainly could have waived the attorney-client privilege if she had revealed during her deposition some or all of the confidential communications she had with DuPont's attorneys after she retired from the company.[32] The deposition testimony to which Medtronic refers, however, amounted to nothing more than Ms. Knox describing the topics she discussed with DuPont's counsel without disclosing the content of the communications, much like a party would describe a privileged document in a privilege log. Such descriptions hardly justify a blanket waiver of the attorney-client privilege.

Medtronic's motion to compel production of the Katherine Knox documents is **DENIED.**

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[31](...continued)
based its holding on the conclusion that the former employees could not bind their former employer with their statements or admissions. *Id.* The court did not consider whether an attorney-client relationship existed between the former employee and counsel for the former employer in connection with communications between them that were intended to be confidential, or whether the attorney-client privilege would protect such communications from disclosure. The decision in *DiOssi*, therefore, is of little use here.

[32]*See Texaco, Inc. v. Phoenix Steel Corp.*, 264 A.2d 523, 525 Del. Ch. 1970) (holding that attorney-client privilege was waived as to a document that was discussed extensively by a witness at deposition without objection).

C. Medtronic's Motion To Compel Responses To Its Document Preservation Discovery Relating To The PriceWaterhouse Coopers and Deloitte and Touche Audits

On November 29, 2011, Medtronic served DuPont with a Notice of Taking Rule 30(b)(6) deposition in which Medtronic listed 32 topics on which it sought testimony from DuPont. Topics 7-9 and 15-16 relate to documents prepared during two audits of Medtronic's royalty payments to DuPont under the PACRA - - the first conducted by PriceWaterhouse Coopers ("PwC") in 2000 and the second conducted by Deloitte and Touche ("Deloitte") between 2003 and 2006. Specifically, Medtronic seeks testimony from DuPont regarding any "litigation hold" notices it issued to PwC and Deloitte relating to documents generated during the Medtronic audits. DuPont has objected on the ground that the requests assume that DuPont had a legal obligation to issue a "litigation hold" to independent auditors over whom it had no control. DuPont asserts that topic 15, in particular, is simply a "gotcha" request meant to set up a potential spoliation argument later in the litigation. During oral argument, the auditor's documents were broken down into two categories: (1) work papers; and (2) other documents.

The duty to preserve documents extends to documents within a party's "possession, custody or control."[33] As to the auditor's work papers, it is clear to the Court that these documents were not in DuPont's "possession, custody or control" and, therefore, DuPont had no obligation to preserve the documents and no authority to cause others to do so. In this regard, the Court notes that the PwC Engagement Letter provides that "[t]he working papers created by PwC during this engagement are the property of PwC."[34] Moreover, under Delaware statutory law, an accountant's work papers are and shall "remain the property of" the accountant, absent an express agreement with the client to the contrary.[35] No such agreement has been presented here with respect to the work papers of either PwC or Deloitte.

As to other documents prepared by the auditors, Section 120(a) clearly provides that these materials likewise remain the property of the accountants.[36] Here again, DuPont had no obligation to preserve these documents and no authority to cause others to do so.

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[33]*Sears, Roebuck & Co. v. Midcap*, 893 A.2d 542, 547 (Del. 2006).

[34]DuPont 01/23/12 Response, Ex. J.

[35]*See* 24 DEL. C. §120(a) ("Section 120(a)"). *See also In re PHP Liquid. LLC*, 2001 WL 194671, at *1-2 (Bankr. D. Del. Feb. 23, 2001) (applying 24 DEL. C. §120(a) to deny motion to compel accountant's work papers).

[36]24 DEL. C. §120(a) (protection applies to "[a]ll statements, records, schedules, working papers or memoranda" prepared by the accountant "incident to or in the course of rendering services to a client;" it does not apply to "records that are part of the client's records.").

The only remaining documents would be those supplied to the auditors by DuPont. It appears from the submissions and from oral argument that DuPont has already produced these documents to Medtronic. If it has not, it should do so now. With regard to Medtronic's request for a DuPont witness to testify regarding any litigation hold DuPont might have directed to the auditors as to these documents, it is difficult to envisage how this would lead to the discovery of admissible evidence since: (a) the Court has been provided with no authority to suggest that such a litigation hold was required under Delaware law; and (b) DuPont has already produced all documents it supplied to its auditors. Medtronic's motion to compel DuPont to produce witnesses to address items 7-9 and 15-16 of its Rule 30(b)(6) deposition notices is, therefore, **DENIED.**

IT IS SO ORDERED.

Judge Joseph R. Slights, III

Original to Prothonotary

IN THE SUPERIOR COURT OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

E. I. DU PONT DE NEMOURS AND COMPANY,	)	
Plaintiff,	)	C.A. No. N10C-09-058 MMJ CCLD
v.	)	
MEDTRONIC VASCULAR, INC.,	)	
Defendant.	)	

Submitted: March 15, 2013
Decided: April 24, 2013

On Defendant Medtronic Vascular, Inc.'s
Motion for Attorneys' Fees and Costs
DENIED, WITH LIMITED EXCEPTION

OPINION

Richard L. Horwitz, Esquire and John A. Sensing, Esquire, Potter, Anderson & Corroon, LLP., Wilmington, Delaware, John P. Donohue, Jr., Esquire, David J. Wolfsohn, Esquire (argued), Aleksander J. Goranin, Esquire and Kevin M. Bovard, Esquire, Woodcock Washburn, LLP, Philadelphia, Pennsylvania, Attorneys for Plaintiff

David S. Eagle, Esquire, Sally E. Veghte, Esquire and Sean M. Brennecke, Esquire, Klehr Harrison Harvey Branzburg, LLP, Wilmington, Delaware, William Z. Pentelovitch, Esquire (argued), Haley N. Schaffer, Esquire (argued), D. Scott Aberson, Esquire and David E. Suchar, Esquire, Maslon Edelman Borman & Brand, LLP, Minneapolis, Minnesota, Attorneys for Defendant.

JOHNSTON, J.

PROCEDURAL CONTEXT

Plaintiff E.I. du Pont de Nemours and Company ("DuPont") filed an action against Defendant Medtronic Vascular, Inc. ("Medtronic") on September 9, 2010 alleging claims of breach of contract, fraudulent misrepresentation, and negligent misrepresentation. The parties agreed to dismissal of the fraudulent misrepresentation and negligent misrepresentation claims, and the Court dismissed the tort claims by Order dated November 26, 2012.

Medtronic and DuPont filed a series of dispositive and non-dispositive cross-Motions for Summary Judgment which the Court resolved in its Opinion dated January 18, 2013.[1] The Court granted Medtronic's dispositive Motion for Summary Judgment, determining that the breach of contract claims alleged by DuPont were barred by the applicable statute of limitations. By way of alternative holding, the Court resolved some of the remaining issues raised in the cross-Motions for Summary Judgment in favor of Medtronic, and others in favor of DuPont.

Medtronic filed this Motion for Attorneys' Fees and Costs with the Court on February 4, 2013. Medtronic now seeks the award of fees and costs it incurred

[1] *E.I. duPont de Nemours & Co. v. Medtronic Vascular, Inc.*, 2013 WL 261415, at *27-28 (Del. Super.).

during the course of discovery and litigation. Medtronic alleges that this action was brought by DuPont in bad faith and for oppressive reasons.

For the reasons detailed below, the Court denies the Motion, with the limited exception of an award of certain costs pursuant to Superior Court Civil Rule 54(d).

PARTIES' CONTENTIONS

Medtronic alleges that it is entitled to the award of fees and costs arising out of litigation that DuPont brought and conducted in bad faith. DuPont's claims were ostensibly without merit and furthermore barred by the applicable statute of limitations, conditions known by DuPont prior to initiating the litigation. ***First***, Medtronic argues that DuPont was aware that its tort claims were frivolous, and therefore it was bad faith on the part of DuPont to knowingly bring such meritless claims. ***Second***, Medtronic contends that DuPont was aware, prior to bringing its Breach of Contract claim, that this claim was barred by the applicable statute of limitations, and that, as a result, bringing this action with knowledge of the bar was bad faith on DuPont's part. ***Third***, Medtronic alleges that it was forced to incur additional fees and costs as a result of DuPont's extensive and far-reaching discovery requests, and therefore its harm was exacerbated by DuPont's bad faith litigation conduct. ***Finally***, Medtronic alleges that this bad faith litigation was

part of a broader strategy of DuPont's "Legal Recovery Initiative" to generate profits through aggressive litigation.

In response, DuPont alleges that Medtronic has failed to satisfy the stringent standard required to show that an award of fees and costs is appropriate as an exception to the American Rule. ***First***, DuPont alleges that Medtronic agreed, and the Court memorialized in its Order, that each party would cover its own fees and costs stemming from the tort claims. Therefore, according to DuPont, it should not be liable to Medtronic for any fees or costs associated with litigating the tort claims, which encompass the lion's share of the award Medtronic is seeking. ***Second***, DuPont contends that Medtronic has not shown that DuPont engaged in "intentional misconduct" under the "clear evidence" standard. Specifically, DuPont alleges that because it had more than a "colorable basis" for its claims, DuPont did not act in bad faith, and the American Rule should apply. ***Finally***, DuPont alleges that method by which Medtronic calculated its claimed fees and costs was unreasonable, and therefore an improper award under Delaware law.

STANDARD OF REVIEW

Delaware follows the American Rule, which provides that absent statutory or contractual fee-shifting provisions, litigants are responsible for the costs of their

own representation.[2] The Court has authority to award attorneys' fees and costs to prevailing parties when the losing party has acted in bad faith, even if there is no applicable contractual or statutory provision.[3] Delaware courts have awarded attorneys' fees and costs under the bad faith exception when parties have unnecessarily prolonged or delayed litigation, knowingly asserted frivolous claims, or without justification changed position on an issue.[4] The losing party must have acted in *subjective* bad faith. The prevailing party has the burden of proving bad faith by clear and convincing evidence.[5] Attorneys' fees and costs are not an appropriate remedy merely because the losing party "did not succeed. . .in obtaining the relief [it] sought [in the underlying action]."[6] Where there is a "colorable basis" for a claim, the award of attorneys' fees and costs is

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[2] *Dover Historical Soc'y v. City of Dover Planning Comm'n*, 902 A.2d 1084, 1089 (Del. 2006).

[3] *Kaung v. Cole Nat'l Corp.*, 884 A.2d 500, 506 (Del. 2005); *Citizens Bank v. Design-a-Drape, Inc.*, 2008 WL 3413329, at *2 (Del. Super).

[4] *Kaung*, 884 A.2d at 506; *Citizens Bank*, 2008 WL 3413329, at *3.

[5] *Arbitrium (Cayman Islands) Handels AG v. Johnston*, 705 A.2d 225, 231 (Del. Ch. 1997), *aff'd,* 720 A.2d 542 (Del. 1998); *see also Kosachuk v. Harper,* 2002 WL 1767542, at *7 (Del. Ch.).

[6] *Nevins v. Bryan*, 885 A.2d 233, 255 (Del. Ch. Jan. 21, 2005); *see also Jacobson v. Dryson Acceptance Corp*., 2002 WL 31521109, at *17 (Del. Ch.).

unwarranted.[7] Finally, even if the requirements of the bad faith exception are otherwise met, attorneys' fees and costs will not be granted if the award would be unreasonable.[8]

DISCUSSION

Medtronic's Characterization of DuPont's Litigation Conduct

Medtronic acknowledges in its Opening Brief that it might be viewed "as presumptuous for a successful defendant to have the audacity to even ask a court to make an exception to the 'American Rule' and consider awarding it fees." Nevertheless, Medtronic alleges that an award of attorneys' fees is necessary in this case to achieve complete justice. Medtronic accuses DuPont of making "unfounded claims, "acting in bad faith and for oppressive reasons," and of "suing on its home turf and seeking to bully [Medtronic] into paying it tens or hundreds of millions of dollars on meritless and time-barred claims."

Medtronic asserts that DuPont's bad faith conduct has been demonstrated in at least four separate ways.

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[7] *P.J. Bale, Inc. v. Rapuano*, 888 A.2d 232 (Del. 2005) (Table); *see also Commonwealth Constr. Co. v. Cornerstone Fellowship Baptist Church, Inc.*, 2006 WL 2567916, at *26 (Del. Super.).

[8] *Johnston v. Arbitrium (Cayman Islands) Handels AG*, 720 A.2d 542, 546-47 (Del. 1998).

> First, DuPont brought frivolous tort claims (which make up a majority of the counts in its Complaint) and then failed to dismiss those claims until over two years into the litigation, without any explanation as to why those claims were initially brought and ultimately dropped. Similarly, DuPont brought and then later decided not to pursue a breach of contract claim based on Cordis' worldwide sales. Second, DuPont freely admitted that it had actual notice of Medtronic's termination of royalty payments in 2003 and it presented no valid legal argument for why its breach of contract claim relating to Medtronic's failure to pay DuPont fees for Medtronic's "Products" sold after July 5, 2003 should nonetheless survive dismissal on statute of limitations grounds. Third, despite an untold number of DuPont documents demonstrating the parties repeatedly discussed royalty apportionment for Medtronic's sales of stent systems, and that DuPont knew Medtronic was actually apportioning its sales of stent systems, DuPont continued its breach of contract action on royalty apportionment until the Court dismissed it, maintaining all the while that Medtronic *fraudulently concealed* this very information from DuPont. Finally, DuPont's discovery conduct in this case merely exacerbated the injury to Medtronic.

Additionally, Medtronic characterizes DuPont's discovery conduct as "scorched earth, win-at-all-costs." According to Medtronic, the discovery should have confirmed that DuPont's claims were "wholly lacking in merit."

The Court's Findings

Medtronic's allegations are extremely serious. In Delaware, no attorney or party should make such accusations without careful and sober consideration. This Court does not take such claims lightly.

The Court finds Medtronic's characterization of DuPont's conduct in this litigation to be unfounded and erroneous. As evidenced by the lengthy and detailed Opinion issued January 18, 2013, the issues in this case were intricate and highly nuanced. The Court struggled mightily in reaching decisions on all questions presented. Several rulings were close calls.

It is not this jurist's ordinary practice to provide alternative holdings. After determining that DuPont's breach of contract claims were time-barred, the Court made the following observations:

> This case is complicated. It would be an understatement to say that the record is extensive. The attorneys for both parties have provided the Court with excellent written briefs. Oral argument, held over three days, was extremely helpful. All attorneys demonstrated extraordinary advocacy before this bench.
>
> Having exhaustingly reviewed the evidence, written submissions and transcripts, it seems appropriate to provide the parties with a fulsome analysis. Therefore, even having found that this case must be dismissed as barred by the statute of limitations, by way of alternative holding, a discussion of the substantive claim follows.

Had the statute of limitations issue clearly been one-sided, the Court would have concluded its analysis at that point. However, because of the complexity of the contract interpretation issues, and because of the extraordinary time and effort expended by the parties in presentation, the Court determined that the parties would benefit from further merits analysis in the event either party were to

consider whether to appeal or to engage in settlement negotiations in lieu of an appeal. The eleven holdings on the contract interpretation issues were virtually evenly split between Medtronic and DuPont.

DuPont's Legal Recoveries Initiative

Medtronic further takes issue with DuPont's business decision to use its legal counsel to generate corporate profits. In its Answering Brief, Medtronic describes DuPont's "Legal Recoveries Initiative" as follows:

> In 2004, DuPont began a program called the Legal Recoveries Initiative, the goal of which was to turn DuPont's corporate legal department "from a drain on profits into a money-maker." ... According to a 2007 article from Bloomberg, the program is designed to "find ways to generate revenue by filing lawsuits the company would not otherwise have initiated...."
>
> ***
>
> A committee of DuPont lawyers is charged with identifying ways to recover money and calculating an expected return annually. ... According to then Assistant General Counsel—now Senior Vice President and General Counsel—Thomas Sager: "We've asked them to serve as our eyes and ears and identify through whatever means – word of mouth, periodicals, trade press – opportunities where DuPont might advance a claim or where we believe our rights have been perhaps infringed." ... One apparent component of the program is to recognize those within DuPont who focus on recoveries.
>
> ***
>
> DuPont also looks to outside counsel to seek out recovery opportunities under the program:

> We have also provided incentives to our law firms to seek out recovery opportunities and bring us new ideas. When we need to pursue litigation, we've done that usually through an attractive alternative fee arrangement. In some cases, we have offered a firm a pure contingency arrangement in which they will get a percentage of any recovery.
>
> ***
>
> Since its inception in 2004, DuPont's Legal Recoveries Initiative has recovered over $2 billion. ... So proud is DuPont of its program, its attorneys regularly present on the topic and offer tips to help other law departments replicate it.

Medtronic argues that the Legal Recoveries Initiative evidences DuPont's "overreach[ing] by bringing frivolous suits under its aggressive business model." Thus, DuPont "should have to bear the consequences of its overreaching by paying its opponents' legal fees." Medtronic accuses DuPont of attempting "to bully a defendant unwilling to negotiate a pre-litigation business settlement into paying it many millions of dollars on meritless and time-barred claims"

The Court's Findings

The Court finds Medtronic's argument to be wholly without merit. Medtronic has not demonstrated that this case has anything to do with a "Legal Recoveries Initiative." But, even if the case were to have any connection to such a program, DuPont has every right to vigorously defend its intellectual property, through litigation if necessary. There is nothing nefarious about a corporation

generating profits through its legal department. It would be naive to suggest that provision of legal services is by its nature a purely not-for-profit enterprise. So long as in-house counsel conduct the corporation's business in an ethical and professional manner, it is not contrary to any public policy to obtain revenue for shareholders. It could in fact be argued that such activities are at least consistent with (if not affirmatively required as part of) managing a company in the appropriate exercise of fiduciary duties. Recovery of over $2 billion since 2004 is evidence of DuPont's prosecution of meritorious, not frivolous, claims.

CONCLUSION

This entire case is replete with complex and difficult legal issues. The Court concluded that this action is barred by the statute of limitations only after painstaking analysis of a very close question. The Court's alternative rulings on the contract interpretation issues were split between the parties.

Under the American Rule, the unsuccessful party ordinarily is not liable for the successful party's attorneys' fees.[9] The bad faith exception to the American Rule applies only in extraordinary circumstances "as a tool to deter abusive litigation and to protect the integrity of the judicial process." [10] To justify an award

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[9] *Nevins v. Bryan,* 855 A.2d 233, 255 (Del. Ch. 2005).

[10] *P.J. Bale, Inc. v. Rapuano,* 2005 WL 3091885, at *1 (Del.).

of attorneys' fees, a litigant must have acted "vexatiously, wantonly, or for oppressive reasons."[11]

The Court finds that there is not a scintilla of evidence that DuPont acted in bad faith. To the contrary, DuPont asserted colorable claims. The litigation was pursued - by highly competent counsel for both parties - with appropriate vigor.

THEREFORE, Defendant Medtronic Vascular, Inc.'s Motion for Attorneys' Fees and Costs is hereby **DENIED**, with the limited exception that pursuant to Superior Court Civil Rule 54(d), Medtronic is awarded the portion of its filing fees attributable to defense of DuPont's tort claims.

IT IS SO ORDERED.

/s/ Mary M. Johnston
The Honorable Mary M. Johnston

[11] *Kuang v. Cole Nat'l Corp.,* 884 A.2d 500, 506 (Del. 2005).

CERTIFICATE OF SERVICE

I hereby certify that on July 19, 2013, a copy of the foregoing document was served by the following methods upon the following counsel of record:

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