Intellectual Property Law Section

State Bar of Texas

Spring 2011

Inside this newsletter...

Update From The Chair

By Shannon Bates

It is always a pleasure to introduce another one of our outstanding Section newsletters! This Spring 2011 edition includes four (4) high quality substantive articles covering topics for the prosecution and litigation practitioner alike. Many thanks to our strong committee leadership and to the individual authors who provided these articles.

The 2010-2011 State Bar year is well underway, and a highlight of the year was our 24th Annual Advanced Intellectual Property Law Course that was held March 3–4 at the Westin Hotel Galleria in Dallas. Vice Chair Scott Breedlove was the Course Director for the program, which featured a wide variety of IP-related topics and was preceded by a March 2 Agreements Workshop led by Course Director Thom Tarnay. The Section's new Women in IP Task Force also hosted a breakfast meeting with guest speaker Meg Boulware. The women's breakfast is sure to become a wonderful tradition that will carry on for years to come.

Our next CLE program will be held at the State Bar Annual Meeting in San Antonio on June 24th. Chair-Elect Steve Malin is chairing that event, which should be another outstanding program. Once again, our Section will offer a full day CLE program for the $150 price of a one-day Friday registration to the Annual Meeting. There will also be a reception the Thursday evening before our CLE program. In keeping with tradition, we will hold our annual business meeting and luncheon on June 24th, where we will elect new officers and council members, as well as present our Section's awards. Those awards include the Women & Minorities Scholarships, the Outstanding Texas Inventor of the Year Award, and the Chair Award. Instructions and a form for nominating inventors are

provided in this newsletter. You can register for the Annual Meeting at http://www.texasbar.com/annualmeeting, and please confirm your plans to attend our Section's ticketed business luncheon on Friday.

The Section is also sponsoring an Advanced Patent Litigation Course to be held July 14–15 at the Hyatt Hill Country Resort is San Antonio. This year, the course is co-chaired by Sanford Warren and Craig Lundell, and we are looking forward to another terrific program! For more details, go to:

http://www.texasbarcle.com/CLE/AABuy0.asp?IID=10051&sProductType=EV

In my first newsletter submission, I encouraged volunteerism by joining one of our outstanding committees. I'll reiterate that focus once again. With over 2,000 members in our Section, Committees truly offer the best opportunity for you to get involved and to get to know other IP practitioners from around the state!

I look forward to seeing you at one of our upcoming CLE programs! If you have any ideas about how the Section leadership can better serve our members, I encourage you to contact me or any other officer or council member.

Mark Your Calendar

The Dallas Intellectual Property Law Section will host its monthly lunchtime CLE seminar on April 29 at the Belo Mansion, 2101 Ross Avenue in Dallas, featuring Janis Manning who will be speaking on "Corporate Name Changes, Reorganizations, and Joint Branding." For more information, go to www.dbaip.com.

The American Intellectual Property Law Association will host its spring meeting at the Palace Hotel in San Francisco, May 12–14, 2011. For more information, go to www.aipla.org.

The International Trademark Association will host its annual meeting at the Moscone Center West in San Francisco, May 14–18, 2011. For more information, go to www.inta.org/Programs.

The State Bar of Texas will host its annual meeting at the Grand Hyatt San Antonio and Henry B. Gonzalez Convention Center in San Antonio, June 23–24, 2011. For more information, go to www.texasbar.com.

The State Bar of Texas Intellectual Property Section will host its annual meeting and CLE during the State Bar annual meeting in San Antonio, June 23–24, 2011. For more information, go to www.texasbariplaw.org.

The State Bar of Texas Intellectual Property Section will host an Advanced Patent Litigation CLE program at the Hyatt Hill Country Resort and Spa in San Antonio, July 14–15, 2011. For more information, go to www.texasbariplaw.org.

In The Section

Texas Inventor of the Year Nominations

The 2011 Texas Inventor of the Year will be recognized at the Intellectual Property Law Section lunch on June 24, 2011 at the Annual Meeting of the State Bar of Texas in San Antonio. Please use the attached form, which includes five sections, to submit nominations for the 2011 Texas Inventor of the Year. The Inventor Recognition Committee of the Intellectual Property Law Section will select the winner based primarily upon the responses in Section III.

Each nomination should be submitted as a single electronic file (e.g., using PDF or Zip format). All nominations are **due by April 30, 2011** and nominators must be members of the Intellectual Property Law Section. Members may make any number of nominations. Nominations of clients and employees are accepted and encouraged.

Please submit all nominations via email to Michelle LeCointe at michelle.lecointe@bakerbotts.com.

The nomination form is attached at the end of this newsletter.

Call for Submissions

The Newsletter Committee welcomes the submission of articles for potential publication in upcoming editions of the IP Law Section Newsletter, as well as any information regarding IP-related meetings and CLE events. If you are interested in submitting an article to be considered for publication or to calendar an event, please email your submission to Newsletter@texasbariplaw.org.

Article Submission Guidelines:

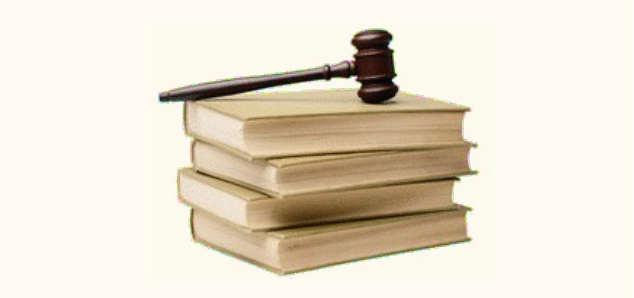
STYLE: Journalistic, such as a magazine article, in contrast to scholarly, such as a law review article. We want articles that are current, interesting, enjoyable to read, and based on your opinion or analysis.

LENGTH: 1–5 pages, single spaced.

FOOTNOTES AND ENDNOTES: Please refrain! If you must point the reader to a particular case, proposed legislation or Internet site, or credit another author, please use internal citations.

PERSONAL INFO: Please provide a one paragraph bio and a photograph, or approval to use a photo from your company or firm website.

If you have any questions, please contact Kristin Jordan Harkins, Newsletter Officer, at KHarkins@dfw.ConleyRose.com.



Practice Points

Discouraging Settlement: Admissibility of Settlement Negotiations in the Eastern District of Texas

By Stefanie T. Scott

It has long been the rule in the Eastern District of Texas—and in most other venues for that matter—that settlement negotiations are inadmissible. By shielding both Plaintiffs and Defendants from the discovery of such negotiations, this rule has fostered the important public policy of promoting settlement, thereby relieving congestion in our courts. Specifically in the context of patent litigation, the inadmissibility of settlement negotiations has facilitated early settlement, particularly in multi-party litigation. Because settlement communications have been understood by both parties to be inadmissible, neither party fears that the compromises (i.e. a lower license or royalty rate granted by Plaintiff, or a higher license or royalty rate paid by Defendant) made during settlement will be used against them by a third party in the same or future litigation.

However, the Federal Circuit *ResQNet* case has thrown into question the admissibility of such settlement negotiations and agreements, which have in some recent cases been determined admissible, including in the Eastern District of Texas.

Long-Standing Bright-Line Rule

Courts have historically followed a bright-line rule protecting settlement negotiations from discovery. In the landmark case of *Goodyear Tire & Rubber v. Chiles Power Supply, Inc.*, the Sixth Circuit considered "whether statements made in furtherance of settlement are privileged and protected from third-party discovery." 332 F.3d 976, 977 (6th Cir. 2003). The appellate court relied heavily upon public policy considerations in ruling on this issue:

> The ability to negotiate and settle a case without trial fosters a more efficient, more cost-effective, and significantly less burdened judicial system. In order for settlement talks to be effective, parties must feel uninhibited in their communications. Parties are unlikely to propose the types of compromises that most effectively lead to settlement unless they are confident that their proposed solutions cannot be used on cross examination, under the ruse of "impeachment evidence," by some future third party. Parties must be able to abandon their adversarial tendencies to some degree. They must be able to make hypothetical concessions, offer creative quid pro quos, and generally make statements that would otherwise belie their litigation efforts. Without a privilege, parties would more often forego negotiations for the relative formality of trial. Then, the entire negotiation process collapses upon itself, and the judicial efficiency it fosters is lost.

Id. The *Goodyear* Court also considered the applicability of Federal Rule of Evidence 408, which generally bars admission of settlement agreements. Ultimately, the Sixth Circuit concluded: "[i]n sum, any communications made in furtherance of settlement are privileged." *Id*. at 983.

The Eastern District has followed the *Goodyear* rationale in adopting the bright-line rule that settlement negotiations are inadmissible. In *Intergraph Hardware Techs. Co. v. Dell Computer Corp*., 2004 WL 5643969, No. 2:02-CV-312 (E.D. Tex. June 3, 2004), the Eastern District found that settlement negotiations "are privileged as a matter of federal common law, as set forth by the court in [Goodyear]." In *Soverain Software LLC v. Amazon.com, Inc.*, No 6:04-CV-014, slip op. (E.D. Tex. Feb. 7, 2005), the Court relied on the public policy arguments of *Goodyear* in determining the admissibility of settlement negotiations, noting that "[i]f meditation and settlement negotiations are not kept confidential from other parties to the litigation, parties will be less forthright in their negotiations and less likely to resolve their differences without the need for a trial." Finally, in *Tessera, Inc. v. Micron Tech., Inc.*, No. 2:05-CV-094, slip op. (E.D. Tex. Apr. 13, 2006), the Eastern District Court again found settlement negotiations inadmissible, noting that it had "in the past followed Goodyear generally and adopted a bright-line rule that settlement negotiations are privileged while the resulting license agreement is discoverable."

It has long been the rule... that settlement negotiations are inadmissible. [T]his rule has fostered the important public policy of promoting settlement, thereby relieving congestion in our courts.

Disputed Shift Regarding Admissibility

In March 2010, the Federal Circuit's decision in *ResQNet* muddied this previously bright-line rule. *ResQNet* involved an appeal over the reasonable royalty rates applied in a patent litigation case. *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860 (Fed. Cir. 2010). At issue were several licenses, some of which were "re-bundled" licenses agreed to outside the course of litigation; others were licenses resulting from settlement negotiations. The Federal Circuit observed that "the most reliable license *in this record* arose out of litigation." *Id*. at 872. The Court vacated the damages award based upon the re-bundled patent licenses, and remanded to the District Court with instructions to base the royalty amount upon the royalty rate used in the license obtained during litigation. *Id*. at 873. However, prior to finding the litigation-based licenses to be the "most reliable," the Federal Circuit recognized that, "[o]n other occasions, this court has acknowledged that the hypothetical reasonable royalty calculation occurs before litigation and that *litigation itself can skew the results* of the hypothetical negotiation." *Id*. at 872 (emphasis added) (citing and quoting *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078-79 (Fed.Cir. 1983) ("[S]ince the offers were made after the infringement had begun and litigation was threatened or probable, their terms should not be considered evidence of an 'established royalty,' since license fees negotiated in the face of a threat of high litigation costs may be strongly influenced by a desire to avoid full litigation.")

In her dissent, Judge Newman discusses the public policy issues associated with utilizing licenses granted in furtherance of litigation over licenses obtained outside litigation. Judge Newman remarks that, by moving the litigation-based license "to the forefront of the analysis," the majority "assur[es] the infringer, after losing in litigation, of no worse penalty than the lowest royalty previously accepted in settlement." *Id*. at 880. "Such a rule would make an election to infringe a handy means for competitors to impose a compulsory license policy upon every patent owner." *Id*.

(internal citation and quotations omitted). Judge Newman concludes that the majority holding "that only the royalty in the settlement agreement can be considered . . . is contrary to all precedent." *Id*. at 882.

While the majority Court in *ResQNet* found the litigation-based licenses to be more reliable than the re-bundled licenses obtained outside of litigation, the Court did not actually address the admissibility of settlement negotiations or settlement agreements. The litigation-based license agreements were already part of the record at the time the Federal Circuit reviewed the case. The parties did not dispute the admissibility of the license agreements, nor did the parties discuss admissibility of settlement negotiations. The issue of admissibility of settlement negotiations/agreements was never before the *ResQNet* Court. However, a few months after the Federal Circuit decision, the Eastern District relied upon *ResQNet* to hold that settlement negotiations were admissible to prove royalty rates.

"...litigation itself can skew the results of the hypothetical negotiation...license fees negotiated in the face of a threat of high litigation costs may be strongly influenced by a desire to avoid full litigation."

In *Tyco Healthcare Group v. E-Z-EM, Inc.*, No. 2:07-CV-262, 2010 WL 774878 at *2 (March 2, 2010), the Marshall Division of the Eastern District admitted that the Eastern District had in the past followed *Goodyear* and the bright-line rule that settlement negotiations were inadmissible. However, the Court noted, "[a] recent decision from the Federal Circuit causes the Court to shift its approach toward the discoverability of settlement negotiations." *Id*. Relying upon dicta in *ResQNet*, the *Tyco* Court concluded that "*ResQNet suggests* that the underlying negotiations are relevant to the calculation of a reasonable royalty rate." *Id*. (emphasis added). The Marshall Division again utilized *ResQNet* to hold that settlement negotiations were admissible in *DataTreasury Corp. v. Wells Fargo & Co.*, No. 2:06-CV-72, 2010 WL 903259 (E.D. Tex. Sept. 27, 2010) (finding "[i]n light of *ResQNet*, litigation-related licenses should not be excluded from" the trial and permitting discovery of the underlying negotiations).

Recently, however, the Tyler Division of the Eastern District Court distinguished *ResQNet* and explained that the Federal Circuit decision did "not alter the admissibility of agreements entered into under the threat of litigation." *Fenner Investments, Ltd. v. Hewlett-Packard Co.*, No. 6:08-CV-273, 2010 WL 1727916, at *3 (E.D. Tex. Apr. 28, 2010) (J. Love). The Tyler Division again distinguished itself from *ResQNet* in *Software Tree, LLC v. Red Hat, Inc.*, No. 6:09-CV-097, 2010 WL2788202, at *4 (E.D. Tex. June 24, 2010) (J. Love), finding that "*ResQNet* has not upset this district's case law regarding the discoverability of settlement negotiations." After chronicling the long-standing rule of admissibility of settlement negotiations in the Eastern District, both the *Fenner* and *Software Tree* Courts noted that the admissibility of litigation-related agreements was not before the *ResQNet* panel. In *ResQNet*, the litigation-based settlement agreements were part of the record and neither their admissibility nor their discoverability was before the court. *Software Tree*, 2010 WL2788202 at *4.

In August 2010, Judge Davis clarified the Tyler Division's interpretation of *ResQNet* in *ReedHycalog, UK, Ltd. v. Diamond Innovations Inc.*, 727 F.Supp.2d 543 (E.D.

Tex. 2010). After considering the Federal Circuit opinion, as well as other case law—including the split decisions among other courts in the District—Judge Davis concluded that the admissibility of litigation-based licenses must be determined on a case-by-case basis. This determination must be made by "balancing the potential for unfair prejudice and jury confusion against the potential to be a 'reliable license.'" After determining that the probative value outweighed the potential for prejudice and jury confusion, the Court allowed the litigation-based licenses, as well as the non-litigation licenses, with the condition they not be defined or identified as litigation licenses.

The threat of admissibility of settlement negotiations will likely dissuade parties from entering into settlement agreements.

Judge Davis later used this formula to again find litigation-based licenses admissible within the context of a particular case. *Clear with Computers, LLC v. Bergdorf Goodman, Inc.*, No. 6:09-CV-481, 2010 WL 488180 (E.D. Tex. November 29, 2010). Citing *ResQNet*, the Court noted that "whether the settlement agreements are admissible will likely depend on whether they are an accurate reflection of the inventions' value." Because the Plaintiff could not prove that there were non-litigation licenses that reflected the value of the invention, the Court determined that, in this case, the settlement communications were "key" to determining whether or not the settlement agreements accurately reflected the inventions' true value. The Court explicitly noted, however, that its determination of admissibility will likely "*be the exception, not the rule*, and in most cases discovery of the negotiations will not be warranted." *Id*. at *2 (emphasis added).

Possible Effects of Admissibility

Because of the contradictory opinions from two different Eastern District Divisions, it is likely that settlement negotiations will be allowed in some cases in this district, at least until the Federal Circuit unambiguously addresses this issue. The threat of admissibility of settlement negotiations will likely dissuade parties from entering into settlement agreements.

As noted by the *Software Tree* Court, the admissibility of such negotiations will often have a "chilling effect" on settlement, and could "hamper negotiation efforts and interfere with settlement discussions." Both Plaintiffs and Defendants, when weighing the pros and cons of settlement, will be forced to consider the effect of admissibility. Would it be prudent for a Plaintiff to accept, as a settlement agreement, a license for its product that is far less than the license it would normally grant outside litigation? The answer to this question—where the settlement negotiations are inadmissible—is likely "yes." To expedite a resolution, to minimize attorney fees, and to settle outside of trial where an outcome is uncertain, settlement is a sensible choice. However, if making this decision in the context of admissible settlement negotiations, the answer may very likely be "no." A Plaintiff may not be willing to settle a case for a lesser license fee, if the communications of the settlement—and the amount of the license fee—is admissible in a later litigation. The admissibility factor just might tip the scale in favor of trial, rather than settlement.

The same reasoning applies to Defendants. A Defendant will likely enter into a settlement in an effort to conclude the case with minimal expense. However, if the concessions the Defendant makes during settlement will be admissible in future litigation, the Defendant might be forced to choose trial over settlement. Moreover, a

Defendant may loathe having the terms of its settlement made public at trial.

Because of the split of decisions in the Eastern District, Plaintiffs and Defendants alike will be compelled to consider the effect admissibility will have on future litigation. The admissibility—and in this case, the possibility of admissibility—of settlement negotiations will often discourage early settlement.

Conclusion

The Federal Circuit's opinion in *ResQNet* has been applied inconsistently and has had broad-reaching implications despite the fact that the Court did not generally rule on the admissibility or discovery of settlement negotiations. The Eastern District's interpretation of *ResQNet* has been split: the Eastern District's Marshall Division, in at least two cases, has held that settlement negotiations are admissible; Judge Love—Eastern District's Tyler Division—in at least two cases, has found that *ResQNet* did not alter the District's long-standing rule regarding inadmissibility of settlement negotiations; and Judge Davis—Eastern District's Tyler Division—in at least two cases, has noted that admissibility must be determined on a case-by-case basis.

The Federal Circuit has not settled this issue since before its disputed opinion in *ResQNet*. Because of the disagreement among the Eastern District's Divisions, as well as a split amongst the various District Courts throughout the nation, it is becoming necessary for the Federal Circuit to revisit the issue of admissibility and to clarify its opinion in *ResQNet*. Until the Federal Circuit resolves this issue, it is probable a split in Texas courts and others will continue. The uncertainty as to admissibility will often dampen prospects for early resolution.

The above article expresses the view of the author and not necessarily those of the State Bar of Texas IP Law Section.

Stefanie Scott is an associate at DiNovo Price Ellwanger & Hardy in Austin. Ms. Scott focuses her practice on patent and commercial litigation. Ms. Scott also volunteers her time at the University of Texas School of Law, where she serves as an interscholastic advocacy coach.

The Stem Cell Controversy: What to Fund After Sherley v. Sebelius

By William (Bill) P. Ramey, Tamsen Valoir and Matt Browning

The pending *Sherley v. Sebelius* case will decide how far the ban on federal funding of embryonic stem cell research should extend. Whenever research science and the law collide, difficult questions are presented that often include legal, moral and scientific issues. The *Sherley* case is no exception as the Courts and policymakers wrestle with the very essence of life.

Background

Stem cells are those rare and valuable cells in our bodies that can both continue dividing nearly indefinitely and can change or "differentiate" into any specialized type of cell. The classical definition of a stem cell requires that it possess two properties:

> Self-renewal - the ability to go through numerous cycles of cell division while in the undifferentiated state.
>
> Potency - the capacity to differentiate into specialized cell types.

In the strictest sense, this requires stem cells to be totipotent—to be able to give rise to any mature cell type. However,

multipotent or unipotent progenitor cells are also referred to as stem cells, even though they can only differentiate into a limited number of cell types.

Because stem cells have the ability to differentiate into many different cell types, they are of great medical interest and thought to be able to provide new treatments for Alzheimer's disease, spinal cord injury, multiple sclerosis, heart damage and other diseases. Imagine harvesting a few rare stem cells from a heart attack patient, coaxing those cells to form heart muscle cells and then re-injecting the cells into the same patient's heart. These stem cells—now heart muscle cells—can grow and divide in the heart wall, completely repairing the damaged heart. It isn't just science fiction—already hundreds of people have been treated with stem cells for heart repair, and the research is quite promising for spinal cord repair and neurological diseases as well.

The birth of the law prohibiting federal dollars from funding research on human embryos took place in 1996 and is known as the Dickey-Wicker Amendment.

There are three main types of stem cells—adult, induced and embryonic. Adult stem cells (ASCs) can be isolated from a variety of tissues from infants through adults, including bone marrow, cord blood, teeth, neural cells, skin cells and others. Typically ASCs are present in very small numbers, and once isolated they have only a limited ability to divide and differentiate. Thus, their potency—their ability to differentiate into different cell or tissue types—is considered to be "multipotent," not totipotent, and this limits their usefulness. Although ASCs cannot differentiate into all cell types, because they can be used autologously—that is reinjected into the same patient they came from—they avoid any rejection problems that might occur when using cells taken from another person.

Induced pluripotent stem cells (iPSCs) were created in 2006 by researchers in Japan who successfully coaxed normal adult cells to become totipotent stem cells. Thus, in essence, the scientists convinced these cells to go backwards and de-differentiate back into a stem cell. In order to create these iPSCs, researchers used retroviruses to introduce transcription factors into the adult cells of a mouse. While promising, the use of retroviruses raises safety concerns about damaging genes and could possibly lead to cancer. Thus, while the initial studies with iPSCs appear promising, further research needs to be conducted to balance the safety concerns with their apparent totipotency.

The most controversial stem cells are embryonic stem cells (ESCs) which, as their name implies, are derived from embryonic tissue. Commonly, ESCs are derived from embryos created by *in vitro* fertilization and, when no longer needed for fertility purposes, they are donated to research via informed consent of the donors. The stem cells are typically harvested at the blastocyst stage of development, approximately five days post fertilization. However, unlike ASCs, ESCs are able to differentiate into virtually any tissue type and have a virtually unlimited ability to divide. Because ESCs are "totipotent" they are much more useful than adult stem cells. Similarly, since they are from a natural source and not made with retroviruses, they do not present the same safety concerns that iPSCs raise.

The controversy regarding ESCs arises in part because the public generally believes that embryos are destroyed in making the embryonic stem cell lines, and thus a life is lost. In fact, the embryos do not have to be destroyed, as they can be "twinned" and

only half used for stem cells and the rest refrozen or implanted to continue development. Further, many embryos are needed for successful *in vitro* fertilization, and it is common to freeze the extras, which can never grow to completion whilst stored in a freezer anyway. Another objection to ESC research is that it will lead to the creation of embryos whose sole purpose is research (and destruction), and it is for this reason that most ethicists only endorse using the discarded embryos from *in vitro* fertilization efforts.

...other countries have increased their support of stem cell research, and at least one prominent American scientist relocated to a country with better funding and fewer restrictions.

History of Stem Cell Research and the Law

The birth of the law prohibiting federal dollars from funding research on human embryos took place in 1996 and is known as the Dickey-Wicker Amendment. Congress pushed and passed this legislation as an appropriation rider to the Balanced Budget Down payment Act in 1996 and it was signed into law by President Clinton. The rider has been included in subsequent appropriations bills every year since its origination and it prohibits the Department of Health and Human Services (DHHS), including the National Institutes of Health (NIH), from funding research where human embryos are destroyed.

In the Consolidated Appropriations Act, 2010, Pub. L. No. 111-117, § 509(a)(2), 123 Stat. 3034, 3280–81, the rider states in pertinent part that no funds may be made available for "the creation of a human embryo or embryos for research purposes" or "research where a human embryo is destroyed, discarded or knowingly subjected to risk of injury or death greater than that allowed for research on fetuses in utero." It defines a human embryo to include "any organism [except living individual humans] that is derived by fertilization, parthenogenesis, cloning or any other means from one or more human gametes or human diploid cells." *Id*.

During Clinton's second term, the DHHS delivered an opinion regarding whether federal funding could be used to support research involving human ESCs. The DHHS determined that U.S. law did not prohibit federal funding of research involving human ESC lines, but only prohibited funding of research in which human embryos were discarded or destroyed to generate human ESCs. In essence, the opinion concluded that ESC lines were not embryos (since they did not have the potential to develop into living beings), and thus they could be studied using federal funds.

To ensure that there was a clear separation between research involving the destruction of embryos and research done on human ESC lines, NIH delivered stem cell guidelines in 2000. Under the guidelines, existing ESC lines and new ESC cell lines created *without* the use of federal funds could be studied using federal funds, provided the embryos were discarded embryos from *in vitro* fertilization efforts and were donated with informed consent and without payment to the donor. In short, ESC cell lines could be studied, and new ESC cell lines could be made using state or private funding.

On August 9, 2001, President Bush announced that federal funds may be awarded for ESC research if the cells lines were already in existence and those ESC lines were derived from an embryo that was created for reproductive purposes and was no longer needed, informed consent was

obtained and there were no financial incentives for the donation. Thus, no new ESC lines could be added to the list of eligible lines, even if the cell lines were made outside the US or were made with state or private funding, and the NIH adjusted its guidelines accordingly. At the time of the announcement, it was believed that 78 human embryonic stem cell lines worldwide were in existence that met these criteria. However, scientists later discovered that many of the stem cell lines were unsuitable for research because they were contaminated with viral or animal components during tissue culture. Later, an Executive Order was signed, encouraging the development of other stem cell sources that did not involve harm to an embryo or fetus.

In October 2001, the Senate attempted to alter the Dickey-Wicker Amendment by inserting the following permissive language as found in Congressional Record—Senate, V. 147, p. 20951 (October 30, 2001), "...Federal dollars are permitted, at the discretion of the President, solely for the purpose of stem cell research, on embryos that have been created in excess of clinical need and will be discarded, and donated with the written consent of the progenitors."

According to Sherley, this language is evidence that Congress recognized that federal support of human ESC line research did not agree with the plain terms of the Dickey-Wicker Amendment. One could argue, conversely, that such language was added precisely to clarify the ambiguous terms of the Dickey-Wicker Amendment. Nevertheless, the added language was deleted in Senate floor action, and the 2001 version of the Dickey-Wicker Amendment was re-passed in 2002 (and yearly thereafter).

In response to President Bush's statement and restrictions against the use of any future stem cell lines, several states moved to fill the funding gap. In 2004 New Jersey passed a state budget that included $9.5 million for the Stem Cell Institute of New Jersey. Likewise, in 2004, California passed Proposition 71, which authorized the state to spend $3 billion on human ESC research over ten years. Additionally, other countries have increased their support of stem cell research, and at least one prominent American scientist relocated to a country with better funding and fewer restrictions.

Shortly after entering office, President Obama issued an Executive Order that overturned the Bush era policy of restricting public funding of research using human ESCs. Subsequently NIH issued new guidelines for human ESC funding that were similar to the pre-Bush administration guidelines in that they required informed consent of the embryo donor and that the embryo was created for reproductive purposes and was no longer needed. Like the earlier pre-Bush administration guidelines, existing cell lines can be studied, as can additional cell lines (not made with federal funds) provided the other requirements are met. Additionally, cell lines made from donated embryos outside of the U.S. could be studied, provided the procedural protections in that country were at least equivalent to those provided in the guidelines. Finally, the ESC lines that have been approved for study using federal funds will be listed in an NIH registry. As of this date, there are 89 lines approved for study using federal funds, and another 70 applications pending.

Sherley v. Sebelius

Soon after the new NIH guidelines were created, two researchers working with ASCs, Dr. James L. Sherley and Dr. Theresa Deisher, along with others, sought to derail Obama's federal funding process by filing a lawsuit on August 19, 2009 to

enjoin federal funding of human ESC research. Among the plaintiffs joining Drs. Sherley and Deisher was Nightlight, an adoption agency for embryos, the embryos themselves, and the various parents of adopted embryos that eventually became children.

The plaintiffs brought suit against Kathleen Sebelius, Secretary of the Department of Health and Human Services, and Dr. Francis Collins, Director of the NIH, alleging that the NIH Guidelines authorized the funding of research "that depends upon and, indeed, requires the destruction of living human embryos." The complaint also accused the NIH of entering the rulemaking proceedings with "an unalterably closed mind." Dr. Sherley alleged that he had applied for NH funding 41 times, received 12 grants, and that the NIH Guidelines would result in "increased competition for limited federal funding" and thereby injure his "ability to compete successfully."

The reality is that Federal funding is critical for early stage research, which is generally not performed by for-profit companies.

The NIH Guidelines, noted the plaintiffs, allowed the same researcher to both work in the *in vitro* fertilization clinic, and perform the ESC research. Thus, according to the complaint the Guidelines allowed "researchers to evade the substantive requirements by creating more embryos at the outset to ensure that there are 'spares' left for research." Further, the informed consent procedures were deficient, in failing to even tell donors that adoptions were available as an alternative to destruction.

On October 27, 2009 the case was dismissed for lack of standing by Judge Lamberth of the Federal District Court of the District of Columbia, indicating that to have standing the plaintiffs must have been affected or harmed by the action taken by NIH.

One year later, the Federal Appeals Court for the District of Columbia reversed the District Court's decision with respect to the stem cell researchers under the doctrine of competitive standing and remanded to the District Court for further proceedings. In *La. Energy & Power Auth. v. FERC*, 141 F. 3d 364, 374 (D.C. Cir. 1998), competitive standing is a judicial doctrine that allows a litigator to maintain suit if the plaintiff suffers an injury in fact when an agency lifts regulatory restrictions on the plaintiff's competitors or otherwise allow increased competition. Plaintiffs Sherley and Deisher, who allegedly work only with adult stem cells, argued that they were at risk of irreparable harm when NIH funds were made available to scientists who perform human ESC research because they will be forced to compete against illegal grant applications.

On August 23, 2010, less than two months after the Federal Appeals Court decision, Judge Lamberth determined that the NIH funding policy violated the Dickey-Wicker Amendment and enjoined NIH from funding *any* human ESC research, thus the ruling was even more restrictive than under the Bush administration. In his ruling, Judge Lamberth stated the following:

> ESC research is clearly research in which an embryo is destroyed. To conduct ESC research, ESCs must be derived from an embryo. The process of deriving ESCs from an embryo results in the destruction of the embryo. Thus, ESC research necessarily depends upon the destruction of a human embryo.
>
> Despite defendants' attempt to separate the derivation of ESCs from research on the ESCs, the two

> cannot be separated. Derivation of ESCs from an embryo is an integral step in conducting ESC research. Indeed, it is just one of many steps in the "systematic investigation" of stem cell research. 45 C.F.R. § 46.102(d). Simply because ESC research involves multiple steps does not mean that each step is a separate "piece of research" that may be federally funded, provided the step does not result in the destruction of an embryo. If one step or "piece of research" of an ESC research project results in the destruction of an embryo, the entire project is precluded from receiving federal funding by the Dickey-Wicker Amendment. Because ESC research requires the derivation of ESCs, ESC research is research in which an embryo is destroyed. Accordingly, the Court concludes that, by allowing federal funding of ESC research, the Guidelines are in violation of the Dickey-Wicker Amendment.
>
> *Sherley v. Sibelius*, 704 F. Supp. 2d 63 (D.D.C. 2010)

By defining research so broadly such that a single act taints the entirety of a research project from which it arises, Judge Lamberth effectively prevented NIH from funding *any* research related to ESC. Therefore, the District Court interpreted the Dickey-Wicker Amendment's prohibition against harming embryos during research as a prohibition that extended to *all* research relating to ESC lines, and not just that portion of the research when an embryo was destroyed to make the initial ESC line. Thus, the District Court also undermined the HHS opinion generated during the Clinton administration.

Subsequently, on August 30, 2010, NIH issued a notice to suspend funding of all human ESC research. Additionally, Judge Lamberth denied an emergency motion by HHS to stay the preliminary injunction. However, on September 9, 2010 in *Sherley v. Sibelius* the Federal Appeals Court for the District of Columbia issued a stay of the Federal District Court injunction, allowing NIH to temporarily resume funding activities related to human ESCs.

Amicus briefs were subsequently filed by various groups. The State of Wisconsin, the Coalition for the Advancement of Medical Research and the Genetics Policy Institute filed an amicus brief which argued that between 2001 and 2009, NIH spent half a billion dollars on research using human ESCs with congressional approval pursuant to appropriations bills that included the Dickey-Wicker Amendment. Moreover, this amicus brief indicated that the statutory language of the Stem Cell Research Enhancement Act, the legislative history and the consistent funding of research using human ESCs for over a decade foreclosed the plaintiff's argument. Therefore, the amicus argued, the District Court erred in granting the preliminary injunction because the plaintiffs did not meet their burden of showing a likelihood of success on the merits.

The Genetics Policy Institute also filed its own amicus brief focusing on the definition of research as applied to the Dickey-Wicker Amendment. In this amicus brief, the Genetics Policy Institute argued that adopting the Court's broad definition of research would encompass all stem cell research derived from human ESC research and all biomedical research derived from stem cell research. As an analogy, the Genetics Policy Institute indicated by using the definition of research adopted by the district court and advocated by the plaintiffs, since human ESC research requires the use of electricity and petri dishes, the generation of electricity and the manufacturing of petri dishes are processes that occur in that research.

The University of California System conceived what is possibly the strongest amicus brief in which they argued that the Appeals Court is incorrect that the plaintiffs had competitive standing. The Brief Of Amicus Curiae The Regents of The University of California In Support of Appellants states "[a]t issue as a threshold matter is whether plaintiffs—two individual researchers—have standing to tilt the scientific tables by halting an entire field of federally funded medical research for the ostensible purpose of improving their odds of obtaining a federal grant." In plain English, is it appropriate for the Plaintiffs in the case to halt *all* federal funding of embryonic stem cell research in hopes to increase their odds at receiving greater federal funding for their research?

Others...may be tempted to leave the country if other governments make them better offers, thus draining intellectual and technology resources from the United States.

Furthermore, the UC Brief noted that in the two months between the Federal Appeals Court decision and the subsequent injunction by the District Court, the District Court failed in its obligation to reassess the plaintiffs' standing before issuing a preliminary injunction. "Its failure to do so, in and of itself, is reversible error."

The UC Brief went on to provide a scathing commentary of the plaintiffs, arguing that: 1) they have not identified the markets in which they compete; 2) plaintiffs do not actually compete in the market; and 3) the plaintiffs are not the true competitors in the market.

In any case predicated on a competitive standing theory, such as *Illinois Tool Works v. Independent Ink, 547 U.S. 28, 32 (2006)* and *U.S. v. Microsoft Corp., 253 F.3d 34, 82 (D.C. Cir.) p. 12,* the plaintiff must plead—and establish—the relevant market. The University of California System noted in their amicus that in regard to the numerous funding institutes associated with NIH that "there are twenty-eight distinct funding markets—each with its own appropriations and each with its own Federal Advisory Committee Act council that recommends which grants are to be funded and which are not."

Furthermore, the UC Brief noted that the plaintiffs were deficient in identifying which market they compete in, stating that "[p]laintiffs have failed to plead, let alone introduce evidence, as to which of the twenty-eight markets they compete in; they have never alleged that they compete in all twenty-eight."

While the plaintiffs never announced the NIH institute(s) (market(s) from which Dr. Sherley received funding, the University of California System did determine the number of markets, stating that "Dr. Sherley is listed as a principal investigator on awards issued by one institute (National Heart, Lung, and Blood Institute), one center (National Center for Research Resources), and the Office of the Director."

Furthermore, the University of California System also noted that surprisingly, the second plaintiff, Dr. Deisher, has *never* applied for or received an NIH grant and only intended to apply for one at some time in the future. Thus, Dr. Deisher could not allege any imminent or concrete harm. Likewise, the UC Brief indicated that if Dr. Sherley was unsuccessful in obtaining grant applications "it is not because there is more competition, it is because his proposals lack merit."

In any event, beyond determining the market in which they compete, the University of California System noted that the plaintiffs

were not even the true competitors. In doing so, the UC Brief stated that:

> While the principal investigator may develop the idea for the grant, the principal investigator neither owns nor administers the award, and does not even submit the application. An NIH grant is, by definition, awarded to the grantee, not the principal investigator (see 42 C.F.R. § 52.2(e)); the grantee, not the principal investigator, is responsible for administering the grant and ensuring compliance with its terms and conditions.
>
> ***
>
> Dr. Sherley, as an employee, has no independent right to assert competitive injury to his grantee-employer especially when BBRI has announced on its website that "BBRI fully endorses the funding of research programs by the National Institutes of Health (NIH) across the country, including those involving human embryonic stem cells" and that "Dr. Sherley's position on this issue neither represents nor reflects that of BBRI."

In addition the UC Brief questioned the plaintiffs' attack of the 2009 guidelines. In particular, the UC Brief noted that the plaintiffs' standing theory rests on their premise that the 2009 NIH guidelines allow increased funding of ESCs, that adult stem cell researchers compete with embryonic stem cell researchers for grand funding and that "those working on more promising adult stem cell research will no doubt be deprived of opportunities for funding." "If plaintiffs are truly challenging the 2009 Guidelines, then their standing would hinge on (i) pleading and proving that the incremental difference in [human ESC] funding between the Bush policy and the 2009 Guidelines was injuring their competitive position, and (ii) showing that absent the Guidelines, their competitive position would improve…. since plaintiffs never reveal the difference in [human ESC] funding under the two policies, they have not even taken the first step toward proving that the incremental funding difference injures their competitive position."

The plaintiffs did briefly address the arguments presented in the UC Brief in their Brief for Appellees. However, the plaintiffs appear not to be able to overcome the issue of being the true competitors. More specifically, the plaintiff's state:

> UC claims that the harm caused by the Guidelines runs to Plaintiffs' employers rather than to Plaintiffs individually. UC Br. 9–10. The evidence in the record directly refutes this: Dr. Sherley has clearly alleged that research grants are his only source of research funding and that the "vast majority" of such grants are from NIH, JA167, ¶ 3; he receives no salary from his employer, Boston Biomedical Research Institute. Dr. Deisher is the founder, sole managing member, and research and development director of AVM Biotechnology, JA168–69, ¶ 3, and therefore benefits directly from any grant funding.

The Federal Appeals Court for the District of Columbia heard oral arguments of the government's appeal of the preliminary injunction on December 6, 2010 and as of the date of this article, no opinion has been published.

Conclusion

The reality is that federal funding is critical for early stage research, which is generally not performed by for-profit companies. Researchers at academic institutions will be forced to seek limited non-federal funding for

any embryonic stem cell research if the decision is not reversed. However, more federal money should therefore be available for research on adult and induced pluripotent stem cells, and thus the overall damage may be mitigated to the extent that researchers are willing to switch their research focus to adult or induced stem cells. Others, however, may be tempted to leave the country if other governments make them better offers, thus draining intellectual and technology resources from the United States.

It is difficult to predict the outcome of the case and its effect on scientific research, but the passages below detail a few possible factual outcomes and the likely legal result.

What if the Appeals Court rules there is a lack of competitive standing?

If the Federal Appeals Court for the District of Columbia rules that the plaintiffs do not have competitive standing because they are not the true recipients of NIH funding, the plaintiffs may not be able to proceed with challenging the NIH guidelines. The effect of this decision would be that the 2009 NIH guidelines remain in force and embryonic stem research and the pre-case status quo would continue.

What if the Appeals Court upholds the preliminary injunction?

If the Federal Appeals Court for the District of Columbia rules for the plaintiffs based on the language of the Dickey-Wicker Amendment being unambiguous and thus also prohibiting funding of downstream research on ESC lines, federal funding of human ESC line research could terminate. Such a ruling would likely result in legislative effort to modify the Dickey-Wicker Amendment and/or the United States Supreme Court might grant certiorari if the federal government loses the appeal. Thus, uncertainty would continue for some time, leading to a potential drain of U.S. intellectual and technology capital. However, research on adult and induced stem cells would continue and probably increase as some percentage of researchers would simply shift their research focus. One thing is certain, the more than 100 institutions holding grants for ESC line research will not be happy to lose these funds.

What if the Appeals Court overturns the preliminary injunction?

If the Appeals Court rules for the federal government that the Dickey-Wicker Amendment is ambiguous, the District Court will likely defer to the rulemaking by NIH as the NIH guidelines support an interpretation of the Dickey-Wicker Amendment which has been consistent through the Clinton, Bush and Obama administrations. During the Clinton administration, the Rabb memorandum distinguished embryonic stem cell lines from embryos themselves, thus allowing research on stem cell lines and only banning federal funding to create new cell lines. The creation of new cell lines could continue, however, either without federal money or outside the U.S. Throughout both the Bush administration and the Obama administration, Congress acted through NIH to fund at least some human ESC line research based on the Rabb memorandum.

What if the Congress Amends the Dickey-Wicker Amendment?

The Dickey-Wicker Amendment was first passed in 1996 under the Clinton administration before a method to derive stem cells from human embryos and grow these cells in a laboratory was discovered. One possibility to allow for human ESC line research funding at the federal level would be to remove any restrictions on embryo research. Due to the perceived close connection between embryonic research and the abortion debate that rages on in the

U.S., such a modification would be politically divisive and is highly unlikely.

Another modification of the Dickey-Wicker Amendment would be to distinguish between pre-implantation embryos and post implantation embryos or in utero embryos in the Amendment and specifically allow funding for in utero embryos, or post implantation embryos. This would at least be consistent with the in utero requirement for fetuses under the same Amendment, and such a change would still prohibit federal funding for the creation of an embryo for research purposes. Researchers could thus still rely on donated embryos left over from fertility treatments. Again, such an amendment runs perilously close to the abortion debate and seems unlikely to pass at this time.

A more likely scenario would be that the Dickey-Wicker Amendment might be amended to specify that research on embryonic cell lines is allowed, but that federal funding cannot be used to create additional cell line, thus scientists could still get new lines with either private funding or from outside the U.S.

Will Congress choose to fund federal research on human ESC lines?

It is debatable as to whether congress will choose to allocate money to NIH for the purposes of funding research involving human ESC lines even if the courts are eventually favorable to the federal government. With the new composition of the House of Representatives, an argument against funding of research involving human ESC lines does not need to be made based on a more politically divisive pro-life stance, but rather on a stance of fiscal conservatism and a withdrawal of taxpayer money to fund any variety of projects, such as the new healthcare legislation. However, since the Senate is still under democratic control, the House of Representatives may have to make some concessions and allow funding for research involving human ESC lines in order to get some of their own projects to the desk of the Oval Office.

It remains to be seen what the outcome of the Sherley case or the political debate regarding stem cells might be, but at least research on adult stem cells can continue and their use on the patient that provides those stem cells will be a significant advantage. It is true that we will need to continue research on ESC lines in order to fully realize the potential of these cells, but for the time being at least we must rely on state and private funding and on countries, like Britain, with less restrictive policies.

The above article expresses the views of the authors and not necessarily those of the State Bar of Texas IP Law Section.

William (Bill) P. Ramey is a Partner at the law firm of Novak Druce + Quigg LLP and co-chair of the Firm's Life Science Practice Group where his practice concentrates on obtaining, enforcing and licensing intellectual property, including patents, trademarks, copyrights and trade secrets.

Tamsen Valoir, PhD, is a partner in the Houston office of Boulware & Valoir, practicing primarily in intellectual property and regulatory work in the life sciences.

Matt Browning, PhD, is a senior associate at the law firm of Novak Druce + Quigg LLP and is a member of the firm's Life Science Practice Group where his practice concentrates on patent prosecution, reexamination and licensing of biologically and chemically related subject matter.

Trends in Patent Reexamination

By David L. McCombs, Van Lindberg and Theo Foster

One of the most marked trends in patent law is the growth of aggressive reexamination as a tool for asserting invalidity, challenging claims and staying litigation. An aggressive reexamination opens up a second front in a patent battle—a second front that frequently can in some ways be more favorable than the courtroom. For example, there is no presumption of validity for a patent in reexamination, and different and broader standards of interpretation apply to patent language. Reexamination also puts the patent claims in front of the most experienced examiners at the U.S. Patent and Trademark Office (USPTO), who all have backgrounds in technology and patent law.

...there is no presumption of validity for a patent in reexamination, and different and broader standards of interpretation apply to patent language.

The Patent Office's most recent report on reexamination statistics shows that requests for reexamination are quite effective in challenging patent claims. According to USPTO IP Quarterly Report Dec. 2010, since 1999, 1,115 requests for *inter partes* reexamination have been filed, with 787 of those requests known to involve co-pending litigation. Furthermore, based on 221 reexamination certificates issued, 47% of all *inter partes* reexaminations resulted in all claims being canceled, 43% resulting in some change to the claims and only 10% of reexamination certificates issuing with all claims confirmed.

One reason why an increasing number of reexaminations are being filed is to gain a stay of some pending litigation. Courts have noted various benefits available by waiting until the USPTO reviews the additional prior art analysis provided in the reexamination request, as found in *Bausch & Lomb Inc. v. Rexall Sundown, Inc.*, 554 F. Supp. 2d 386, 389-390 (W.D.N.Y. 2008). Not the least of these benefits is the possibility that all claims will be cancelled, obviating the need for any litigation whatsoever.

Some courts have expressed concerns over staying litigation without knowing how long the reexamination proceeding will last. Trial courts continue to experiment with creative ways to balance the benefits of staying litigation against the delay that could last for over a year. For example, as found in *DataTreasury v. Wells Fargo*, 490 F. Supp. 2d 749, 755 (E.D. Tex. 2006), courts have required defendants to stipulate to an i*nter-partes*-style estoppel even though the reexamination proceeding was *ex parte*.

More recently, some courts have shown a more flexible approach to addressing concerns about staying litigation. In *Southwire v. CerroWire* No. 3:08-cv-92 slip. op. at 12 (N.D. Ga. May 12, 2009), the court granted a stay of litigation but specifically left open the possibility of reopening the case "upon the issuance of the final decision by the examiner." Thus, the case will be stayed during the first stage of reexamination. But the litigation might be reopened and then proceed in parallel with any reexamination appeals.

Finally, many courts continue to grant open-ended stays of litigation in view of a reexamination proceeding without requiring any stipulation from the defendant.

One of the reasons often cited for granting a litigation stay is the simplification of issues by allowing the USPTO to consider various invalidity arguments. For *inter partes* reexamination, the third party requester is estopped from subsequently raising the invalidity arguments made before the

USPTO. Specifically, according to 35 U.S.C. § 315(c), the requester cannot assert in litigation "the invalidity of any claim finally determined to be valid and patentable on any ground which the third-party requester raised or could have raised during the inter partes reexamination proceedings."

Relatively few cases have addressed the substantive scope of this estoppel provision. In *ACCO Brands v. PC Guardian* 592 F. Supp. 2d 1208 (N.D. Cal. 2008), the trial court found that the requester was not estopped from later presenting an invalidity argument based in part on a prior art device, since reexamination is limited to prior art patents and publications. The relevant claims included limitations on the dimensions of a rectangular slot, specifically 3 mm x 7 mm. A prior art Macintosh Portable computer had a security slot with these dimensions, but both parties agreed that "there is no evidence of the dimensions of the Macintosh Portable security slot other than the computer itself." *Id.* at 1218. Since the computer itself could not have been presented as an invalidating reference to the USPTO during reexamination, the trial court allowed the defendant to proceed with its invalidity defense in the litigation.

A patent that survives reexamination is often considered more valuable, and it may be more difficult to challenge in another forum.

Interestingly, the trial court was "uncomfortable" with allowing the invalidity argument to go forward. The court was "not convinced that defendant could not, somehow, have gotten the Macintosh Portable information to the PTO had it actually wanted to." *Id.*, n.4.

Another use for patent reexamination is as a strategy for patent offense. Requests for reexamination can be filed in advance of a complaint by a patent owner, even without an accompanying declaratory judgment action. This is particularly useful in cases where there is a non-practicing entity—sometimes called a "patent troll"—suing a number of defendants in turn. If your company might be next in line for a lawsuit, a successful request for reexamination can delay or prevent the lawsuit from ever being filed. Because broader standards of claim interpretation apply in reexamination proceedings, requests for reexamination can include a prior art reference even if other defendants have argued—and lost in court—over that same reference.

Reexamination has other benefits as part of an offensive legal strategy. First, patent reexamination is cost-effective. According to the 2007 Report of Economic Survey published by the American Intellectual Property Lawyers Association, the average cost of patent litigation ranges from $2.5 to $5 million. Patent reexaminations—even aggressive, new-style patent reexaminations—typically cost only a fraction of that amount. Depending on the type of reexamination being requested, no further effort or expense may be required of the company making the request.

Second, patent reexamination allows strategic anonymity. Requests for *ex parte* reexamination can be filed anonymously. If a product—open source or otherwise—is implicated by a patent that may be invalid over known prior art, a request for reexamination can be filed challenging the patent, without alerting the patent owner to who is interested in invalidating the patent.

As with any legal proceeding, patent reexamination presents risk. A patent that survives reexamination is often considered more valuable, and it may be more difficult to challenge in another forum. Nevertheless,

the legal and cost benefits to reexamination make it a valuable tool for companies competing in patent-heavy industries.

The above article expresses the views of the authors and not necessarily those of the State Bar of Texas IP Law Section.

David L. McCombs is a partner in the Dallas office of Haynes and Boone, LLP, bringing 24 years of practicing intellectual property law, with an emphasis on patent litigation and dispute resolution.

Van Lindberg is an associate in the Houston office of Haynes and Boone, LLP, practicing intellectual property law, including patent, trademark, copyright, and trade secret law with particular expertise in the Open Source licensing model.

Theo Foster is an associate in the Richardson office of Haynes and Boone, LLP, practicing in all aspects of the patent lifecycle, from filing a start-up's first patent application to evaluating potential acquisitions for a NASDAQ giant.

A Snapshot of 2010 TTAB Precedential Decisions: Fraud, Genericness and Dilution

By Dyan M. House, Munck Carter, LLP

In 2010 we saw 50 precedential decisions handed down from the Trademark Trial and Appeal Board. This article highlights those decisions involving issues of fraud, genericness and dilution.

Fraud in the Post-Bose Era

Since the Federal Circuit's *Bose* decision came down in 2009, we have seen the Board strike down many fraud claims. In 2010 we saw the Board provide some guidance on the construction of a well-pleaded fraud claim, allowing a fraud claim and refusing to find fraud when the applicant relied on advice of counsel.

In a case filed before *Bose*, DaimlerChrysler, naturally, relied on *Medinol* in its arguments. However, its arguments did not meet the *Bose* standard, which came down during the pendency of the motion for summary judgment. Focusing on the issue of intent to deceive, the Board said DaimlerChrysler failed to establish the absence of a genuine issue of material fact as to the AMC's intent to deceive. The Board, therefore, denied summary judgment. *DaimlerChrysler Corporation and Chrysler, LLC v. American Motors Corporation*, 94 U.S.P.Q.2d 1086 (TTAB 2010) [precedential].

The Board did allow a fraud claim in *Meckatzer Löwenbräu Benedikt Weiß KG v. White Gold, LLC*, 95 U.S.P.Q.2d 1185 (TTAB 2010) [precedential]. In this case the Board found that the petitioner had adequately alleged fraud on the basis of an investigation surrounding White Gold's use of the mark in connection with the goods listed in the application as of the filing of the Statement of Use. That is, there was evidence that White Gold was using the mark in connection only with vodka – and not *all* of the other goods listed – as of the filing date of the Statement of Use. White Gold's arguments were not well received by the Board, particularly those in which they alleged that *In re Bose* required identification of a "specific individual" who "knew of the withheld material information or of the falsity of material misrepresentation." Nor did the Board agree with White Gold's argument that it was at least entitled to a registration for the mark for vodka, the goods for which it was using the mark at the time the Statement of Use was filed. The Board went

on to say, "*In re Bose* did not change the consequences of fraud, when it is proved. A finding of fraud with respect to a particular class of goods or services renders any resulting registration void as to that class."

If, however, there is no finding of fraud, the court may allow a restriction of the goods or services to those with which the respondent has used the mark. Such was the case in *M.C.I. Foods, Inc. v. Brady Bunte*, Cancellation No. 92045959 and *Brady Bunte v. M.C.I. Foods, Inc.*, Cancellation No. 92046056, 96 U.S.P.Q.2d 1544 (TTAB 2010) [precedential]. M.C.I. Foods, at the request of counsel, provided an expansive list of Mexican-style food items for which it might use the mark at issue. The application was filed with this expansive list of items on advice of counsel. Bunte argued that M.C.I. was not actually using the mark with all of the foods listed in the application as of the filing date of the Statement of Use, which the Board found to be true; M.C.I. only used the mark with burritos when the Statement of Use was filed. As to the fraud allegation, however, the Board said that while M.C.I.'s statement as to use in connection with all goods was false, it was not fraudulent because M.C.I. lacked the requisite intent to deceive. Finding that *Bunte* failed to prove fraud "to the hilt", the Board found in M.C.I.'s favor and restricted the identification of goods to burritos.

If...there is no finding of fraud, the court may allow a restriction of the goods or services to those with which the respondent has used the mark.

Genericness

In a not so shocking, but precedential decision, the Board found ELECTRIC CANDLE COMPANY to be generic for "light bulbs; lighting accessories, namely, candle sleeves; lighting fixtures." *In re Wm. B. Coleman*, *Inc.*, 93 U.S.P.Q.2d 2019 (TTAB 2010) [precedential]. The applicant argued acquired distinctiveness, which was rejected by the U.S. Patent and Trademark Office (USPTO). The USPTO then issued a rejection on the basis of genericness, thus preventing the applicant from amending to the Supplemental Register. The type of mark sought to be registered determines the evidentiary burden of the USPTO. When a mark is a compound term, the USPTO must prove by clear and convincing evidence that it is a generic term. With a phrase, the USPTO must provide evidence of the meaning of the composite mark as a whole. In this case, the USPTO applied both evidentiary standards. The Board agreed with the USPTO saying that no matter which standard was applied in this case, the result is the same.

In another genericness case, the Board found the term NANDRIVE to be generic for "electronic integrated circuits." *In re Greenliant Systems, Ltd.*, 97 U.S.P.Q.2d 1078 (TTAB 2010) [precedential]. The Board said that the USPTO provided clear evidence that the term "nand drive devices" is used by consumers and applicant's competitors and is understood by those groups to identify a type of solid state flash drive. The Board went on to point out that just because the applicant may be the first or only user of "a generic designation, or as in this case, a compressed version of such a term, does not justify registration if the only significance conveyed by the term is that of the category of goods."

The third precedential decision in 2010 dealing with the issue of genericness, had somewhat of a surprising outcome. In *In re Trek 2000 International, Ltd.*, 97 U.S.P.Q.2d 1106 (TTAB 2010) [precedential], the Board found that the USPTO failed to meet its burden by clear and convincing evidence of

showing that THUMBDRIVE is generic for "portable digital storage devices." Earlier in the prosecution of the application, the USPTO refused registration of the mark due to descriptiveness. The applicant responded by providing a declaration in support of acquired distinctiveness. Finding the declaration to be insufficient, the USPTO maintained its refusal. The applicant then provided evidence to support its claim of acquired distinctiveness. The application was approved for publication. A few weeks after the publication period ended, the USPTO requested that the application be restored to the USPTO's jurisdiction; the request was granted and the USPTO issued a refusal that the proposed mark is generic and, therefore, unregistrable. The Board noted that the evidentiary burden is heavy when facing the prospect of eradicating an applicant's commercial rights. The Board went on to say that the record demonstrated trademark and generic uses, but not generic use by competitors. This lack of use by competitors, while not a required element in the genericness analysis, points in favor of allowing the application, which is how the Board ultimately ruled.

...a party claiming dilution must show that the mark became famous before the other party's use or application was filed.

Dilution

When pursuing a dilution claim, a trademark owner must be sure its mark became famous before the other mark was ever used or thought of, and should have a good survey evidence to support its position. In *American Express Mktg. & Devpt Corp. v. Gilad Devpt Corp*., 94 U.S.P.Q.2d 1294 (TTAB 2010) [precedential], claiming likelihood of confusion and dilution, American Express objected to two marks containing the term GRAND AMERICAN EXPRESS used with "transportation services, namely, transporting passengers by means of a 19th century replica train." The applicant responded attempting to assert the affirmative defense of "non-commercial use." The Board rejected the applicant's argument, and noted that "the applicability of the 'non-commercial use' exception as an affirmative defense to a dilution claim is an issue of first impression before the Board." The Board quickly determined that such a defense is not applicable because the applicant cannot claim "non-commercial use" on the one hand and show use in commerce on the other in order to obtain a federal registration.

The handbag and accessories maker Coach lost its dilution claim in *Coach Services, Inc. v. Triumph Learning LLC*, 96 U.S.P.Q.2d 1600 (TTAB 2010) [precedential]. In opposing Triumph Learning's COACH marks for use with educational software and printed materials, Coach was able to show that its COACH marks are famous for the purposes of a likelihood of confusion analysis, but was not able to show enough evidence of fame for its dilution claim. Coach has appealed to the Federal Circuit.

A few months after the *American Express* case, the Board sustained a dilution claim – the first time it has done so in seven years. The famous mark at the center of this dispute was THE OTHER WHITE MEAT. *National Pork Board and National Pork Producers Council v. Supreme Lobster and Seafood Company*, 96 U.S.P.Q.2d 1479 (TTAB 2010) [precedential]. The applicant attempted to register THE OTHER RED MEAT for "fresh and frozen salmon." The Board found that the opposer's "well-designed survey" was a key factor in showing an association between the two marks in consumers' minds. There has been a substantial amount of advertising resources devoted to the promotion of THE OTHER WHITE MEAT, and, importantly, the

fame of THE OTHER WHITE MEAT was shown to be well-established before applicants filed their application to register THE OTHER RED MEAT. Thus, the Board held in favor of THE OTHER WHITE MEAT.

As described in the THE OTHER WHITE MEAT case, a party claiming dilution must show that the mark became famous before the other party's use or application was filed. In *Citigroup Inc. v. Capital City Bank Group, Inc.*, 94 U.S.P.Q.2d 1645 (TTAB 2010) [precedential], the Board found that the Citi marks became famous after applicant began using its marks, therefore there could be no finding of dilution.

In another decision involving dilution, *Fiat Group Automobiles S.p.A. v. ISM, Inc.*, 94 U.S.P.Q.2d 1111 (TTAB 2010) [precedential], we saw a case of first impression. Fiat's dilution claim failed because it did not show any use or registration in the United States. The Board held that a foreign trademark owner may assert a claim of dilution based on the fame of its foreign mark in the U.S., provided that the trademark owner has filed an intent-to-use application in this country.

As of the date of this article, we have only had a few precedential decisions from the Board. So far all have dealt with 2(e) issues, though we can be sure we see a colorful cast of cases in the upcoming year, alleging fraud, dilution and other interesting issues.

The above article expresses the view of the author and not necessarily those of the State Bar of Texas IP Law Section.

Dyan House is a Senior Associate at Munck Carter, LLP and is a member of the Firm's Intellectual Property section concentrating her practice in the areas of trademark, copyright and licensing. Ms. House represents clients before the U.S. Patent and Trademark Office and the Trademark Trial and Appeal Board. Ms. House also advises clients on franchise regulatory matters as well as assists in the structure of franchise systems and related agreements.

State Bar of Texas, Intellectual Property Law Section

2011 Texas Inventor Of The Year

Nomination form

The 2011 Texas Inventor of the Year will be recognized at the Annual Meeting of the State Bar of Texas (SBOT) in San Antonio on June 23-24, 2011.

Please use this form, which includes five sections, to submit nominations for the 2011 Inventor of the Year. The Inventor Recognition Committee of the Intellectual Property Law Section (IPLS) of the SBOT will select the winner based primarily upon the responses in Section III. Please insert additional space below, or append additional pages, as needed.

Section I. General Instructions

1. Each nomination should be submitted as a single electronic file (e.g., using PDF or Zip format).

2. All nominations are **due by April 30, 2011**. Also, nominators must be IPLS members. Any member may make any number of nominations. Nominations of clients and employees are accepted and encouraged.

3. Please submit all nominations **via email** to Michelle LeCointe: michelle.lecointe@bakerbotts.com (Phone: 512-322-2580).

Section II. Background Information

1. Nominee:

Name, business affiliation, and address of nominated inventor:

Year of birth (if known):

2. Either (a) attach a current resume for the nominee, or (b) list the educational accomplishments, career positions, current professional memberships (including offices held), and the nominee's prior awards.

3. List all of the nominee's U.S. patents by number and title (a database printout is sufficient). (Note: only a copy of the patent(s) described in Section III should be attached.)

Section III. Invention(s) forming the Basis of the Nomination

Please append one or more pages with the following information:

1. **Information on the U.S. patent(s) for which the nomination is being made:**

Identify the U.S. patent or patents for which the nomination is being made. Include a detailed description and a brief history of the invention(s). *All nominations must be based on inventions having at least one United States patent*. The committee will consider a nomination based on an invention covered by an existing or even an expired patent.

Append copies of the patent(s) describing the invention(s). Additional visual aids may also be included.

2. **Known litigation, interference, or other proceedings:** Identify any known litigation, interference, or other proceeding that involves or involved the invention(s) or patent(s). The committee will not consider inventions based on patents (a) currently in litigation, re-examination, reissue, and interference proceedings, or (b) that have been held unenforceable or invalid.

3. Describe the specific contribution of the invention(s) to society.

4. **Describe the impact the invention has had on Texas commerce.** All nominations must be based on inventions that have significantly impacted the Texas economy. More general impact on the US or world economy may be described, but specific effects on Texas should be included in some fashion.

Section IV. Nominator(s) (Please insert additional space as needed)

1. Name and address of each IPLS member who is nominating the named inventor, including business affiliation.

Name #1:

Bus. Affiliation:

Address:

Email:

Name #2:

Bus. Affiliation:

Address:

Email:

2. Date of submission of this nomination:

3. Signature(s) of Nominator(s)

_____

_____

Section V. Appendices

Please append copies of the patent(s) describing the invention(s), a current resume (or similar) for the nominee, and any visual aids or other supplementary information below.