Strawberry fields

THE CASE:
The Regents of the University of California v California Berry Cultivars, LLC, Shaw, and Larson
US District Court for the Northern District of California
15 September 2017

A plant breeding start-up experienced a dramatic change of fortune in a bitter dispute over multimillion-dollar strawberry plants, explains **Matthew A Chivvis**

Over the last several decades, the strawberry industry in the US has become big business. Last year, production was valued at more than $2.3bn, by far the most in the world.

Much of the industry's success can be traced to the breeding programme at the University of California Davis (UC Davis). Since its beginning in 1952, the programme's breeders have been devoted to making commercially viable strawberries through research and development of varieties, or cultivars, that can resist pests and diseases and survive long-distance travel.

When the UC Davis breeding programme began, growers produced six tons of strawberries per acre. Today, they produce about 30 tons per acre. Such extraordinary production is made possible by the university's 30-plus patented varieties, which collectively account for roughly 60% of the worldwide market.

California growers produce most of the strawberries grown in the US, and are the main beneficiaries of the programme. For below-market rates, California growers can access strawberry varieties developed by UC Davis; fees received by the university go back into the programme to fund research and innovation.

Last year, however, the programme's existence was called into question by a private strawberry breeding company, California Berry Cultivars, LLC (CBC). Douglas Shaw and Kirk Larson, former UC Davis faculty who led the breeding programme, had founded the company after their retirement from the university in 2014.

On 2 May 2016, CBC filed a lawsuit in California state court against the university, essentially alleging that Shaw and Larson were the true owners of the university's breeding programme, and that they could force the university to assign rights for varieties they claimed to have developed to CBC. According to CBC's allegations, the university lacked proper agreements to use the inventions of Shaw and Larson while they were employed at the university.

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CBC made claims for breach of contract, conversion, breach of fiduciary duty, breach of implied covenant of good faith and fair dealing, and unfair competition. The lawsuit also included a request for a temporary restraining order (TRO) requiring UC Davis to give copies of strawberry varieties in the core breeding stock (or "germplasm") to CBC or to an escrow agent pending resolution of the case.

From defence to offence

As all IP lawyers know, TROs are three-alarm fire drills. Shortly after CBC's filing, which was made without any prior notice, a hearing was set the next day at 9:30am in Alameda County Superior Court. As counsel to UC Davis, we had less than 18 hours to prepare our brief and argument.

If the TRO was granted, CBC could then also ask for a preliminary injunction, which would further imperil the UC Davis breeding programme. Preparations were an all-night affair.

The general duty superior court judge delayed ruling to allow for further briefing. That meant that, while chances for a powerful blow to our client still loomed, we had more time to bolster our arguments.

We also could begin executing our litigation strategy. Within four days of the first TRO hearing, we counterclaimed against CBC and named two additional parties – Shaw and Larson. We sought a declaratory judgment of ownership over certain intellectual and tangible property rights and alleged patent infringement and conversion, among other causes of action. The patent infringement counterclaims allowed us to remove the case to federal court, where we believed the dispute belonged and where a TRO was less likely to be granted.

Of course, we were still a defendant facing a TRO request. The case was assigned to US District Judge Vince Chhabria of the Northern District of California, a recent appointee known for prompt action. He ordered additional briefing and set a hearing on the TRO for later that week.

Just two days after the hearing, Judge

Chhabria denied the TRO on multiple grounds. He found that CBC had, "not shown a likelihood of success on the merits." Critically, he stated, "It appears the university has ownership rights in the [germplasm] and that Dr Shaw and Dr Larsen violated their obligations under the patent agreements to assign their intellectual property interests in the [germplasm] to the university."

Fruits of discovery

We started to focus on our discovery requests. Our working theory at the time was that, to jumpstart their private venture, Shaw and Larson had covertly taken some of the university's property while they were still employees. We surmised that they had done so in coordination with the university's own licensees in Spain, with which they had a long-standing relationship. Our plan was to press for details on CBC's activities abroad.

But we soon realised that the defendants would be claiming a territoriality defence to our allegations of patent infringement and our discovery requests. Essentially, their position was that what happened outside the US should stay outside the US.

We disagreed, arguing to Judge Chhabria that CBC's activities abroad were highly relevant since CBC could have taken UC Davis' property and imported it back into the US.

On 23 September 2016, Judge Chhabria issued a six-page order requiring the production of a long list of documents and communications related to CBC's activities in Spain. He also ordered CBC to make available all its strawberry fields in California to DNA testing to determine whether its plants were generated by using strawberry plants from UC Davis' breeding programme. We received more than $70,000 in attorney's fees as a sanction.

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From the results of those tests, we learned two important facts. First, we learned that CBC had used the university's patented plants in Spain. How CBC obtained the plants –and whether it paid for them or not – remain unclear. Secondly, we learned that CBC had already used the very same core strawberry germplasm that it had sought access to with its TRO request. This material was not commercially available anywhere, so we now had proof that CBC had taken this material without permission.

That second fact would become the core of our case. It was no longer just about patent infringement, a matter of strict liability. It was now also a case of theft, or as we pleaded in our amended complaint, conversion.

On the trail

With this new direction in our case, we needed to fill in the blanks. The big question: What exactly were the defendants doing in Spain with UC Davis plants?

Important answers, we believed, lay with International Semillas, the company in Spain that partnered with CBC to research and test new strawberry varieties. Our subpoenas to International Semillas, however, went nowhere. The company refused to provide any documents or make available anyone for depositions. For its part, CBC claimed it could not force its partner to cough up the materials. We disagreed.

That conflict would lead us back to court. On 8 May 2017, Judge Chhabria issued additional sanctions, finding that International Semillas and one of its executives had violated the court's order to provide documents and testimony. And this time, the sanctions were even more severe than the previous ones.

Judge Chhabria ordered International Semillas to turn over privileged documents, some of which would prove extremely helpful at trial. He also awarded us an adverse inference that would inform the jury about the stonewalling by not just International Semillas, but CBC as well. Lastly, Judge Chhabria awarded UC Davis its substantial attorney's fees for pursuing this discovery.

In his 27 April order, Judge Chhabria ruled in favour in all but one of the defendants' claims. Additionally, he granted summary judgment on several of UC Davis' claims and allowed the rest to proceed to trial.

By that time, we had become the clear plaintiff in the case. Following the summary judgment order, we filed a motion asking Judge Chhabria to reorder the pleadings; which he granted. Instead of *California Berry Cultivars, LLC v The Regents of the University of California*, the case was now captioned *The Regents of the University of California v California Berry Cultivars, LLC, Shaw, and Larson*.

On 22 May we proceeded to trial, where we were aided by the expert testimony of Stephen Dellaporta, a professor of molecular, cellular, and developmental biology at Yale University. Dellaporta, who had conducted DNA analysis of CBC plants grown in California, explained to the jury that those plants were bred with plants from UC Davis'

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UC Davis water tower is an iconic symbol of the UC Davis and the city of Davis.

strawberry breeding programme that had not been available on the open market.

To bolster Dellaporta's testimony, we presented to the jury a document we found in Larson's Gmail account only a few weeks before trial. The document showed that in 2013, while they were still employed at the university, Shaw and Larson communicated to International Semillas which strawberry varieties they wanted to use in breeding the following year. The list matched perfectly those varieties Dellaporta had found through his DNA testing.

After five days of trial, the jury sided with UC Davis on nearly every issue.

They found that CBC, Shaw, and Larson had engaged in conversion by taking possession of three different categories of property without the university's permission. They also found that Shaw and Larson breached the fiduciary duty and duty of loyalty they owed to UC Davis, and had interfered with their own contracts with the university. Additionally, the jury found all three defendants had engaged in 11 different counts of willful patent infringement.

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Takeaways

Given the nuances of litigation, it can be ill-advised to apply lessons from one case to another. But our experience solidified three beliefs that we think hold true in just about any intellectual property case.

- Discovery mistakes can be costly: This case demonstrates the profound impact that discovery sanctions can have on the outcome of a case. We like to think we would have won at trial even without the sanctions orders, but they allowed us to have a better understanding of what had happened and to prove our case. Also, the psychology of adverse inferences on juries also likely cannot be overstated. In our case, the jury was invited, though not required, to infer that discovery misconduct "was designed to conceal the full extent of CBC's activity in Spain."
- The best defence is often a good offence: We began this case on our heels as a defendant facing a TRO request. But we did not waste any time going on offence and building our case through aggressive discovery requests with the aim of being able to tell our story at trial. When we were stymied in our discovery requests, we pursued the appropriate remedies.
- Venue matters: We removed this case to the federal court based on our patent infringement counterclaims. There are few published decisions addressing that procedure, and before the America Invents Act went into effect in 2012, it wasn't even allowed. With the complicated issues presented in this case, including ownership rights involving patents, we knew we needed to be in federal court.

Author

Matthew A Chivvis, a partner in Morrison & Foerster's IP group, served as trial counsel to the University of California along with his colleagues Rachel Krevans and Wes Overson. They were assisted by a team of firm associates and support staff. Partner Michael Ward, a specialist in plant IP law, also advised on technical and patent issues.