

MCDERMOTT WILL & EMERY LLP
Terrence P. McMahon (71910)
tmcMahon@mwe.com
William G. Gaede III (136184)
wgaede@mwe.com
Andrew A. Kumamoto (178541)
akumamoto@mwe.com
3150 Porter Drive
Palo Alto, CA 94304-1212
Telephone: (650) 813-5000
Facsimile: (650) 813-5100

*Attorneys for StemCells, Inc. and
StemCells California, Inc.*

IN THE UNITED STATES DISTRICT COURT
IN AND FOR THE NORTHERN DISTRICT OF CALIFORNIA
OAKLAND DIVISION

STEMCELLS, INC., a Delaware corporation,
and STEMCELLS CALIFORNIA, INC., a
California corporation,

Plaintiffs,

v

NEURALSTEM, INC., a Maryland
corporation, KARL K. JOHE, an individual,
and I. RICHARD GARR, an individual,

Defendants.

Case No. C-08-02364 CW

**FIRST AMENDED COMPLAINT FOR
PATENT INFRINGEMENT, TRADE
LIBEL AND VIOLATION OF
BUSINESS AND PROFESSIONS CODE
SECTION 17200**

DEMAND FOR JURY TRIAL

Honorable Claudia Wilken

Plaintiffs StemCells, Inc. and StemCells California, Inc. (collectively, “StemCells”) allege against Defendants Neuralstem, Inc. (“Neuralstem”), Karl Johe, and Richard Garr (collectively “Defendants”) as follows:

JURISDICTION

1. The First and Second Claims For Relief arise under the Patent Laws of the United States, 35 U.S.C. §§ 1 *et seq.* This Court has jurisdiction pursuant to 28 U.S.C. §§ 1331 and 1338(a).

2. The Third and Fourth Claims for Relief arise under California statutory and common law. This Court has jurisdiction over these claims under the doctrine of supplemental jurisdiction, 28 U.S.C. § 1367, because the federal and state claims have common operative facts, and judicial economy, convenience, and fairness to the parties will result if this Court assumes and exercises jurisdiction over the State law claims.

PERSONAL JURISDICTION AND VENUE

3. Defendants are subject to personal jurisdiction in California and Venue is proper in this judicial district pursuant to 28 U.S.C. §§ 1391(b) and (c).

THE PARTIES

4. Plaintiff StemCells, Inc. is a Delaware corporation, with its principal place of business located at 3155 Porter Drive, Palo Alto, California 94304.

5. Plaintiff StemCells California, Inc. is a California corporation wholly owned by StemCells, Inc., with its principal place of business located at 3155 Porter Drive, Palo Alto, California 94304.

6. StemCells, *inter alia*, is in the business of stem cell based treatments of diseases and conditions characterized by damage to or degeneration of the central nervous system (“CNS”), liver, pancreas and other tissue.

7. On information and belief, Neuralstem is a publicly traded corporation incorporated under the laws of the State of Delaware with headquarters at 9700 Great Seneca Highway, Rockville, Maryland 20850.

8. On information and belief, Defendants Karl Johe and Richard Garr reside in Maryland. Defendant Johe has also acted through a shell corporation known as High Med Technologies, Inc. On information and belief, Defendant Garr is an attorney.

9. Defendants do not have a license with StemCells to practice any invention under StemCells patents, including the two patents alleged herein.

FIRST CLAIM FOR RELIEF

(Infringement of StemCells' United States Patent No. 7,115,418)
(Against All Defendants)

10. StemCells is the assignee or exclusive licensee of U.S. Patent No. 7,115,418 (the “418 patent”). A true and correct copy of the ‘418 patent is attached hereto as Exhibit 1 and incorporated herein.

11. On information and belief, Defendants have been and still are infringing, contributing to the infringement of, and/or inducing the infringement of ‘418 patent in this judicial district and elsewhere and will continue to do so unless enjoined by this Court. Such activity is outside of the scope of 35 U.S.C. § 271(e)(1).

12. Defendants’ infringement of the ‘418 patent has been and continues to be willful, entitling StemCells to enhanced damages.

13. Defendants’ infringement of the ‘418 patent has caused reparable and irreparable harm and damage to StemCells, which will continue unless enjoined by this Court.

SECOND CLAIM FOR RELIEF

(Infringement of StemCells' United States Patent No. 7,361,505)
(Against All Defendants)

14. StemCells incorporates paragraphs 1 through 13 of this Complaint as if set forth in full herein.

15. StemCells is the assignee or exclusive licensee of U.S. Patent No. 7,361,505 (the “505 patent”). A true and correct copy of the ‘505 patent is attached hereto as Exhibit 2 and incorporated herein.

16. On information and belief, Defendants have been and still are infringing, contributing to the infringement of, and/or inducing the infringement of ‘505 patent in this judicial district and elsewhere and will continue to do so unless enjoined by this Court. Such activity is outside of the scope of 35 U.S.C. § 271(e)(1).

17. Defendants’ infringement of the ‘505 patent has been and continues to be willful, entitling StemCells to enhanced damages.

18. Defendants’ infringement of the ‘505 patent has caused reparable and irreparable harm and damage to StemCells, which will continue unless enjoined by this Court.

THIRD CLAIM FOR RELIEF

(Trade Libel)

(Against Defendant Neuralstem)

19. StemCells incorporates paragraphs 1 through 18 of this Complaint as if set forth in full herein.

20. Defendant Neuralstem has embarked upon an intentional course of action to devalue and injure the intellectual property of StemCells and to impugn the business honesty of StemCells and engage in unfair competition under California Business and Professional Code Section 17200. In particular, Neuralstem made and continues to make wrongful and false statements about actions the U.S. Patent and Trademark Office ("Patent Office") had taken with respect to StemCells' patents and StemCells' actions before the Patent Office. Such statements constitute wrongful conduct as herein more specifically set forth.

21. From December 2006 to October 2007, Neuralstem filed petitions before the Patent Office for reexamination of StemCells' U.S. Patent Nos. 5,851,832, 7,101,709, 6,497,872, and 6,294,346. In February, May, and November of 2007, the Patent Office granted reexamination of the patents on the grounds that "a substantial new question of patentability" existed. As set forth in the Manual of Patent Examination Procedure ("MPEP") at Section 2242 a "substantial new question of patentability" occurs when "a prior art patent or printed publication raises a substantial question of patentability where there is a substantial likelihood that a reasonable examiner would consider the prior art patent or printed publication important in deciding whether or not a claim is patentable." As specifically stated in the MPEP a "substantial new question of patentability" as to a patent claim could be present even if the examiner would not necessarily reject[] the claim as either fully anticipated, or obvious in view of, the prior art patents or printed publications."

22. On May 22, 2007, Neuralstem's President and CEO, I. Richard Garr, gave a presentation at a conference sponsored by the Wall Street Analyst Forum for public corporations to address analysts, portfolio managers and professional investors. During the presentation, Mr. Garr told the audience:

Well, also you refer us to the infringement law suite [sic] was filed last August by StemCells, Inc. and obviously we are not infringing their patents. But it actually hasn't gone anywhere. ***At this point, the patent office has ruled that all of the patents they accused us of infringing are invalid. In fact, they have little bit, it's preliminary because they get to fight it out, but the preliminary ruling was that all the claims in all the patents, they are not valid.*** So, I think for a couple of years nothing will happen until and unless they make it out of the patent office even in those patents, intact. Yeah.

(Emphasis added.)

23. On May 22, 2007, the PTO had not invalidated any claims of the '872, '832, '709 and '346 patents.

24. The transcript of Mr. Garr's presentation has been posted on several websites on the Internet. Neuralstem has posted a link to one of the websites on its company webpage for News and Press Releases.

25. On information and belief, Neuralstem made the above-noted statement with knowledge that a decision on Neuralstem's request for reexamination was not a decision on the validity of the subject patents. *See In re Etter*, 756 F.2d 852, 857 n.5 (Fed. Cir. 1985) ("The inquiry occasioned by a request for reexamination is solely whether a reexamination order should issue and is not directed toward resolution of validity.")

26. In April 2008 the Patent Office issued notices of an intent to issue reexamination certificates on the '872 and '832 patents. Defendant Neuralstem has conceded in public filings that the PTO is likely to also issue notices of an intent to issue reexamination certificates for the '346 and '709 patents.

27. At the time when the Neuralstem May 2007 statements were made about the StemCells patents, StemCells was in separate negotiations to license its patented technologies to two companies, BrainCells Inc. (BCI) and NeuroGeneration, both located in California. BCI had signed a term sheet with StemCells, and NeuroGeneration was about to sign a license agreement with StemCells. Shortly after Neuralstem's May 2007 statements, both companies terminated the license negotiations.

28. Neuralstem has continued to engage in wrongful conduct to injure StemCells' intellectual property. In a press release issued on March 28, 2008, Neuralstem publicly stated that

1 a patent infringement suit that StemCells had brought against Neuralstem in 2006 in the District
 2 of Maryland had been "dismissed." In fact, as was well known to Neuralstem, the lawsuit had
 3 been stayed pending reexamination of the four patents. A true copy of Neuralstem's March 28
 4 press release is attached hereto as Exhibit 3 and is incorporated herein. Indeed, Neuralstem
 5 recently acknowledged that the reexamination proceedings for the '872 patent and the '832 patent
 6 have resulted in the Patent Office issuing notices of intent to issue reexamination certificates, and
 7 that the Patent Office "is likely to also issue notices of an intent to issue reexamination
 8 certifications for the '346 and the '709 patents." Neuralstem further requested that the Maryland
 9 court lift the stay of that litigation because the reexamination proceedings were "almost
 10 complete."

11 29. On April 22, 2008, the Patent Office issued the '505 Patent. Earlier, the Patent
 12 Office issued a Notice of Allowance on January 24, 2007, and StemCells paid the issuance fee on
 13 February 5, 2007. On April 23, 2008, StemCells issued a press release announcing issuance of
 14 the '505 Patent. A true copy of the April 23, 2008 press release is attached hereto as Exhibit 4
 15 and is incorporated by reference. On May 7, 2008, Neuralstem issued a press release in which it
 16 announced the filing of a lawsuit against StemCells seeking, *inter alia*, a declaration of
 17 inequitable conduct on the '505 Patent. A true copy of the May 7, 2008, press release is attached
 18 hereto as Exhibit 5 and is incorporated by reference. Mr. Garr is quoted in the May 7 press
 19 release as saying that:

20 While . . . we have not yet been directly accused by StemCells, Inc. of infringing
 21 this patent, ***the threatening statements in their press release of April 23rd leave***
 22 ***the misleading impression that we would require a license from them as a result***
 23 ***of the issuance of this patent.*** Nothing could be further from the truth," said
 24 Neuralstem President & CEO Richard Garr. "And, in addition to finding that the
 patent is unenforceable against us, or anyone else for that matter, as a result of
 their actions, we are asking that the Court also declare that we are not infringing
 the patent and that the patent is also invalid."

25 "We are confident ***that their intentional withholding of highly material***
 26 ***information and their intent to deceive the Patent Office,*** will result in this patent
 being unenforceable," concluded Garr.

27 (Emphasis added.)
 28

1 17203 and 17535 is necessary to prevent and restrain further violations by Neuralstem. Until
2 such an injunction is issued StemCells, and members of the public, will continue to suffer
3 irreparable harm for which there is no adequate remedy at law. StemCells is also entitled to an
4 order of restitution and disgorgement of profits earned by Neuralstem by its wrongful conduct.

5 **PRAYER FOR RELIEF**

6 **WHEREFORE**, StemCells prays for judgment and relief as follows:

7 A. A finding by the Court that Defendants have infringed, contributed to the
8 infringement and/or induced the infringement of the '505 patent and the '418 patent;

9 B. A finding by the Court that Defendants' infringement of the '505 patent and the
10 '418 is willful, and an award of enhanced damages of up to three times the amount found or
11 assessed under 35 U.S.C. § 284;

12 C. A temporary, preliminary and permanent injunction against Defendants' continued
13 infringement, inducing of infringement, and contributing to infringement of the '505 patent and
14 the '418 patent, including any such infringement by the Defendants' parents, subsidiaries,
15 affiliates, divisions, officers, agents, servants, employees, directors, partners, representatives,
16 shareholders and all parties in active concert and/or participation with any Defendant;

17 D. An award of damages in favor of StemCells and against Defendants sufficient to
18 compensate StemCells for Defendants' infringement of the '505 patent and the '418 patent, and
19 an assessment of prejudgment and post-judgment interest;

20 E. A finding by the Court that this case is exceptional under 35 U.S.C. § 285;

21 F. A temporary, preliminary and permanent injunction against Neuralstem's
22 continued acts of trade libel and unfair competition with respect to StemCells' intellectual
23 property, including by Neuralstem's parents, subsidiaries, affiliates, divisions, officers, agents,
24 servants, employees, directors, partners, representatives, shareholders and all parties in active
25 concert and/or participation with it;

26 G. For disgorgement of profits Neuralstem earned as a result of its false, unlawful,
27 unfair and fraudulent business practices and advertisements;

28 H. For compensatory damages in an amount to be proven at trial;

I. For punitive damages in an amount to be proven at trial;

J. An award to StemCells of its reasonable expenses, including attorneys' fees, and costs of this action; and

K. Such other and further relief as the Court finds just and proper.

DATED this 9th day of May 2008 at Palo Alto, California.

Respectfully submitted,

MCDERMOTT WILL & EMERY LLP

By: /s/ William G. Gaede, III
William G. Gaede, III

*Attorneys for StemCells, Inc. and
StemCells California, Inc.*

MCDERMOTT WILL & EMERY LLP
ATTORNEYS AT LAW
PALO ALTO

DEMAND FOR JURY TRIAL

Plaintiffs respectfully request a jury trial on all issues triable thereby.

MCDERMOTT WILL & EMERY LLP

By: /s/ William G. Gaede, III
William G. Gaede, III

*Attorneys for StemCells, Inc. and
StemCells California, Inc.*

MCDERMOTT WILL & EMERY LLP
ATTORNEYS AT LAW
PALO ALTO