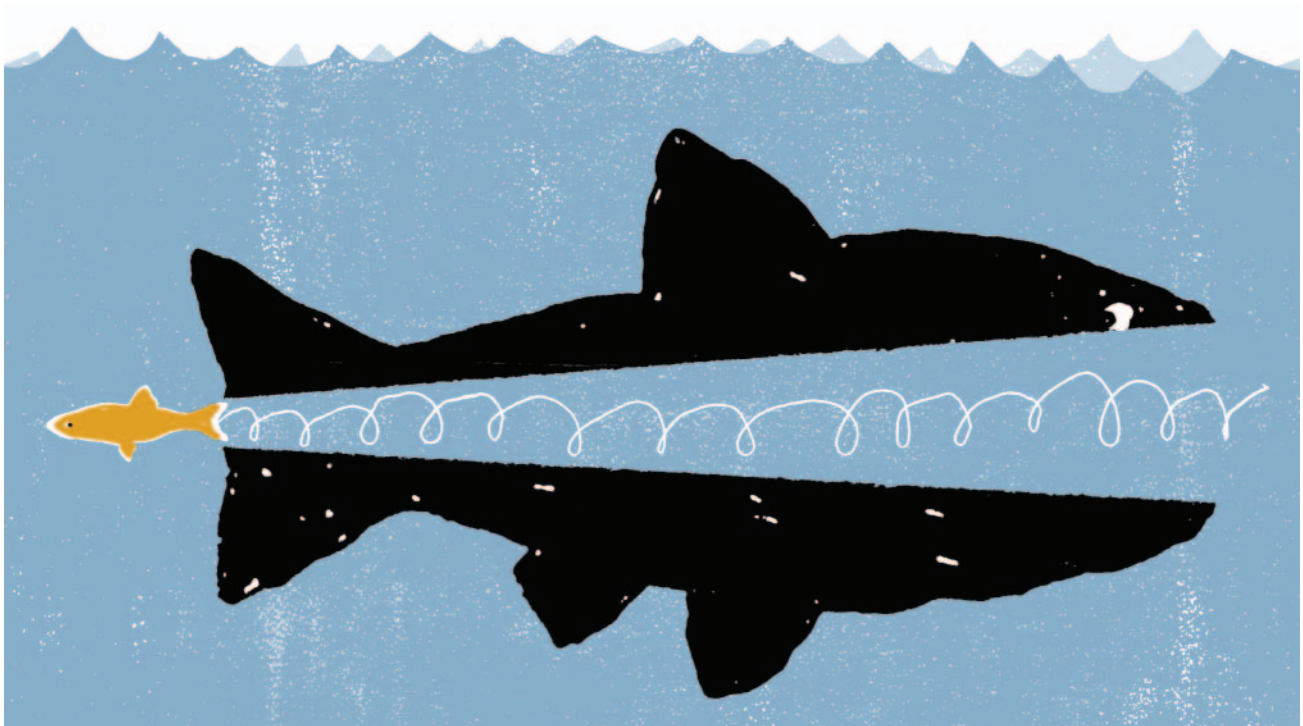


CASE STUDY

David Whips Goliath in IP Decision

Upstart Medical Device Maker Collects



Steve Tremulis is the CTO of Ovion, Inc., Menlo Park, California, a company with a bright future that was on the ropes two years ago.

Tremulis and his partner are bio-medical engineers and co-inventors on the patents that are their company's chief asset. One of them issued in 2000, and covers an implanted device that prevents pregnancy.

By 2001 they were far enough along in their search for financing to need some objective legal advice. Up until then they'd been working with two well-known Silicon Valley law firms, one of which prosecuted their existing patent and was in the midst of obtaining a second patent on the same device. An attorney from the other firm served as their corporate counsel.

"We felt we had pioneering intellectual property," says Tremulis. "So did our lawyers from both firms - but in a sense they were on our payroll, and inclined to be friendly. We decided that before we made a deal for financing we should bring in a third firm to assess just how valuable our patents were."

They sought attorneys with experience in med tech. Chicago-based McAndrews, Held & Malloy was recommended, and lawyers from the firm began evaluating Ovion's technology. "This was a very big issue for us," Tremulis explains. "The company was founded on the only real asset we have, our patent rights, which cover the only product we intend to sell. So the patent was either as good as we thought it was, or we were out of business."

While the assessment was in progress a bombshell hit Ovion. Conceptus, another one-product company in the birth control device field, was taking them to court.

“We were looking their patents over when practically out of nowhere they were sued,” says Tim Malloy of McAndrews Held & Malloy, who served as Ovion’s chief attorney in the ensuing litigation. “They were hit with a complaint, and a nasty one at that.”

The complaint was the reverse of an action alleging infringement. Conceptus, fearing such a suit from Ovion, was pre-emptively seeking a declaratory judgment that it did not infringe, and declaring Ovion’s patent unenforceable.

Under federal rules a complaint only needs to serve notice. According to Malloy, complaints normally provide some perfunctory description, and save the details for later. The one served on Ovion went to great lengths to claim that Tremulis and his partner were not the first inventors on their patent, and had stolen ideas from Conceptus. “I thought it was really inappropriate,” he says.

A complicating factor in the litigation was the vast difference in resources that the two companies could marshal. Ovion was still funded out of Tremulis’s and his partner’s pockets. Conceptus is a publicly traded company with a market cap of \$300 million, and it was determined to keep a rival from entering the field.

“It was a bad situation,” says Tremulis. “We couldn’t have survived an adverse decision because we never would have gotten financing, but the cost of patent litigation was out of our reach. We had literally no money to defend ourselves.”

Their dilemma was one that many technology companies face. Intellectual property litigation is about the most expensive legal problem there is. Various ways of dealing with its cost have been tried - so-called rocket dockets that expedite consideration of claims, mandated mediation, acquisition of a defensive portfolio - but none of them mitigate the central fact: Attorneys with the skill to litigate intellectual property lawsuits command high fees because they are worth it. A functioning patent is the closest thing to a legal monopoly that exists under our form of capitalism, and an unrivaled competitive tool.

Malloy had enough faith in Ovion’s position to make an agreement that was contrary to his firm’s usual way of operating. “Our business is normally fee for service,” he says. “We charge an hourly rate and we expect to be paid when we send the bill, but we did a contingent fee arrangement with them. Otherwise they couldn’t have afforded the kind of legal services they needed in this battle.”

Suit/counter-suit is the norm for patent litigation, and Conceptus v. Ovion was no different. Shortly after the Con-

ceptus suit was filed, Ovion’s second patent was issued. Malloy sued Conceptus for infringing that patent, and the two sides prepared to duke it out. Much of the day-to-day work was handled by associates under Malloy’s supervision.

“Myself and another attorney, Leland Hansen, hopped on a plane, and went out to California when we had to appear in court,” Malloy explains, “but the day to day work of taking depositions, reviewing documents, preparing witnesses, and getting ready for an exhaustive mediation, was done by Leland and some younger guys.”

MEDIATION RULES WERE STRICT

The mediation was held in October 2003 before a retired judge, under the kind of detailed ground rules that are designed to pressure both parties to settle. Each side was required to have a decision-maker in attendance, and everyone involved was instructed to be prepared to go as long as 15 hours.

One hour presentations began the proceedings. Rebuttals followed. The mediator made comments, then the two sides separated. The mediator acted as a shuttle diplomat after that, moving back and forth, and gradually narrowing the differences. It took until 1 A.M. the following morning, but in the end a settlement was hammered out. Reaching it was a matter of survival - for somebody.

“If we’d have litigated to the bitter end only one company would have been standing,” says Tremulis. “Without the technology in dispute neither of us could continue in business.”

In the event, they’ll both remain in business. Malloy resorts to the litigator’s cliché when he describes the settlement. “Both sides were equally unhappy,” he says, but that modest characterization notwithstanding, the terms look pretty favorable for Ovion.

Conceptus agreed to an immediate payment to Ovion of \$2 million in prepaid royalties on the Conceptus birth control system, another \$2 million in the first half of 2004, and 3.25% of all sales in excess of \$75 million cumulative. Conceptus’s 2003 sales were \$7.7 million. Projected 2004 sales were \$11.5 million. It was anticipated that a CPT code for reimbursing physicians for the procedure would become effective on Jan. 1 2005, which should boost sales substantially.

The Ovion device goes after the same market as Conceptus’s, but according to Tremulis, has some competitive advantages. The settlement places some restraints on Conceptus as well. The license to Conceptus is limited to their current product.

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