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Intellectual Property Disputes And Arbitration

The Editor interviews Timothy J. Malloy, Partner, McAndrews, Held & Malloy, Ltd.

Editor: Please describe your practice.

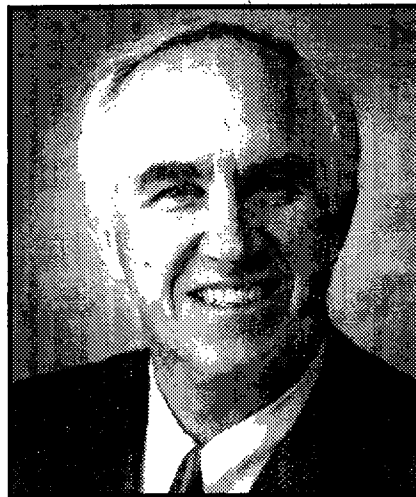
Malloy: My practice is focused exclusively on trial work in intellectual property. These cases are heavy in technology. Recently, as much as fifty percent of my practice involved patents for medical devices. The trials I engage in are jury trials predominantly, bench trials on occasion, and then, finally, arbitrations.

Editor: Because so much of your practice involves patents for medical equipment, how did you qualify yourself to deal with such technology?

Malloy: My technical background before law school was electrical engineering, which does not at first blush lend itself to the idea of medical devices. However, so many of today's medical devices are hardware and software-based, with complex circuitry, remote programmability and other features that focus on electrical engineering, that my background is well-suited to these cases.

Editor: Trying these high-tech cases in front of a jury probably presents some difficult problems of understanding.

Malloy: It certainly does. I have found the jurors in the federal court system to be people of reasonable education and good collective judgment. However, we are dealing with technology that is foreign to even the average well-educated person. So, you have to educate the jury on two fronts; one is the technology front and the other is the intel-



Timothy J. Malloy

lectual property law front.

Mechanically, the way I like to guide them is through visual display of evidence on a large projection screen. The evidence is stored on a hard drive or CD-ROM and can be called up with bar code scanning or keyboard entry. We have used visual displays in different ways. One is with little monitors. Some courts have them built in, or lawyers can rent them. My favorite way, however, is to have a single large screen. The problem with that, because courtrooms vary dramatically in size and layout, is where to put the darn thing. At my last trial, the screen had to be to the back of the lawyer, so the lawyers at the podium questioning the witness could not easily look at the screen without turning their backs on the jury. We solved that with a monitor built into the podium. We direct the jurors' attention with a displayable cursor controlled by a mouse. We also use enlargements, high-

lighting, and arrows to help focus the jury on a particular phrase or drawing.

Editor: Please tell me about your firm.

Malloy: First, we are an intellectual property firm with emphasis on high-technology trials. With our new lawyers coming on this September, we will be over seventy. Our cases are tried all over the country. Our lawyers have technology backgrounds. So, in terms of technology power, and the number of people at our firm skilled in patent law, trials and technology, I think we challenge the relevant head counts of even the behemoth firms.

The background of our lawyers separates us from other firms that have intellectual property as just one of many practice areas. For instance, in a recent article in the August 2002 edition of *Intellectual Property Today* on the Supreme Court decision in *Festo*, the author wrote that "creative opposing counsel can comb the often lengthy US patent specifications, prosecution histories and well-respected dictionaries to find equally reasonable constructions for some key claim terms. Once identified, such narrow constructions can be turned into summary judgment motions for non-infringement." The article then cited and discussed our case, *SciMed v. ACS*. When it referred to "creative opposing counsel," it was literally referring to our firm. What helps us be "creative counsel" is the dual combination of lawyers backgrounded in science and engineering and immersed day in and day out in IP trials and IP law. When they come across key issues, they are able to recognize and appropriately deal with them.

Editor: Are there other types of products or other areas of intellectual property law

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that your firm has handled successfully?

Malloy: There are indeed. We have handled the lot from biotechnology to granules for turning clay into different colors for decorative clay tiling. We represent the world's largest shrimp peeling equipment company. We have litigated IP for air cushioned bulkheads for railway cars, LED printers, intermittent windshield wiper controls, aircraft brake controls, aircraft carrier-sized paper-making machines, golf balls, and many other technologies. There is a wide range of technology that we have dealt with. In terms of the legal issues, in addition to patents, we have litigated copyright, trademark, trade secret, unfair competition, antitrust, and contract claims.

Editor: You recently had a big victory in the Stryker Corporation case. What were the issues in that matter?

Malloy: That was a medical device patent infringement trial out in San Francisco for one of our clients, Stryker Corporation. Stryker was charged with infringement of a patent for bone paste held by Synthes and its subsidiary, Norian. Surgeons use bone paste to replace bone that they have drilled. My partner, Greg Vogler, and I asserted that the patent should never have been granted because there was information that the patent office did not consider; and that the patent was invalid because it was obvious. The jury agreed and the judge, in post trial motions, agreed as well.

The area that might be of most interest to corporate counsel in that case is damages. In every case you have two potential types of damages: lost profits, if any, and, in no event, less than what is called a "reasonable royalty." Case law says you define what a reasonable royalty is by imagining a hypothetical license negotiation on the day the infringement starts.

In the *Stryker* case, the jury was asked to determine what the damages were even if the patent were held invalid so that we would have a reading on that issue on appeal. We asserted that our opponent was relying on a wrong date for the start of the alleged infringement. The judge instructed the jury that the date was very important. So, in addition to finding the patent invalid, the jury determined that the reasonable royalty was zero percent. That's the part of the case that is not as well known, but I think would have great applicability to everyone who is trying a patent infringement case.

Editor: In addition to the jury verdict on behalf of Stryker Corporation, you recently achieved a multi-million dollar arbitration award for another client. Given these two positive results, could you discuss the pros and cons of litigating a claim versus arbitrating it?

Malloy: That arbitration was the latest in a series of five arbitrations I have recently handled. The arbitration panel handed down an award, which was confirmed by the district court, of one hundred and sixty-six million dollars in favor of our client, Guidant Corporation.

Obviously, one of the drawbacks of arbitration is that you lose much of your right to appeal and to have a judge review questions of law. Of course, there are some bases on which you can appeal, but they are extraordinarily limited. Nevertheless, if you think your case presents a legal issue that you want a higher court to review, then you should choose litigation. However, one of the benefits of arbitration is lower costs. Statistics show, and my experience confirms, that you have lower costs in an arbitration because you tend to limit the amount of trial time and the amount of discovery. Those matters can be specified in your arbitration agreement.

Editor: How would you advise corporate counsel to structure an arbitration agreement?

Malloy: First, you only have an arbitration when there is an agreement to do so—usually a license agreement. The more typical case is an infringement claim between two parties who do not have a license agreement. However, if you are drafting an agreement, the simplest agreement is one that states that you agree to arbitrate under the AAA rules. I regard AAA rules as a fallback position. AAA is a fantastic organization, but I think it is better designed for a lower level, non-high-tech dispute.

If you are going to arbitrate, design the arbitration agreement to meet the needs of the type of dispute you may have. For instance, high-tech cases tend to be complex. Therefore, I recommend several things. First, define the type of arbitrator you're going to get. If the issue is one of patent law, you should require that at least one member of the panel have a patent background. Also, design your arbitration so that the panel has to write an opinion; that the opinion is first designated as a draft;

that each of the parties is allowed to comment on the draft opinion; and then, and only then, is a final arbitration award handed down. That procedure will allow you to have something akin to an appeal on the decision. True enough it's the panel reviewing its own opinion, but if you pick qualified panel members, they are going to recognize if they have made a mistake and rectify it. I have personally used this procedure and I know from experience that it works. We received a draft decision that was clearly wrong and we brought the errors to the attention of the full panel. After they saw the error, they reversed themselves and ruled in our favor.

I also like the arbitration panel to have a confirmed body of law to follow. For instance, if it is state law, I like to designate the state law of choice so you have greater certainty. It doesn't mean it will be the "best" law, just that it is more certain.

It is important to pay attention to the details of the agreement, even down to where the arbitration will be held.

Editor: Please tell me how you work with corporate counsel?

Malloy: We like to work with them as a team. We return their calls promptly. That is a small thing but it is one of the most important I can think of. We know the ins and outs of intellectual property litigation. However, in-house counsel often know the client, its employees, its technology, and its strategic goals better than anyone else. They help identify the players and where the documents can be found. They work with us to assure that the lawsuit meets overall corporate strategy. We work together toward the overall goal. If there is a spirit of cooperation and teamwork, you'll get a better result.

Editor: What about acting as a counselor; for instance, setting up compliance programs or methods of protecting trade secrets?

Malloy: We tend to do it for the small to mid-sized companies as opposed to the larger ones, because the larger ones already have the skills and the people trained in the field. For the smaller to mid-size corporations, we often find we can help alert them to issues in advance — get them to be more aware of when to file a patent application, what to look for in new inventions, and how to find their way through an IP forest.