
BIO-CON, INC. V. MICROTEx, INC.
NEGOTIATION, MEDIATION, OR ARBITRATION
Information for the Microtex Attorney

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Bio-Con, Inc. v. Microtex, Inc.

Summary of the Background Facts

Microtex is a Delaware corporation headquartered in Massachusetts that develops and sells proprietary antimicrobial ingredients throughout the world. Recently, it has sought to develop uses of antimicrobial ingredients as coatings on various medical devices.

Bio-Con is a publicly held Massachusetts corporation, also headquartered in Massachusetts. Bio Con competes with Microtex in the sale of antimicrobial ingredients. It is Microtex's primary competitor, arguably its sole competitor in the development of antimicrobial coatings for medical devices. The creative force behind Bio-Con is Fredda Hitchcock, the inventor of MGUPHN (Microbe Guard Prototype Hyper-Net), a revolutionary patented antimicrobial system for which Bio-Con holds the exclusive license in the U.S. and Canada.

In early [Year-3]¹, Microtex and Bio-Con discussed the possibility of a joint venture to develop an all-purpose antimicrobial application for medical devices. Early in their mutual discussions, on March 1, [Year-3], Microtex and Bio-Con entered into a Confidentiality Agreement covering proprietary information disclosed by Bio-Con in the course of the parties' negotiations. They also met together with representatives of MegaMed, North America's largest manufacturer of medical equipment, regarding a possible long-term contract for the contemplated joint venture.

During a meeting of the parties on April 15, [Year-3], Bio-Con representatives conducted a demonstration of the high-temperature bonding process by which the MGUPHN forms part of the matrix of the surface coating on medical implements. Bio-Con also informed Microtex representatives that a prototype of the MGUPHN system was being field tested by Stewart Surgical Equipment Company.

In late April and most of May [Year-3], joint venture discussions turned to more formal negotiations between Microtex and Bio-Con over financial, business, and legal terms. The science, research and development, and engineering teams of the respective companies met for a day, off-site, to discuss technical issues and to work out staff assignments, for the anticipated MegaMed contract and potential future contracts. The meeting was co-chaired by the chief scientists of each company, and counsel was present to handle questions affecting licensing and patent protections. The parties' evaluations of that meeting and its outcome are in dispute. Within a week after the meeting, the CEO of Bio-Con signed a five-year lease for an additional 20,000 square feet of laboratory and office space in the name of the joint venture in Industrial/Commercial Office Park in which Bio Con was located.

¹ Readers should assume that it is now sometime within the first quarter of the current year. The current year is represented here as [Year-0]; a year ago is [Year-1], two years as [Year-2] and so on. Future years are represented as [Year+1], [Year+2], etc.



Shortly thereafter, the negotiations between Bio-Con and Microtex hit a snag. Despite counsel's attempts to facilitate negotiations, on June 1, Microtex's CEO sent a letter to Bio-Con's CEO formally terminating the negotiations, expressing regret over irreconcilable differences in the parties' interests concerning the joint venture, and suggesting that both companies would be better off pursuing other business expansion opportunities. Bio-Con's CEO responded by letter stating that execution of a written joint venture agreement was a mere formality, that the joint venture between Bio-Con and Microtex already existed by virtue of their mutual understanding and agreement, and because both companies had taken affirmative steps and undertaken financial commitments evidencing the joint venture. While the parties dispute the reason for the breakdown in negotiations, it is undisputed that no joint venture agreement was ever signed.

On May 20, [Year-3], Microtex engineer Claude Ranex contacted Kay Surrah, a Vice President of Stewart Surgical Equipment Company. It is undisputed that Ranex discussed with Surrah various technical aspects of MGUPHN-coated surgical arms being tested by Stewart as well as Stewart's field-testing protocols. After explaining that they might be interested in retaining Stewart to do testing and perhaps market their antimicrobial technology, Microtex obtained a component of a MGUPHN-coated arm from Stewart. Bio-Con contends that Microtex went to Stewart Surgical because it learned in the April meeting that Bio-Con's material was being tested there and that Microtex submitted the MGUPHN-coated arm to destructive "reverse engineering" testing in order to copy the Bio-Con technology. Microtex disputes all of this, asserting that its contact with Stewart did not arise from the April meeting and that its purpose in taking the MGUPHN-coated arm was to evaluate Stewart's testing protocols to determine whether to retain Stewart to test the Microtex anti-bacterial coating.

On June 14, Microtex engaged in discussions with MegaMed regarding a contract for Microtex's antimicrobial coating for medical equipment. In January [Year-2], the parties entered into an arrangement under which MegaMed would agree to use Microtex coating processes for two years and have an option at the end of that period (early [Year-0]) to extend the contract for another three years. MegaMed exercised this option (with a slight increase in volume); Microtex has now agreed to fulfill MegaMed's requirements for equipment coating until early [Year+3].

Bio-Con filed a demand for arbitration with the CPR Institute for Dispute Resolution, under the provisions of its Confidentiality Agreement with Microtex. Bio-Con also asserts claims for breach of contract and breach of fiduciary duty against Microtex. While Microtex vigorously denies all of Bio-Con's claims, it has agreed that the arbitration provision applies to the dispute. Under the CPR arbitration rules (and by agreement of the parties), document discovery has begun, and depositions have been taken of three witnesses. Prior to depositions scheduled for the CEOs of both companies, counsel agreed to discuss with the CEOs the possibility of negotiating a settlement of the dispute. Attached are the following:

- Confidential Information for your assigned role – CEO of Bio-Con, Inc.
- A Summary of the Claims for Relief asserted by Bio-Con in this litigation;
- A Summary of Disputed Issues of Fact;
- Excerpts from Pertinent Case Decisions and Statutes;
- A Summary of Potentially Relevant Numbers for Damages Calculations, if any;
- Stipulations Regarding Expert Testimony;
- Exhibits A-E; and
- Summaries of Depositions from 3 scientist witnesses.



Bio-Con v. Microtex

Confidential Information for Microtex's Attorney

You are a young partner in a small defense boutique law firm, specializing in litigation and arbitration. You have developed a great reputation for successful defense in difficult cases, but primarily with more traditional business clients: banks, large manufacturers, and financial services companies. You were delighted to receive a referral to represent Microtex for defense of the Bio-Con claim. You would like to grow your reputation in the bio-tech arena, the only business sector that seems immune to the economic downturn.

You met with T.J. Mills of Microtex, and must have favorably impressed him, as he agreed to retain you for this matter. Mills impressed you as a person of high integrity, a careful business decision-maker. He signed a fee agreement with you and your firm, reflecting your normal rate of \$275 per hour, and associates at \$140 to \$150 per hour. You explained to Mills (who seemed surprisingly unfamiliar with the way litigation and law firms work) that you work with associates and paralegals on less complex but labor-intensive tasks to reduce the client's total bill. He seemed satisfied with that explanation, after you assured him that you would be presenting Microtex's defense at the arbitration. Mills told you that he was hiring you for your reputation as aggressive on the defense side. He wanted to be sure Microtex would have the direct benefit of your reputed skill at case presentation and brilliance as a negotiator. In that first meeting and in a series of subsequent conversations, Mills provided you with the following information relevant to Microtex's defense against Bio-Con's claim.

Mills has been the CEO of Microtex, Inc. for the last 5 years. He worked his way up through the finance department of another bio-tech company in New York before joining Microtex as its VP for Finance 10 years ago. He states that he enjoys a good relationship with the company's board of directors.

Microtex's defense of Bio-Con's claim against it is extremely important to Microtex, and it is important to T.J. Mills as a matter of professional integrity. Mills did his undergraduate work in electrical engineering at the University of Wisconsin and earned an MBA from Northwestern. He states that he always had a keen sense of strategy. He thinks and acts deliberately and is respected for making careful decisions. He considers himself to be a conservative and sophisticated businessman. While in his previous position in New York, Mills participated in the negotiation of many complex business deals. If there is one thing he learned, it is that a joint venture won't work unless it is a good marriage of business/personnel cultures, and that many more deals are dreamed up than ever come to



fruition. That's a good thing, because it's a lot easier to walk into a bad deal than it is to get out of it.

In January of [Year-3], Mills faced what looked to be a serious problem at Microtex. The company had invested more than \$5 million in research and development of an antimicrobial coating for surgical instruments and other applications. A grim-faced report from Microtex' chief scientist just after the first of the year confirmed his suspicions. The research and development team had hit a snag and hadn't figured out how to get the product ready to market. Mills did not want to put another enormous investment expenditure into the next year's budget, without a successful outcome in sight. He had heard rumors that one of Microtex's major competitors, Bio-Con, was successfully tackling the antimicrobial challenge. He also knew that Microtex's production engineering and distribution capacity was better than Bio-Con's, because Bio-Con had generally specialized in small volume production and distribution of highly specialized bio-tech products.

Mills had encountered E.B. Parker, the CEO of Bio-Con, Inc. many times over the years, at professional conferences within the bio-tech industry. Mills described Parker as boisterous and gregarious for his taste, and a man who tends to shoot from the hip. Otherwise, Parker's reputation is good. He's certainly not stupid or unsophisticated in the ways of business, or he wouldn't be where he is.

Mills considered it a stroke of luck that the Governor of Massachusetts invited him and E.B. Parker of Bio-Con to a meeting of bio-tech industry leaders. After the meeting, Mills mentioned to Parker that he had been thinking of the possibility of Microtex doing some business with Bio-Con and suggested he join Mills for dinner to discuss the idea. Mills explained that Microtex had been working on an antimicrobial technology for surgical instruments for some time. Parker confirmed that Bio-Con had expended considerable sums on the development of MGUPHN, an antimicrobial product used for coating surgical instruments. Mills did not divulge Microtex's R&D impasse but did indicate their research phase was moving more slowly than he had hoped. Mills suggested that, given Bio-Con's acknowledged strengths in R&D, it would make sense to explore the possibility of the two teams of scientists and engineers work together. Mills referred to Microtex's well-earned reputation for production and engineering capacity, as well as its laboratory research capabilities. By way of brainstorming, Mills noted that it might be possible to complete development of an antimicrobial product and then jointly engineer, produce, distribute, and market in some kind of cooperative or joint venture. Parker stated that Bio-Con's product MGUPHN was virtually complete, and it would make sense for any joint efforts to base its work on the MGUPHN technology. They both chuckled that the competition would have a hard time catching up to their combined forces.



E.B. Parker was openly and, in retrospect, overly enthusiastic about the idea from that first informal dinner discussion. He seemed to take Mills' brainstorming foray as a fait accompli. While Mills thought the idea had some merit (or he wouldn't have mentioned it), Mills simply suggested it was worth further exploration and thought.

Mills told E.B. that he'd like to begin exploring the idea in earnest. When E.B. pressed as to when any venture could begin, Mills told him no real action could be taken until spring, at the earliest.

E.B. must have swung immediately into action on his end. Within a few days, he had sent Mills his business plan for a Bio-Con/Microtex joint venture, including projections of profit and loss over the next 5 to 10 years. E.B.'s business plan analysis of the market for the MGUPHN product, pricing scenarios, and economies obtainable in production, led to projections that each company's 50% share of profits in the joint venture would be at least \$10 million over the next 10 years. Mills sighed when he saw this silly document; it certainly reflected the upside but looked more like a piece of marketing fluff to him.

Mills called E.B. the next day and said: "Well, your projections show there's potential promise. We'll have to work on it at Microtex, using our own assumptions." Mills met with E.B. a number of times in February to discuss broad concepts for the venture. No matter what concern Mills raised, E.B. was "relentlessly unconcerned and enthusiastic." By late February, they both agreed there would have to be an exchange of scientific information between the two companies. Thus, on March 1, Microtex and Bio-Con entered into a Confidentiality Agreement covering proprietary information to be disclosed by Bio-Con so that Microtex could further evaluate the soundness of the joint venture possibility. (See Exhibit A.) They also met together with representatives of MegaMed, North America's largest manufacturer of medical equipment, regarding a possible long-term contract if there were to be a joint venture. At the meeting with MegaMed, Mills was uncomfortable at E.B.'s reference to the "new joint venture between Microtex and Bio-Con," and his promotion of the joint venture's ability to handle a large volume contract. Mills didn't say anything to E.B. about it; he assumed it was part of Parker's marketing mentality.

During a meeting of the parties on April 15, [Year-3], Bio-Con's Chief Scientist and other members of the scientific team conducted a demonstration for Microtex's scientists of the high-temperature bonding process by which the MGUPHN forms part of the matrix of the surface coating on medical implements. Mills left after the demonstration, which was very impressive. He did not take part in the scientific/technical exchange that followed.



In late April, Mills met with E.B. again to review some of the terms of the proposed joint venture. E.B. announced that he was making a final proposal on all material terms: how the profits would be allocated, how expenses incurred to date and in the future would be accounted for, and how the project would be staffed. Mills never said he agreed to these terms, but stated he would review them. One issue discussed at length was the physical location of the project. E.B. felt strongly that the project team members and production equipment should be housed in a new space - not simply within either party's current facility. Mills stated that he was not certain; he'd rather invest in experiments than new leases on bricks and mortar. Finally, Mills agreed "it would make sense to ascertain all of the costs associated with the option of putting personnel and equipment into new, dedicated space." At the end of the meeting, E.B. jotted the terms of his final proposal in bullet point form on a sheet of yellow paper and handed it to Mills. He said he was ready to turn the deal over to the lawyers.

The next day, E.B. sent Mills a congratulatory letter on "our joint venture deal." (See Exhibit B). Mills responded with a more careful letter, expressing some optimism but also the need to proceed slowly. (See Exhibit C).

At this point, Mills remained quite concerned about a "culture difference" he had observed in April's meeting with the top scientists. In order for the joint venture to succeed, Mills knew it had to "feel right" for the scientists and engineers who would be working on it. Otherwise, Microtex would risk losing its most talented scientist and engineers to a tight job market. These were the very scientists who had labored so long on making their antimicrobial process work. For that reason, Mills suggested that E.B. ask his Chief Scientist, Greg Bergman, to convene an off-site meeting of both scientific teams to talk about how they would work together in the joint venture, and particularly on the anticipated MegaMed contract.

Mills and E.B. attended the first half-hour or so of the meeting. E.B.'s opening remarks were appropriately energetic and optimistic, but Mills was concerned about E.B.'s characterization of what each company would bring to a possible joint venture. He just about dismissed the scientific research and development talent at Microtex when he spoke of Bio-Con "giving" the needed scientific rigor. Mills also noticed that E.B. seemed to refer to the venture as something that already existed, rather than as an option being seriously explored. Mills assumed it was E.B.'s way of encouraging the staffs to work together, by creating ownership of the venture idea. Mills left to attend to other business. Early the next morning, Claude Raney, Microtex's chief scientist, was in Mills' office, angry, insulted, and distraught. Claude fumed:



Bio-Con is a bunch of highbrow, self-righteous manipulators. They didn't want to 'dialog' about a plan, they wanted to cram their superiority and their plan down our throats. They kept referring to the 'midwestern roots' of Microtex's team and throwing in comments about us having watched better basketball in graduate school. They said that it was all about how important it was to recognize differences in 'corporate culture' and how glad they were that we'd be so friendly and easy to work with, and how they hoped we'd put up with some of the high-strung easterners from Bio-Con. Really, they were not-so-subtly saying that they were smarter, went to Ivy League schools, and plan to push us around. It was insulting. They dismissed any notion that we'd have any value in the science and experimentation phase but kept saying that we'd be great at the engineering and production for large quantities of their MGUPHN. Any joint venture is going to be without me, I'll be out of this joint, and believe me, that will be true for at least half of the team. We sat there and took in everything they had to say, but now they can take a flying leap. The whole team talked about it over last night. If you're thinking of a joint venture to get MGUPHN because we've been slow on our antimicrobial product, just wait. We did some brainstorming, and we think we have a few new experimental strategies to try yet for Microtex before we throw in the towel to Bio-Con and MGUPHN.

Mills encouraged Claude to keep working on the Microtex product, but to keep an open mind about MGUPHN and Bio-Con. He also promised Claude that any joint venture deal would be written to ensure an equal footing for Microtex's science team.

On May 1, less than a week after the scientist's meeting, Mills received a phone call from E.B., who said that some office and laboratory space would soon be available in the building adjacent to Bio-Con, which might house the joint venture. He explained that Bio-Con's VP had told the landlord a year ago that it was interested in the space. Mills agreed that, if the venture got off the ground and if it would need dedicated lab and office space, that might be an ideal set up, particularly because Bio-Con had already said it would take the space. Mills acknowledged that the lease price (20,000 square feet at \$60,000 per year for 5 years) was a great deal. Mills now knows E.B. is claiming he "approved" his entering into the lease on behalf of the joint venture. That's not at all what Mills meant, because in his mind, there was no joint venture yet. Besides, E.B. had already told Mills that Bio-Con was interested in the space itself.

Also, soon after the scientist's meeting, Mills informed Microtex's lawyers and the CFO handling the negotiations that the terms would have to insure a great deal of autonomy or, at least, an equal share in decision-making on scientific and technical issues for Microtex's scientific team. Mills understood that Bio-Con and its lawyers didn't respond well to this, but so be it. This was the only way Mills could keep the valuable members of Microtex's science staff, who worked on all of Microtex's other products.



Mills felt comfortable insisting on this term because Claude Raney was informally reporting that their recent line of experimentation for the Microtex antimicrobial produce was proving fruitful, and they were more confident of their ability to produce a competing product. On May 13, Claude rushed excitedly into Mills office and said: "I feel like Henry Higgins saying this, but we've got it. By Jove we've got it!" He explained that there had been a major breakthrough in the lab on the molecular structure of Microtex's antimicrobial product. He thought a few bugs could be worked out over the next week, and then they should hurry to test the product, to ensure that engineering and production in larger quantities would be able to bring a consistent quality product to market. Mills authorized him to begin the testing phase.

Mills now knows that, shortly thereafter, Claude Raney contacted Kay Surrah, a Vice President of Stewart Surgical Equipment Company. Raney told Mills that he had known Kay for many years, through various industry conferences. Also, Microtex had occasionally used Stewart Surgical to test other product. Stewart's pricing for testing services was higher than the average, so Microtex tended to use other testing companies, where possible. On the other hand, Stewart's service and professionals were known to be absolutely first rate. That's why Raney was interested in working with Stewart on the antimicrobial product, NOT because of the April meeting. Raney told Mills that he discussed various technical aspects of MGUPHN-coated surgical arms being tested by Stewart as well as Stewart's field-testing protocols. Kay Surrah provided Microtex with a component of a MGUPHN-coated arm from Stewart. While Microtex's scientists did do some destructive testing on the MGUPHN-coated arm, it was to check the effectiveness and efficiency of Stewart's testing protocols against possible product flaws.

By June 1, Mills was fed up with the reports coming from the lawyers about lack of progress in negotiations, and it was more important than ever to Mills that Microtex's science team have autonomy or equal power in any joint venture. Mills also knew that one of the reasons for the joint venture no longer appeared true: Microtex's scientists had either completed an anti-microbial product or were on the verge of doing so. On June 1, Mills had a letter delivered to E.B. Parker formally terminating the negotiations. (Exhibit B). In the letter, Mills expressed sincere regret over irreconcilable differences in the parties' interests concerning the joint venture and suggested both companies would be better off pursuing other business expansion opportunities. Parker's response was preposterous, in Mills' view. Parker had a letter delivered that stated there was already a joint venture, despite the fact that final terms and documents had not been negotiated or signed. Mills saw no need to respond to such idiocy: if there was a deal, then why were they both paying so much to lawyers to negotiate it?



On June 14, Microtex engaged in discussions with MegaMed regarding a contract for Microtex's antimicrobial coating of many kinds of medical equipment. While Mills understands Bio-Con is claiming that Microtex "seized a business opportunity" by closing a deal with MegaMed, it sounds to Mills like they are just sorry they didn't get there first. Certainly, on June 1, Bio-Con knew the joint venture was off. They knew MegaMed was in the market for an antimicrobial product, and they certainly had MegaMed's telephone number. Bio-Con could have approached MegaMed about a contract involving MGUPHN, but they didn't. Bio-Con is just whining because they were caught sleeping at the wheel.

In January, [Year-2], the parties entered into an arrangement under which MegaMed would agree to use Microtex coating processes for two years and have an option at the end of that period (early [Year-0]) to extend the contract for another three years. MegaMed exercised this option; Microtex has now agreed to fulfill MegaMed's requirements for equipment coating until early [Year+3].

Mills understands that E.B. Parker is upset at missing an opportunity, but that happens in business. At one time, Mills was sincerely interested in exploring the possibility of a joint venture. He did explore it but ultimately concluded that it would not be a good course of action for Microtex. There is no shame in the fact that Microtex's bargaining position became better when the prospects for its own antimicrobial product improved.

When you explained to Mills that Massachusetts chapter 93A is a fraud claim, Mills was emphatic that he never deceived anyone before, and he certainly didn't in this deal. This was about good faith, arm's length negotiations that did not result in agreement. Mills cannot imagine why this would give rise to a double or treble damages claim, much less any damages under anybody's law. He finds the claim for attorneys' fees to be equally preposterous. Microtex spent just as much on attorneys (\$50,000) and company time in negotiations. Moreover, it's not Microtex's fault that Bio-Con jumped the gun and authorized its lawyers to begin drafting documents in anticipation of closing (they claim \$25,000) or to revise its public filings (they claim \$25,000).

Mills is outraged at the idea that Bio-Con would try to get Microtex to pick up the lease cost for its new space. Bio-Con admitted it wanted to rent the space even before they had spoken of the joint venture. In any event, there's no earthly reason Bio-Con couldn't have mitigated damages if it didn't want to use it. If anyone had made a good faith effort to find another tenant, they probably could have made a profit, given the low price of \$60,000 per year for 20,000 square feet. Obviously, Bio-Con hasn't rented out the space because it has been using it for storage.



Bio-Con's claim for the \$10 million in lost profits they projected for the joint venture is unsupported. Just because they had written a business plan with a fairy tale number on it to sell to their board, doesn't mean that number was anything but sheer speculation.

Mills also rejects Bio-Con's claim for profits under the MegaMed contract. It is true the original pricing projected \$1,250,000 in profits under the initial two-year period of the contract and \$3,900,000 in anticipated profits from during the [Year+0]-[Year+3] period. That budget included personnel, equipment, material, and direct overhead, operating under the joint venture, but it did not include a charge for the \$5,000,000 R&D expense associated with the Microtex product. Microtex's actual costs have been significantly higher than projected, so that Microtex's profit, before deduction for the R&D investment, was only \$800,000 in the first two years and will only be \$3,200,000 in [Year+0]-[Year+3]. After deduction of the \$5,000,000 in R & D expenses, this project is a clear loss leader.

Of course, if the deal had gone through, Bio-Con's share of the profits in MegaMed under the joint venture would have been 50% or \$400,000 in the first two years and \$1,600,000 between [Year+0]-[Year+3], before deduction for R&D.

Mills is adamant that Microtex should not be made to pay any liquidated damages under the Confidentiality Agreement, and completely dismisses any serious discussion about the possibility of having to pay double or treble damages as a sort of punishment. In Mills' view, the Microtex scientists did not violate the Agreement. No one told Kay Surrah at Stewart Surgical Testing that Microtex was in a joint venture when she gave Raney the MGUPHN-coated arm. Even if Kay got that impression, there certainly was no intent by Raney to violate any agreement. In any case, they didn't need to use the surgical arm to complete the Microtex product.

More recently, when you mentioned to Mills that Bio-Con might be willing to sit down to try to negotiate a settlement, Mills seemed to have a mixed reaction. On the one hand, he noted that legal bills have been coming in thick, fast and high. Thus far, your firm has billed (and Microtex has paid) \$15,000 in attorneys' fees to file a response to the arbitration claim, select the arbitration panel (which hasn't done anything yet) and on internal witness interviews, preparation for depositions, taking depositions, and document work. Mills is aware that costs have only just begun. There will be more discovery and soon Microtex will be paying serious money for the arbitrators. More important, Mills has complained that arbitration is becoming an unwelcome distraction for Mills and for Microtex senior scientists.

On the other hand, Mills feels as strongly today about what is right as he ever did. He told you he is confident that the truth will come out and Microtex will succeed its defense. Microtex can afford the cost of defending this claim, and it will do so, as a matter of principle, as long as it's in the company's best interest. Yes, he'll think of settling, because it might be a wise decision for the company. But he will not settle in a way that could be interpreted as an admission of the claimed deception by Microtex.

You set up a meeting with Mills, to discuss settlement values and how to approach the negotiations with Microtex. Mills made it clear that he plans to be a direct participant in those negotiations.



Claims for Relief

Bio-Con makes the following legal claims for relief and articulates its damages as follows:

- 1) The parties had an enforceable binding agreement regarding all material terms of the joint venture. Microtex unlawfully breached that agreement, resulting in lost profits to Bio-Con in the amount of \$10 million projected for the entire joint venture over the next 5-10 years.
- 2) In view of joint venture relationship (at least prior to correspondence terminating negotiations), Bio-Con asserts that both parties had a fiduciary relationship to each other and to the venture to act in good faith, and not to seize business opportunities from the joint venture. Bio-Con claims that Microtex's pursuit of the contract with MegaMed violated this obligation, and should disgorge and pay to Bio-Con all originally projected profits under the MegaMed contract, to wit: **\$550,000 in profit under the one-year initial period of its contract with MegaMed and \$4,600,000 in anticipated profits from during the [Year-1]-[Year+3] period, consistent with Exhibit D. [Bio-Con does not trust Bio-Con's later created Summary Statement, Exhibit E.]** At minimum, Bio-Con seeks payment of what would have been its 50% share of these profits had the MegaMed contract been undertaken by the joint venture.
- 3) Based upon its assertion that Microtex never intended to enter the joint venture and was not negotiating in good faith, Bio-Con seeks reliance damages, reimbursement for funds expended on attorney's fees in negotiation, and preparation of documents relating to the joint venture. Bio-Con claims that it spent \$50,000 in attorney's fees relating to the negotiation, and an additional \$50,000 on related document work (\$25,000 in preparation of closing documents and \$25,000 for consequent revisions to its publicly filed documents with the SEC, describing the joint venture.) Bio-Con also seeks reimbursement of \$300,000 in lease payments (\$60,000 a year for 5 years) on the 20,000 square feet of space if leased for the joint venture. (Bio-Con alleges that Microtex knew of and approved entry into the lease on behalf of the joint venture.)
- 4) Apart from its claims arising out of joint venture negotiations or termination, Bio-Con claims that Microtex violated its Confidentiality Agreement and misappropriated trade secrets. Bio-Con seeks recovery of \$2-4 million in liquidated damages pursuant to the terms of the remedial provision in the Confidentiality Agreement. Alternatively, it seeks damages for all of the projected profits from the MegaMed contract under the extended Bio-Con/Microtex joint venture including: **\$550,000 in [Year-2], \$700,000 in [Year-1], as well as \$3,900,000 in anticipated profits for [Year-0]-[Year+3]. At minimum, based on the Microtex profits and loss statements, it seeks 4.0 million in profits realized or projected by Microtex (disregarding R&D expenses).**
- 5) Finally, Bio-Con claims that the Massachusetts Business Fraud Act, M.G. L. c. 93A ' 11, is applicable, because of Microtex's unfair and deceptive conduct. A finding of liability under this statute would require the arbitrator(s) to award attorneys' fees and would also permit an award of double or treble damages. Bio-Con seeks a trebling of damages awarded as well as \$100,000 in attorneys' fees.



Summary of Disputed Issues of Fact

1. Whether there was a binding joint venture agreement and related fiduciary duties.

The parties disagree about whether they had a binding joint venture agreement. Bio-Con contends that the agreement was binding in principle, that there were no material terms at issue, and that disclosure to staff and to MegaMed and entry into a lease evidenced that the joint venture existed. Bio-Con also asserts that the existence of the relationship also created a fiduciary duty on the part of Microtex with respect to Bio-Con and the joint venture and that this fiduciary duty was violated by Microtex's appropriation of a business opportunity with MegaMed. Microtex argues that the parties did not intend to be bound as co-venturers in the absence of a signed joint venture agreement, that certain material terms remained to be negotiated, and that Microtex did not approve or recommend Bio-Con's entering into the lease.

2. Assuming a binding agreement of some sort, whether Microtex withdrew in good faith from the joint venture or the joint venture negotiations.

Bio-Con contends that Microtex's withdrawal from the joint venture or from the negotiations was in bad faith and that Microtex's alleged concerns were manufactured after the fact to justify Microtex's appropriation of a business opportunity with MegaMed (after Microtex had benefited from use of trade secrets). Microtex will respond that its engineers and scientists were not happy with treatment at the meeting with their counterparts at Bio-Con and expressed serious concerns about working together. Bio-Con will dispute these characterizations of the parties' relationship on the basis that (1) at the time of the meeting everyone said the gathering went very well and (2) the meeting resulted in the development of a plan allocating responsibilities among science and engineering teams.

3. Whether Microtex benefited from confidential information obtained from Bio-Con.

Bio-Con contends that Microtex was only able to bring its product to market because of confidential information obtained from Bio-Con, including the information that led it to obtain and destructively test a MGUPHN-coated product. Bio-Con asserts that prior to the development of the MGUPHN technology, there was no system being marketed for the purpose of antimicrobial coating on all forms of medical equipment. Bio-Con further contends that Microtex's contacts with Kay Surrah of Stewart Surgical, the reverse engineering tests Microtex conducted on the sample surgical arm it obtained from Stewart, and the overall similarity of the processes and finished products prove Microtex accelerated the development of its own antimicrobial system by appropriating Bio-Con's groundwork in violation of the confidentiality agreement.

Microtex responds that at the time of its initial contacts with Bio-Con, its own research and development initiative for the competing product was well along, though it had temporarily stalled. However, due to an important breakthrough in late April-early May, the Microtex product reached technical completion. The fact that Microtex contacted Stewart to hire Stewart as a tester for its product proves that Microtex was almost ready to market the product. The similarity of the products merely reflects the limited technological choices available. Microtex contends that it knew of Stewart as an industry leader, and that contact had already been made with Stewart prior to the April meeting at which MGUPHN was demonstrated. The



scientist who met with Stewart's Kay Surrah was seeking to determine whether Stewart might test Microtex's own product. Microtex obtained and took apart the MGUPHN-coated arm to check on the effectiveness of Stewart's testing protocol, not to learn Bio-Con's secrets. Any final refinements in Microtex's product that occurred thereafter were unrelated to information obtained from Bio-Con.

4. Whether Bio-Con waived the protection of the confidentiality agreement by its own actions.

In response to Microtex's argument that it failed to take reasonable steps to protect the confidentiality of the MGUPHN system, Bio-Con argues that Kay Surrah was repeatedly informed of the need for confidentiality orally and in writing and was asked to sign a confidentiality agreement but neglected to sign it. Bio-Con argues that its disclosures to Stewart and other prospective vendors were privileged by custom and practice, a fact supported by depositions of officials of two vendors. Kay Surrah of Stewart will testify that she was aware of Bio-Con's concerns regarding confidentiality. She may also indicate that she understood that Microtex's contact with Stewart was on behalf of the Microtex/Bio-Con joint venture.

Excerpts from Pertinent Statutes and Case Decisions

Mass. G.L.c. 93A'2 (a) provides: "Unfair methods of competition and unfair or deceptive acts or practices in the conduct of any trade or commerce are hereby declared unlawful." Mass. G.L.c. 93A'11 applies the protections of the act to businesses and permits private actions to recover damages and attorneys' fees, and under paragraph 5, authorizes doubling or trebling of actual damages for a "knowing" 93A violation.

See generally Foster-Miller, Inc. v. Babcock & Wilcox Canada, 210 F.3d 1(1st Cir.), *Foster-Miller, Inc. v. Babcock & Wilcox Canada*, 975 F. Supp. 30 (D. Mass. 1997) (discussing trade secrets and breach of confidentiality agreement between would-be partners).

"A trade secret may consist of any ... compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." *Dynamics Research Corp. v. Analytic Sciences Corp.*, 9 Mass.App.Ct. 254, 274 n. 23, 400 N.E.2d 1274 (1980).

The hallmark of either a trade secret or a confidentiality agreement is secrecy...one seeking to prevent the disclosure or use of trade secrets or information must demonstrate that he pursued an active course of conduct designed to inform his employees that such secrets and information were to remain confidential. *Jet Spray Cooler, Inc. v. Crampton*, 361 Mass. 835, 841-842, 282 N.E.2d 921 (1972). The crucial issue to be determined in cases involving trade secrets . . . is whether the information sought to be protected is, in fact and in law, confidential information." *Jet Spray Cooler, Inc. v. Crampton*, 361 Mass. 835, 840, 282 N.E.2d 921 (1972); There are six factors relevant to this determination: (1) the extent to which the information is known outside of the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken by the employer to guard the secrecy of the information; (4) the value of the information to the employer and to his competitors; (5) the amount of effort or money expended by the employer in developing the information; and (6) the



ease or difficulty with which the information could be properly acquired or duplicated by others.
Id.

Peggy Lawton Kitchens, Inc. v. Hogan, 18 Mass.App.Ct. 937, 939, 466 N.E.2d 138 (1984) (“No doubt, the basic ingredients ... would be common to any chocolate chip cookie. The combination in which those ingredients are used ... constitute a formula which its proprietor could protect from infringement.”)

Prescott v. Morton Intern., Inc., 769 F.Supp. 404, 409 (D.Mass.1990) (a manufacturer cannot claim trade secret protection for an everyday alteration of a known design).

Burten v. Milton Bradley Co., 763 F.2d 461, (1st Cir.1985) holding that although a confidential relationship will typically be implied if the disclosure was made in a business relationship between a purchaser and supplier, the implied confidential relationship may be defeated if the disclosing party voluntarily conveys a trade secret to another without limitation upon its use.

In Levings v. Forbes & Wallace, Inc., 8 Mass.App. Ct. 498, 504 (1979), the Massachusetts Appeals court held that to be deemed unfair or deceptive under 93A'11, conduct must “attain a level of rascality that would raise the eyebrow of someone inured to the rough and tumble of the business world.” However, to be held unfair or deceptive under c. 93A, practices involving even worldly-wise businesspeople do not have to attain the anti-heroic proportions of immoral, unethical, oppressive, or unscrupulous conduct, but need only be within any recognized or established common law or statutory concept of unfairness. Quaker State Oil Ref. Corp. v. Garrity Oil Co., 884 F.2d 1510, 1513 (1st Cir.1989).

But see, Massachusetts Employers Ins. Exchange v. Propac-Mass, Inc. 420 Mass. 39, 42, 648 N.E.2d 435, 438 (Mass. 1995) “We view as uninformative phrases such as “level of rascality” and “rancid flavor of unfairness” in deciding questions of unfairness under G.L. c. 93A. We focus on the nature of challenged conduct and on the purpose and effect of that conduct as the crucial factors in making a G.L.c. 93A fairness determination.”

Vmark Software, Inc. v. EMC Corporation, 37 Mass.App.Ct. 610 (1994). Holding that although a computer software licensor’s misstatements were made with sufficient awareness of the facts regarding the software’s less than perfect capabilities to be actionable under the traditional tort formula, they were not made so “knowingly” as to warrant punitive sanctions of double damages under the statute authorizing doubling of actual damages for knowing violation of statute prohibiting unfair or deceptive acts or business practices.

Brewster Wallcovering Co. v. Blue Mountain Wallcoverings, Inc., 68 Mass.App.Ct. 582, 864 N.E.2d 518(Mass.App.Ct. 2007) “The mere breach of an oral contract, or mere negligence, without more, does not amount to an unfair trade practices violation.



BIO-CON, INC. V. MICROTEX, INC.

Summary of Potentially Relevant Numbers for Damages Calculations, If Any

Counsel for Bio-Con and Microtex do not agree that all or any of these figures are relevant to damages calculations, due to disputes regarding liability and the legitimacy of various damages theories. However, for the purposes of this arbitration, they stipulate that the following figures will be presented through witness testimony:

- ✓ At some point, Bio-Con wrote a business plan which projected profits of \$10 million for its 50% share of the entire joint venture over the next 5 years.
- ✓ In the spring of [Year-3], Bio-Con and Microtex had worked on a budget plan [Exhibit D] for MegaMed contract under the joint venture. Thus, plan projected: \$1,250,000 in total profits under the two-year initial period of its contract with MegaMed and \$3,900,000 in anticipated total profits from during the [Year-0]-[Year+3] period.
- ✓ According to the budgeted projections, if the MegaMed contract had been undertaken by the joint venture, each company's share would have been 50%, or \$625,000 for the first two years and \$1,950,000 for the [Year-0]-[Year+3] period.
- ✓ According to Microtex, under its MegaMed contract, Microtex earned profits of \$350,000 for [Year-2]. Assuming the contract proceeds in a consistent manner, it would be on track for additional profits of \$450,000 for [Year-1] (by the time the case would reach an arbitrator). It projects additional profits of \$3,650,000 in [Year-0]-[Year+3]. All of these profit figures are before any accounting offset for the \$5,000,000 in R&D expenses to develop its antimicrobial coating product. When Microtex offsets the \$5,000,000 against profits over the 6-year contract term, it claims losses in the amount of \$1,800,000. Bio-Con asserts that a 10-year write-off period would be appropriate (\$500,000 per year, or \$3,000,000 over 6 years) but also disputes the validity of its allocation to this contract alone.
- ✓ Bio-Con spent a total of \$100,000 in attorneys' fees related to the joint venture, allocated as follows: \$50,000 in attorneys' fees for the negotiation and \$50,000 on related document work (\$25,000 in preparation of closing documents and \$25,000 for consequent revisions to its publicly filed documents with the SEC, describing the joint venture.

- ✓ Bio-Con has paid \$180,000 to date (\$60,000 a year, advance payment for 3 years) on the 20,000 square feet of adjacent space it leased. Under the terms of this 5-year lease, Bio-Con will eventually owe an additional \$120,000, unless another tenant is located.
- ✓ The Confidentiality Agreement between Microtex and Bio-Con provides for \$2-4 million in liquidated damages pursuant to the terms of its remedial provision.
- ✓ A liability finding under Massachusetts Business Fraud Act, M.G. L. c. 93A '11 would require the arbitrator(s) to award attorney's fees and would also permit an award of double or treble damages if the violation was done "knowingly."

Stipulation Regarding Expert Testimony

For the purposes of this litigation, counsel for Microtex and Bio-Con stipulate that there would be contradictory expert testimony.

Bio-Con's expert would testify that the Microtex product is too similar to Bio-Con's MGUPHN to have been obtained without destructive reverse engineering of the MGUPHN coated arm. He would state that he found evidence that the Microtex final product was directly influenced by reverse engineering of MGUPHN.

Microtex's expert will agree that the products are somewhat similar, but he will testify that Microtex's internal records confirm that it was heading in a scientific direction similar to that of MGUPHN and could easily have arrived at the Microtex antimicrobial product without reverse engineering of MGUPHN. He will say that the records show no evidence of reverse engineering being used by the Microtex team to arrive at its product breakthroughs. He will state that there are limited scientific paths to the creation of an antimicrobial coating, and that it is no surprise that Microtex and Bio-Con found approximately the same path.



EXHIBIT A

Microtex, Inc. and Bio-Con, Inc.

Confidentiality Agreement [Relevant Excerpts]

In connection with a proposed joint venture between Bio-Con, Inc. and Microtex, Inc., (“the parties”), the parties have agreed to an exchange of scientific information to evaluate and consider this joint venture. Each party’s proprietary information will be provided to the other ONLY in connection with this proposed joint venture. Each party will maintain the confidentiality of proprietary information provided to it by the other in this scientific exchange and will not use it for any other purpose or publish or provide it to third parties (other than third parties acting as its consultants or agents for the sole purpose of considering the joint venture opportunity).

.....

.... Both parties recognize that violation of the Confidentiality Agreement will have serious consequences and will cause damages which may be difficult to measure, in addition to consequential business damages. Thus, both parties agree that any party proven to have benefitted from violating the terms of this Confidentiality Agreement shall be liable to the other party in an amount of \$2 million in liquidated damages. However, if such violation occurred as a result of purposeful deceit and deception, the liquidated damages liability will be \$4 million. These liquidated damages are not intended to limit other consequential damages in a future legal dispute between the parties.

[Note for the purposes of this negotiation exercise: You should NOT spend time analyzing the language of this agreement.]

Consider it to be CLEAR that, IF Microtex used proprietary information in the way that Bio-Con alleges, that WOULD constitute a violation of this Confidentiality Agreement. However, if Microtex did NOT – if Microtex used the information only in the way it alleges - that would NOT constitute a violation of the Confidentiality Agreement.]

EXHIBIT B

BIO-CON, INC.
ONE BIO-TECH CENTER WELLESLEY, MA 02181
TEL: (781) 237-0090
WEBSITE: www.Bio-CON.com

B. PARKER, CEO
MICRO-BIOLOGY FOR MAJOR SOLUTIONS

April 20, [Year-3]
Hand Delivery

TJ. Mills, CEO
Microtex, Inc.
Three Millenium Park
Norwood, MA 02348

Dear T.J.:

We should both be extended hearty congratulations on our work on the Bio-Con/Microtex joint venture to finally bring an anti-microbial coating to market.

I'm glad we've agreed on what's important: the 50% split down the line, and the resources to be devoted to the effort, and a rough timeline. It was my pleasure to work with you so intensely over the last month or so, particularly during yesterday's session. At this point, I know we're turning it over to the lawyers and the bean counters to work out the details. It is also important that the science teams from both companies get together as soon as possible to begin what I hope they will all find to be rewarding joint work on this venture project. I will ask Bio-Con's Chief Scientist, Greg Bergman to find a suitable off-site location and to set up the meeting. I hope that you and I will speak to the group briefly in the morning, to kick it off with the right spirit.

As the demonstration showed, MGUPHN looks like a winner. With Microtex's help, we will both win in the market. First, surgical devices and implants, then who knows where the joint venture will go?! At least we do know that none of our competitors will be able to catch up with our joint venture team, at least not for a good long while.

Looking forward to a productive and rewarding venture,

With best regards,

E.B. Parker

EXHIBIT C

Unlocking Microbiology for the Millenium and Beyond
Microtex, Inc.
Three Millenium Park
Norwood, MA 02348

T.J. Mills, CEO

Tel: (781) 391-1001

Fax: (781) 391-1020

April 20, [Year-3]
In Hand Delivery

E.B. Parker, CEO
Bio-Con, Inc.
One Bio-Tech Center
Wellesley, MA 02181

Dear E.B.:

I too thought our meeting went well yesterday. We made good progress toward a working understanding on some major issues (as indicated on your bullet point sheet), though one must always anticipate that additional issues may arise. At this point, I am sufficiently hopeful about the joint venture to turn the negotiations over to the lawyers for additional work to structure a deal to meet both side's interests and objectives.

Thank you for taking the initiative to set up an off-site meeting of our science teams. I agree that we should both attend in the morning to kick it off with words of encouragement. From Microtex's perspective, whether the science teams can work productively together will be an important predictor of the venture's success. The offsite meeting may be seen as a field test of whether the Bio-Con/Microtex cultures will mix well.

I look forward to seeing you again soon.

Sincerely,

T.J. Mills



EXHIBIT D

**Bio-Con / Microtex Joint Venture
Original MegaMed Contract Projections (\$)**

	[Year-2]	[Year-1]	[Year-0]	[Year+1]	[Year+2]	[Year+3]
Revenues						
Contract Revenues	2,500,000	2,800,000	2,800,000	2,800,000	2,800,000	2,800,000
Direct Costs						
Personnel	1,000,000	950,000	1,100,000	1,000,000	950,000	950,000
Product Material Costs	300,000	250,000	300,000	300,000	300,000	300,000
Lab Materials (perishable)	150,000	100,000	100,000	100,000	50,000	50,000
TOTAL DIRECT COSTS	1,450,000	1,300,000	1,500,000	1,400,000	1,300,000	1,300,000
Overhead Costs						
Lab Equipment (depreciation)	100,000	100,000	100,000	100,000	100,000	100,000
Allocated space (lease, taxes)	80,000	80,000	80,000	80,000	80,000	80,000
Utilities	50,000	50,000	50,000	50,000	50,000	50,000
Administrative Overhead	270,000	270,000	270,000	270,000	270,000	270,000
TOTAL OVERHEAD COSTS	500,000	500,000	500,000	500,000	500,000	500,000
NET PROFIT	550,000	700,000	800,000	900,000	1,100,000	1,100,000



EXHIBIT E

**Microtex, Inc.
Summary Statement of Profit and Loss on MegaMed Contract
Actual ([Year-2]); Projections ([Year-1]-[Year+3]) (\$)**

	[Year-2]	[Year-1]	[Year-0]	[Year+1]	[Year+2]	[Year+3]
Revenues						
Contract Revenues	2,500,000	2,500,000	2,800,000	2,800,000	2,800,000	2,800,000
Direct Costs						
Personnel	1,100,000	1,050,000	1,100,000	1,025,000	975,000	900,000
Product Material Costs	300,000	300,000	350,000	350,000	325,000	325,000
Lab Materials (perishable)	150,000	100,000	100,000	75,000	50,000	25,000
TOTAL DIRECT COSTS	1,550,000	1,450,000	1,550,000	1,450,000	1,350,000	1,250,000
Overhead Costs						
Lab Equipment (depreciation)	130,000	130,000	130,000	130,000	130,000	130,000
Allocated space (lease, taxes)	120,000	120,000	120,000	120,000	120,000	120,000
Utilities	50,000	50,000	50,000	50,000	50,000	50,000
Administrative Overhead	300,000	300,000	300,000	300,000	300,000	300,000
TOTAL OVERHEAD COSTS	600,000	600,000	600,000	600,000	600,000	600,000
PROFIT (Loss)	350,000	450,000	650,000	750,000	850,000	950,000
R&D Expense Allocation	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Net Profit (Loss)	(650,000)	(550,000)	(350,000)	(250,000)	(150,000)	(50,000)



Bio-Con, Inc. v. Microtex, Inc.

Deposition Summary of Gregory Bergman, Chief Scientist for Bio-Con, Inc.

I am Gregory Bergman, President of Research, Technology and Development for Bio-Con, Inc., Chief Scientist for the MGUPHN project.

I graduated from Princeton University in 45+ years ago with a B.S. in Chemical Engineering and received my PhD. in Chemical Engineering from MIT six years later. I have worked as a chemical engineer since then, initially at Dow Chemical. I joined Bio-Con 30+ years ago and quickly worked my way up the ranks to my present position. I have general oversight responsibility for all research, technology, and development at Bio-Con.

Because of the importance of the MGUPHN project and the size of Bio-Con's investment in research for MGUPHN, I managed it directly from ground zero. When MGUPHN research and development work was begun nearly 20 years ago, there was no antimicrobial protection system for medical devices (or any other kind of equipment) formed by bonding the antimicrobial coating into the matrix of the surface coating (typically an enamel coating).

I supervised laboratory experiments and made all judgments regarding the direction of the research effort. The development of MGUPHN required hundreds of tests with different heating and cooling regimens and different chemical compounds. Although the general concept of bonding surface coatings by heating processes is well understood, the process has never been successfully employed to bond an antimicrobial coating into the matrix of the surface coating (typically an enamel coating) before Bio-Con's ultimately successful efforts.

When the company CEO first mentioned to me that he was considering a joint venture with Microtex to develop, produce, market, and distribute MGUPHN, I was initially resistant. I didn't see why Microtex should reap 50% of the profits when Bio-Con had invested a tremendous amount of time in successful product development. I understood from the CEO that Microtex representatives claimed to be working on the development of a similar product, which would directly compete with MGUPHN. I wasn't (and aren't) scared off by the threat of a little bit of competition. I am convinced that no product could come close to MGUPHN. I seriously doubted Microtex's claims: if they had a product, why would they be talking about a joint venture to market and produce MGUPHN?

Based upon contacts at conferences over the years, I have never been impressed by the Microtex R&D team. They are generally young, midwestern fraternity types, lacking in top-notch credentials.



Though my initial reaction to the joint venture idea was somewhat negative, I eventually bought in because Microtex did offer the advantage of expanding production engineering, distribution, and marketing capacity. I would acknowledge that Bio-Con's strength is in pure R&D - the highest level of science needed to find microbiology solutions and develop highly technical products. Bio-Con's production capacity is limited, and it has historically produced smaller volume products. If Microtex's larger production engineering, distribution, and marketing capacity could be tapped, the joint venture would make sense.

In order for the joint venture to work, it was necessary to exchange information about MGUPHN with Microtex's scientific team. I attended a lengthy meeting of the parties on April 15, [Year-3] at which members of your scientific team conducted a demonstration of the high-temperature bonding process by which the MGUPHN forms part of the matrix of the surface coating on medical implements. This demonstration provided Microtex with very specific information about the number of heating and cooling cycles, temperature settings, etc. that Bio-Con had to obtain by extensive experimentation. The Microtex representatives did not state that they had an antimicrobial product at that stage of development, or that worked similarly. At the meeting, Microtex representatives were informed that a prototype of the MGUPHN system was being field tested by Stewart Surgical Equipment Company.

Toward the end of April, Bio-Con's CEO held a top-secret meeting of the senior staff. He announced that the joint venture negotiations with Microtex were going very well, and that just about all of the significant terms had been agreed upon. He said that, in effect, it's already started, because we've leased an additional 20,000 square feet for the venture. To make sure the venture runs smoothly, he asked me to work with Microtex's science team to agree upon the way any additional development work, production engineering, distribution, and marketing would be allocated between the two companies.

Thus, I set up a day-long, off-site meeting between Bio-Con's and Microtex's science staff and their marketing and distribution liaisons. I chaired the meeting because I thought it important that an intelligent plan be agreed upon at the end of the day, one that capitalized on the two companies' respective strengths. Each issue was discussed, and all present seemed to agree on a plan that would give most of the hard science judgments to Bio-Con (with input from Microtex) and give production engineering issues to Microtex (with Bio-Con's input).

Sometime in mid-to-late May, I learned from Kay Surrah, a Vice President of Stewart Surgical Equipment Company, that a representative of Microtex had contacted Stewart regarding various technical aspects of MGUPHN-coated surgical arms being tested by Stewart. I knew that Stewart had given Microtex a component of a MGUPHN-coated arm.

At the time, I was not terribly concerned because I assumed that Microtex's inquiry related to the joint venture. If that were not the case, I was confident that Kay Surrah would not have turned over the MGUPHN-coated arm. Kay Surrah had previously been repeatedly informed of the need for confidentiality orally and in writing. (I know that she was asked to sign a confidentiality agreement; I never followed up to check if she had signed it.) In any event, everyone in the industry knows that disclosures to Stewart and other prospective vendors are privileged by custom and practice.

On June 1, my CEO informed the management team that Microtex had withdrawn from the joint venture. I understand that Microtex now claims that my offsite meeting was disastrous and that the meeting convinced the Microtex scientists and the CEO that the joint venture would not work. I strongly believe this is bunk, a fabrication to justify Microtex's bad-faith pullout from the venture while walking away with Bio-Con's secret technical information.

After everything fell apart, I was asked to review evidence obtained from Microtex regarding the MGUPHN-coated arm. In my opinion, that evidence suggests Microtex submitted the arm to destructive "reverse engineering" testing.

I do not believe that Microtex could have developed the system now being used under its MegaMed contract so quickly without improper use of confidential information obtained from Bio-Con. Moreover, the production process and the coating alloy used by Microtex are "substantially similar in every respect" to the MGUPHN system.



Bio-Con, Inc. v. Microtex, Inc.

Deposition Summary of

Claude Ranes, Chief Scientist of Microtex, Inc.

I am Claude Ranes, Chief Scientist for Research and Development for Microtex, Inc.

I graduated from the University of Cincinnati more than 30 years ago with a B.S. in Chemical Engineering and received my Ph.D. in Chemical Engineering from the University of Wisconsin five years later. I have worked as a chemical engineer since then, initially at an Illinois biotech company. I joined Microtex more than 20 years ago and quickly worked my way up the ranks to my present position. I have general oversight responsibility for all research, technology, and development at Microtex.

Because of the importance of Microtex's initiative to develop an antimicrobial coating and the size of Microtex's investment in it, I managed it directly from ground zero. When research and development work was begun nearly 20 years ago, there was no antimicrobial protection system for medical devices (or any other kind of equipment) formed by bonding the antimicrobial coating into the matrix of the surface coating (typically an enamel coating).

I supervised laboratory experiments and made all judgments regarding the direction of the research effort. The developmental process required hundreds of tests with different heating and cooling regimens and different chemical compounds. Although the general concept of bonding surface coatings by heating processes is well understood, the process has never been successfully employed to bond an antimicrobial coating into the matrix of the surface coating (typically an enamel coating). In late [Year-4], my research and experimentation had hit several dead ends. My staff and me were uncertain about which avenues for testing regimens to try next. I had kept the CEO, T.J. Mills generally informed about the project status. However, just after the first of January, [Year-3], I met more formally with him to report on the disappointing results and to discuss the additional investment needed to explore alternative hypotheses in research.

When the CEO first mentioned to me that he was considering a joint venture with Bio-Con to develop, produce, market, and distribute an antimicrobial coating product, I was resistant. Because Bio-Con's MGUPHN was allegedly near completion, I feared that the joint venture would just want to "adopt" MGUPHN, without considering how some of Microtex's experimental findings could contribute to a better product. I hated to see all of my team's efforts put on a shelf after so much time had been invested.



On a personal and professional level, I was also concerned that the Microtex science staff (including myself) would be marginalized or patronized by the Bio-Con team, particularly if MGUPHN became the joint venture product. I know many of the Bio-Con team from contacts at conferences over the years, and I have found them to be arrogant, smug, and too formal - perhaps they are a bit older than most of my team. They are the types that always manage to slip in an east coast Ivy League reference.

Though my initial reaction to the joint venture idea was negative, I eventually told the CEO that I'd try to be open-minded. After all, if MGUPHN really was a great product, it would make sense to start from there. I know that Bio-Con's production capacity is limited, and it has historically produced smaller volume products. If Microtex's larger production engineering, distribution, and marketing capacity could be tapped, the joint venture might make sense.

In order for the joint venture to work, it was necessary to exchange information about MGUPHN with Microtex's scientific team. I attended a lengthy meeting of the parties on April 15, [Year-3] at which members of Bio-Con's scientific team conducted a demonstration of the high-temperature bonding process by which the MGUPHN forms part of the matrix of the surface coating on medical implements. This demonstration provided Microtex with very specific information about the number of heating and cooling cycles, temperature settings, etc. My staff and I observed these demonstrations carefully; it was interesting to see how similarly Bio-Con had approached the experimentation process. At the meeting, Bio-Con did mention that a prototype of the MGUPHN system was being field tested by Stewart Surgical Equipment Company.

After the demonstration, I tried to communicate to T. J. that any joint venture would have to "feel right" for the scientists and engineers who would be working on it. Otherwise, Microtex would risk losing some of its most talented scientists and engineers (including me) to a tight job market. For that reason, T. J. suggested that Bio-Con's CEO ask his Chief Scientist to convene an off-site meeting of both scientific teams to talk about how they would work together in the joint venture, particularly on the anticipated MegaMed contract.

Bio-Con's CEO's opening remarks were energetic and optimistic, but I was very upset when he dismissed the scientific research and development talent at Microtex, referring to Bio-Con's "gift" of necessary scientific rigor. I also noticed that he seemed to refer to the venture as something that already existed, rather than an option being seriously explored. Early the next morning, I marched into T.J. Mill's office, angry, insulted, and distraught. I fumed: "Bio-Con is a bunch of high-brow, self-righteous manipulators. They didn't want to "dialog" about a plan, they wanted to cram their superiority and their plan down our throats. They kept referring to the "midwestern roots" of Microtex's team and throwing in comments about us having watched better basketball in graduate school. They said that it was all about how



important it was to recognize differences in “corporate culture” and how glad they were that we’d be so friendly and easy to work with, and how they hoped we’d put up with some of the high-strung easterners from Bio-Con. They were not-so-subtly saying that they were smarter, went to Ivy League schools, and planned to push us around. It was insulting. They dismissed any notion that we’d have any value in the science and experimentation phase but kept saying that we’d be great at the engineering and production for large quantities of their MGUPHN. Any joint venture is going to be without me, I’ll be out of this joint, and believe me, that will be true for at least half of the team. We sat there and took in everything they had to say, but now they can take a flying leap. The whole team talked about it last night. If you’re thinking of a joint venture to get MGUPHN because we’ve been slow on our antimicrobial product, just wait. We did some brainstorming, and we think we have a few new experimental strategies to try yet for Microtex before we throw in the towel to Bio-Con and MGUPHN.”

T.J. Mills encouraged me to keep working on the Microtex product, but to keep an open mind about MGUPHN and Bio-Con. He also promised that any joint venture deal would be written to ensure equal footing for Microtex’s science team.

Shortly thereafter, I directed a series of experiments for the Microtex antimicrobial product which proved quite fruitful. I told T.J. that, based on these experiments, I was more confident of my team’s ability to produce a competing product. On May 13, I rushed excitedly into T.J.’s office and said: “I feel like Henry Higgins saying this, but we’ve got it. By Jove, we’ve got it!!” I explained that there had been a major breakthrough in the lab on the molecular structure of Microtex’s antimicrobial product. I said I thought a few bugs could be worked out over the next week, and then I should hurry to test the product, to ensure that engineering and production in larger quantities would be able to bring a consistent quality product to market. T.J. authorized me to begin the testing phase.

Shortly thereafter, I contacted Kay Surrah, a Vice President of Stewart Surgical Equipment Company. I had known Kay for many years, through various industry conferences. Also, I had occasionally used Stewart Surgical to test other Microtex products. Stewart’s pricing for testing services was higher than the average, so I tended to use other testing companies. On the other hand, Stewart’s service and professionals were known to be absolutely first-rate. That’s why I was interested in working with Stewart on the antimicrobial product, NOT because of the April meeting. I told T.J. that I had discussed various technical aspects of the testing protocols performed by Stewart on MGUPHN-coated surgical arms. Kay Surrah provided me with a component of a MGUPHN-coated arm from Stewart. While my team did do some destructive testing on the MGUPHN-coated arm, it was to check the effectiveness and efficiency of Stewart’s testing protocols against possible product flaws.

I AM ADAMANT THAT I DID NOT TELL KAY SURRAH THAT MICROTEx WAS GOING FORWARD WITH ANY JOINT VENTURE WITH BIO-CON. I SPOKE WITH HER



ABOUT TESTING FOR A MICROTEx ANTI-MICROBIAL PRODUCT. I AM EQUALLY ADAMANT THAT I DID NOT DO DESTRUCTIVE TESTING ON THE MGUPHN COATED ARM IN ORDER TO DEVELOP THE MICROTEx PRODUCT. I ONLY WENT TO STEWART BECAUSE I WAS IN THE FINAL PHASE, WHICH REQUIRES TESTING BY AN OUTSIDE COMPANY. I am not surprised that the Microtex product and Bio-Con's MGUPHN are somewhat similar. It turns out that there are few feasible paths through the scientific and technical challenges. We both found them.

Since the beginning, I have been working on the fulfillment of the MegaMed contract for Microtex's antimicrobial coating of many kinds of medical equipment. It was a two-year contract, with an option at the end of that period (early [Year-0]) to extend the contract for another three years. MegaMed exercised this option; Microtex has now agreed to fulfill MegaMed's requirements for equipment coating until early [Year+3].

While the MegaMed contract is going well, it has not proven to be quite as profitable as originally projected by the business types. Production on a large scale has proven to be more expensive than originally anticipated; costs have been significantly higher than projections. Microtex's profit, before deduction for the R&D investment, was only \$800,000 in the first two years and will only be \$3,200,000 in [Year-0] – [Year+3]. After deduction of the \$5,000,000 for the up-front R& D investment, this project is a clear loss.



Bio-Con, Inc. v. Microtex, Inc.

Deposition Summary of

Kay Surrah, Vice President of Stewart Surgical Equipment Company

I am Kay Surrah, Vice President of Stewart Surgical Equipment Company. I graduated from the University of Virginia with a B.S. in Chemistry more than 25 years ago and went on to get a Masters in Biochemistry from Brandeis three years later. My role at Stewart has recently moved from the science side to the business side, with my appointment as Vice President less than a year ago.

I have long known Microtex and Bio-Con as players in the field. I would recognize a number of their scientists as having presented on panels at various conferences in the industry. I have probably known Claude Raney of Microtex for at least five years on a professional level. Though I have no personal relationship, I know him as a friendly, well-liked reasonably young scientist, with a reputation for honesty. Of course, I also know of Bio-Tech's Chief Scientist, Bergman. He is much more formal in style and a bit older than Raney, but certainly well regarded for his intellect and success.

I had heard a number of rumors about a possible joint venture between Bio-Con and Microtex, probably beginning in February or March [Year-3]. I don't remember precisely where I first heard the rumors, but certainly, E.B. Parker of Bio-Con was not denying them. It was well known that Parker was speaking openly of the Microtex/Bio-Con joint venture for the production and distribution of MGUPHN (perhaps to discourage potential competitors) so I had assumed it was true.

The year before, Bio-Con had contracted with Stewart Surgical for testing of MGUPHN in its application on a surgical arm (and had given Stewart Surgical a number of samples). I remember that they had also sent a written confidentiality agreement regarding these samples, but it ended up in a pile somewhere on my desk. At the time, I thought Bio-Con's written form agreement was silly and formalistic; everyone knows that such items are to be kept away from potential competitors. It is standard practice in the industry.

I released Bio-Con's MGUPHN coated surgical arm to Claude Raney of Microtex only because I knew that Microtex and Bio-Con were using MGUPHN in a joint venture. I believe Raney mentioned the joint venture when he asked if he could check Stewart's testing protocols. I don't remember him saying the protocols were of interest for testing a different Microtex product. But even if he had, I still would have given him the MGUPHN arm because of the joint venture.

I thought (though I am not certain) Raney asked for a Bio-Con MGUPHN sample arm to test, but I admit that I don't remember exactly when in the conversation or his specific words. If he did, it would have confirmed for me that the parties were in a joint venture: how else would Raney

have known the arm was being tested at Stewart? Even if Ranes didn't specifically request it, because I thought they were joint venturers, I might have sent the MGUPHN coated arm along with the testing protocols Stewart used. What better way for me to demonstrate the soundness of our testing protocols? From my perspective, because of their joint venture, it was safer to give him MGUPHN than it would have been to give him another product provided by another biotech company and potential Microtex competitor. Microtex would already have access to the MGUPHN technology under the joint venture. I didn't anticipate that Microtex would submit the MGUPHN coating to destructive reverse engineering: Why would they have to if they were already working with Bio-Con?

I have since learned that the joint venture was off by the time Ranes had spoken to me, or perhaps it had never really existed. I am horrified if I played any unwitting role in what amounts to biotech espionage. I am personally furious if Ranes intentionally duped me into giving him the MGUPHN coated arm.



Bio-Con v. Microtex

PRE-Negotiation Case Assessment Questionnaire

Role - Please check one

____ Attorney for Bio-Con
____ CEO of Bio-Con

____ Attorney for Microtex
____ CEO of Microtex

As you know, if the Bio-Con/Microtex case doesn't settle in negotiation, it will proceed to arbitration by prior agreement of the parties (through counsel). Please consider the following questions, record your answers, and turn them in (on the fourth floor) before you negotiate.

What do you estimate to be the likelihood that the arbitrator(s) will find that Microtex is liable to Bio-Con (in other words, a plaintiff's award on liability)? _____% ____.

2. Without using percentages, what language would you choose to describe the likelihood of a liability finding – an award in favor of Bio-Con against Microtex - to your client (if you are the attorney) or to other corporate officers (if you are a CEO)?

_____ (For example, would you say *very likely*, *extremely unlikely*, *not at all likely*, *a slam dunk*...? Please just state any words you would use.)

3. If there were a liability finding by the arbitrator(s), what do you anticipate is the range within which the arbitrator's award would be likely to fall? \$_____ to \$_____ (In other words, if an arbitrator were to find liability, you believe it very unlikely that the award would be outside of this range).

4. What is your best guess as to MOST LIKELY damages award number (within that range)? _____

5. What theory(ies) are you relying upon to arrive at these damages estimates?

In many arbitration processes, the parties and counsel can choose whether to proceed before a single arbitrator or a three-member arbitration panel. Generally, the arbitrator(s) are either simply agreed upon between the parties, or they work through a selection process administered by a dispute resolution organization such as the AAA (American Arbitration Association) or the CPR Institute for Dispute Resolution. All arbitrators are required to serve as neutrals.

6. From your side's perspective, would you prefer a single arbitrator or a three-member panel? _____; Why?

7. What characteristics or background do you think it would be important for the arbitrator(s) to have? _____