NYSBA WINTER 2014 | VOL. 23 | NO. 3

Bright Ideas

A publication of the Intellectual Property Law Section
of the New York State Bar Association

Message from the Chair

Charles Weigell

By the time you read this the Section will have held its Fall Meeting at Lake George. Co-Chairs Brooke Erdos Singer and Lisa Rosaya and the Chairs of seven of our substantive IP committees worked hard to prepare an excellent two-day program of distinguished speakers who addressed a wide range of cutting-edge IP topics.

In addition, planning for the Section's Annual Meeting program, which will take place on January 27, 2015, is moving ahead. With assistance from our substantive committee chairs, Section fellows Danielle Gorman and Alexandra Goldstein and young attorney Ashford Tucker are bringing a youthful perspective to our program this year and are making good progress in coordinating the presentations. We cannot wait to see the results.

The Section is changing, though, and hosting two major meetings a year may not be enough to serve the needs of our membership. We have other successful programs, such as Women in IP, which takes place every June, but hosting more programs more frequently during the coming year is a main Section goal. Another goal is to get our nysba.org communities section up and running as a library, forum, and networking tool for our members. In addition, I would like to see us host more pro bono events during 2015 (our last pro bono program, focused on advising start-ups on IP issues and deftly organized by Debra Resnick and Paula Joanne Estrada De Martin, was a great success).

Putting these events and programs together requires dedication. Most of us have very busy schedules, but taking the time out to contribute time and effort to contribute to the Section's goals of education and outreach is vital and also highly rewarding. Doing this also requires a shared vision for what the Section can do and can become.

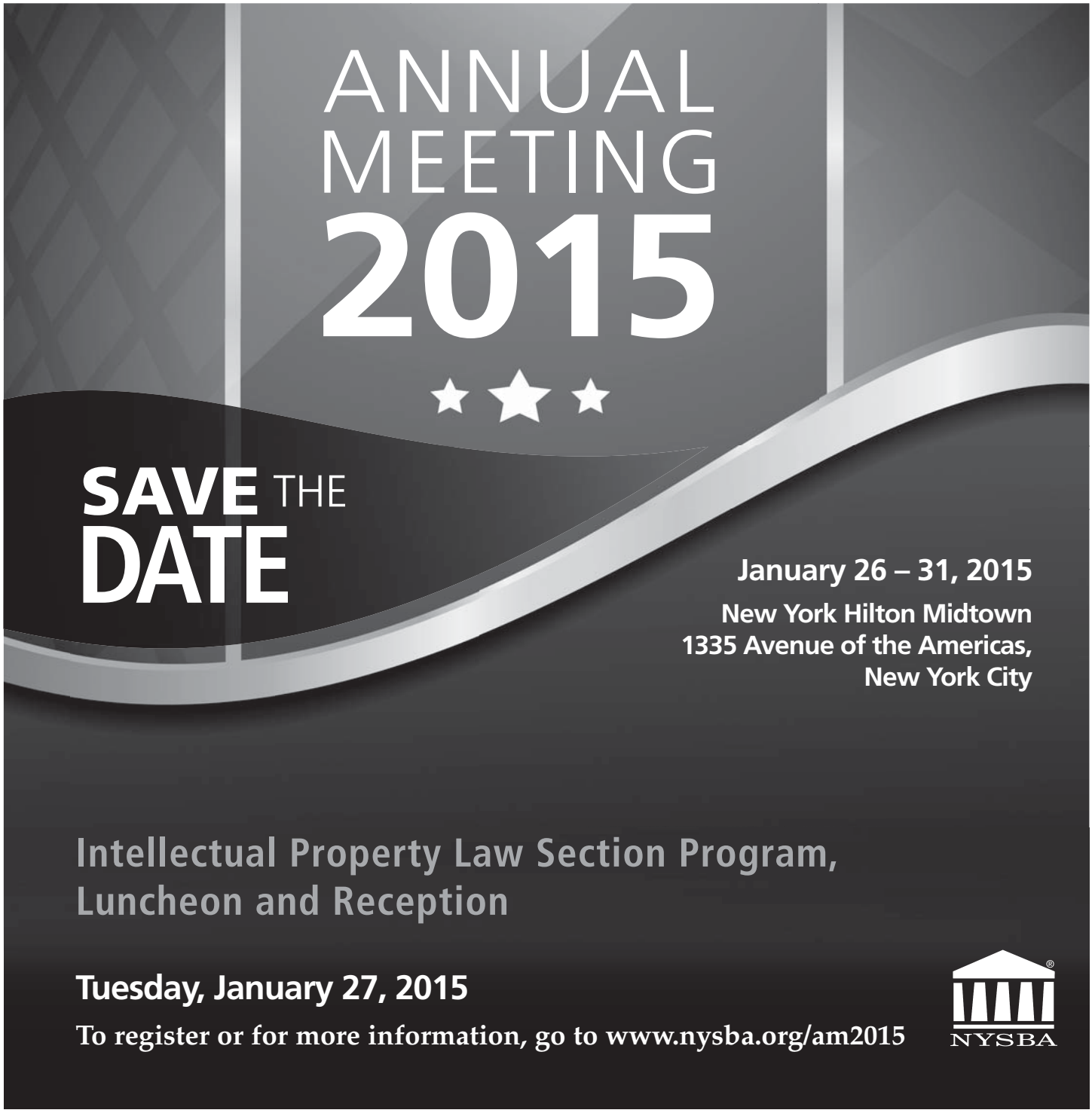
Vision requires leadership, and leadership is a two-way street. I do not mean leadership that always originates with our Section chairs or officers, though every chair and officer has a responsibility to facilitate Section programs and other activities. Leadership also comes from individual initiative, from those with ideas who share them *and* are willing to put in the effort to realize them. Initiative spurs collective action and allows us to coordinate efforts, allocate resources, and plan events and activities.

Of course, no organization adopts and implements every idea it encounters. This is why there is a process involved in receiving, discussing, and adopting proposals that come before our Executive Committee. Perhaps I'm dating myself, but if anyone recalls how in the 1960s the Beatles' Apple Records initially entertained (and funded) every crazy notion pitched to it, you have a sense of how

Inside

the lack of an ordered process and approach to reviewing initiatives can be a recipe for disaster. There is, however, nothing wrong with trying to do things a little differently. I am not talking about a radical departure; we will certainly continue our Section tradition of putting on quality programs covering relevant and current IP law topics. But in growing beyond our current program schedule and extending into online media, we also look to receive input, ideas, and volunteers from the Section's membership—where I am sure there is no shortage of vision, initiative, and leadership. If you, as a Section member, feel the same and have the dedication to help the Section reach its goals, we would love to hear from you.

Charles Weigell



Corporate America: Get Your Ducks in a Row! Ten Easy Steps to Increasing Shareholder Value with Soft IP

By Peter S. Sloane

Introduction

Inside corporate counsel have plenty of work on their desks. The last thing they are looking for is yet more work. Still, trademarks and other intellectual property are becoming increasingly important corporate assets. Shareholders routinely consider the value of IP in assessing the strength or weakness of a business. Therefore, in addition to tackling their day-to-day legal work and putting out fires, in-house counsel should look for ways to streamline and leverage their soft IP assets (i.e., trademarks and copyrights). To help guide that effort, the following is a list of ten steps to consider taking before year-end.

1. Register Your Trademarks

Registering trademarks is the bread and butter of most inside trademark counsel. However, many companies are not large enough to hire dedicated trademark counsel. Corporate counsel at those companies should undertake a review of the company's brands and determine whether any additional trademark filings are warranted. Secondary marks, logos, sound marks, colors, and product configurations are just some of the myriad types of marks that can be registered.

In addition to protecting trademarks in the United States, it is important to protect marks in foreign countries where products are made, where goods are sold (or services rendered), and where counterfeiting may occur. An initial investment in trademark protection can be amortized over the years of registration and generally is less expensive than paying off a squatter or dealing with infringement litigation.

Building a portfolio of registered trademarks and providing notice of those registrations in advertising and promotional materials (i.e., ABC is a registered trademark of Xyz, Inc.) signals to the outside world that the company is trademark-savvy. It is also an assuring sign to potential buyers of the company or its assets that they need not worry so much about the risk of infringement (and seek to retain funds in escrow as a reserve for a clawback provision in the event of trademark litigation).

2. Order a Watching Service

Trademark searching before adoption and filing is all well and good, but searching is retrospective rather than prospective. For a company's leading brands, inside counsel should consider ordering a watching service, which provides advance notice when confusingly similar marks are published for opposition and affords the opportunity to object to registration.

Do not rely upon government trademark offices to refuse registration of confusingly similar marks. Many offices do not even examine applications for confusing similarity. For example, OHIM, the trademark office of the European Union, does not examine applications on so-called relative grounds. It is possible, therefore, to have two EU registrations for the same mark for the same goods owned by different and unrelated parties. It is the duty of the trademark owner to be vigilant and to oppose registration of a confusingly similar mark.

Watching services are relatively inexpensive. Leading trademark research companies like CT Corsearch, Thomson Reuters, and CSC Nameprotect offer a variety of different watching options. Also consider using them to watch other soft IP assets such as domain names and trade names.

3. Develop Trademark Style Guides

Trademarks, particularly new ones, are like babies in that they need care and nurturing to develop to their full potential. Without proper guidance, they may develop bad habits and become wayward in their activities. That is where a trademark style guide comes in handy.

A trademark style guide illustrates the proper way to use a trademark and includes instructions ranging from the proper font and type size to the affixation of trademark notice. The consistent use of a trademark maximizes its value and reduces the chance of collateral attack by third parties.

Many graphic designers specialize in creating trademark style guides. Each company has its own history and different brand needs, so it is necessary to work hand-in-hand with the designer, preferably in consultation with a trademark lawyer, to develop a style guide uniquely suited to meet the specific needs of the business. Then, continually familiarize new marketing people with the guide so that it becomes an important tool rather than a relic gathering dust (or residing unnoticed on an intranet).

4. Develop Internal Clearance Forms

Whoever handles the legal trademark function for a company should advertise that fact internally so that mar-

keting and others who may create brands know whom to contact before taking any public steps. If employees act unilaterally when it comes to trademark adoption, searching, or filing, it will lead to inconsistent practice, increased expense, and added risk exposure.

Develop trademark clearance forms and distribute them throughout the company (an effective way to centralize a trademark practice). The forms should include key metrics such as the mark to search, the reason for selecting the mark, the goods or services of interest, the countries where the mark may be used, and the lead time before commercialization.

Post trademark clearance forms on a corporate intranet to make them readily available for widespread use. Beyond that, periodically notify businesspeople about the availability of the forms, especially as marketing people may turn over fairly regularly.

5. Beef Up the Copyright Portfolio

Copyright is an often-overlooked area of intellectual property protection. Most companies likely have scores of materials entitled to copyright registration. Adding copyright registrations to an IP portfolio is an easy way to establish company assets. At the very least, it is another schedule of assets to attach to merger and acquisition documents, thus evidencing the tangible value of the assets transferred.

Materials amenable to copyright registration include the company website, its advertising and promotional materials, its product packaging, and the like. Recordation with the U.S. Customs and Border Protection is even available if counterfeits or gray goods are an issue.

The U.S. Copyright Office charges only $35 for an application, and the filing requirements are minimal. U.S. copyright law encourages filing early and often, as statutory damages and attorneys' fees are available only if an application is filed within three months of publication or prior to infringement. Also, if the works change over time, consider filing for derivative works to protect newly added material.

One last point to remember about copyright: it is international in scope and immediate in efficacy. You may be able to enforce copyright in, for example, your packaging in a jurisdiction where your trademark applications are still pending.

6. Clean Up Chain of Title Issues

Nothing causes more problems in due diligence than a messy chain of title. There is no time like the present to review trademark applications and registrations to make sure the chain of title is clear and current. Make sure it is possible to trace an understandable chain of title from the current record owner back to the applicant. Assignments nunc pro tunc can be used to fill in gaps, particularly when a prior owner is no longer in business. Also, check with Secretary of State records to confirm that the current owner is still an active business entity.

Unreleased security interests are another problem when it comes to due diligence. Most people remember to record security interests against trademarks, but fewer remember to record the release of the security interest down the road.

7. Centralize Agreements and Review Any Licenses

Hard as it may be to fathom, some trademark settlement agreements and co-existence agreements are effectively put in a drawer (literally or figuratively) and forgotten once signed. The mark of an effective trademark practice is to consolidate those agreements in one place so they can be consulted when needed.

In the past, one could maintain a binder of trademark-related agreements. Since most everything is now electronic, it is more important than ever to maintain those agreements in an easily accessible electronic format. Some trademark docketing programs even have modules to record trademark agreements.

Where the number of agreements is manageable, it may even be worth reviewing them afresh. Among other things, the other side may have gone out of business or discontinued using its mark. This may result in termination of a co-existence agreement, resulting in one less issue for inside corporate counsel to worry about.

8. Rationalize Outside Counsel Relationships

As companies acquire and divest one another in whole or in part, trademark portfolios come and go. There is often different trademark counsel associated with those portfolios, especially in foreign jurisdictions. The well-run trademark practice will seek to consolidate those portfolios in one or two counsel in each country. Some companies have favored prosecution counsel and others have favored litigation counsel. Others seek to have a backup in case of any conflict of interest.

Consolidating trademark portfolios is a good way to make sure that there are a limited and manageable number of counsel who are familiar with the company and its marks. Those outside trademark attorneys often can serve as the eyes and ears of the company on the ground in spotting infringements and recommending steps to better protect the company's marks.

9. Maintain Evidence of Fame and Use

Even where marks are famous, courts and trademark offices require proof of fame. It behooves the owner of a famous mark to maintain a record documenting that reputation. The fame file should include documents evidencing the adoption of the mark, the history of use of the mark, advertising and promotion of the mark, and consumer recognition of the mark.

Beyond maintaining a fame file, it is good practice to draft an affidavit of fame. That affidavit can be used in actions around the world and modified as necessary.

Time passes quickly, and evidence of fame may grow stale. Consider docketing a future date to review and refresh evidence of reputation. Also, gather evidence across jurisdictions where marks are used outside the United States.

One last point about fame files: "bookmarking" services such as Instapaper make it easier than ever to keep a clipping file (but don't forget to save electronic copies—the Web is ephemeral).

10. Develop an IT Policy

Today, electronic discovery is part and parcel of traditional paper discovery in any U.S. litigation. It is generally accepted that electronic discovery represents the most significant cost of the litigation process. The value of trademarks is lessened if it is too expensive to enforce rights. As a result, it is essential that corporate counsel develop an electronic discovery plan in advance of litigation. To do so, identify key custodians of trademark-related information and documents, and identify where such materials reside on corporate systems. With so many e-discovery vendors, it should be easy enough to find a vendor willing to assess needs and provide cost estimates. They are also often willing to come in and provide a CLE presentation.

Conclusion

There are plenty of other things that in-house corporate counsel can do to more effectively grow and protect their soft IP assets, from making sure that they are using the right docketing program to establishing an effective domain name policy to scouring social media for infringements. The above list is merely a sample of actions to consider taking along the way. The important thing is to at least consider the various issues and to take one concrete step at a time.

Peter S. Sloane is a partner with Leason Ellis LLP in White Plains, N.Y. A version of this article first appeared on The Trademark Blog at www.trademarkblog.com.

Federal Circuit Addresses the Role of District Courts in Assessing Patent Damages, Expert Witness Testimony, and Reasonable Royalty Evidence

By Michael A. Oropallo and Bella S. Satra

I. Background and Introduction

The Federal Circuit's recent decision in *Apple Inc. v. Motorola, Inc.*[1] presents a treasure trove of jurisprudential guidance for patent litigators. The Federal Circuit found that Seventh Circuit Judge Richard A. Posner, sitting by designation in the Northern District of Illinois, erred in a number of his rulings regarding Apple and Motorola patents used in touchscreen smartphones, which resulted in dismissal of the entire case prior to trial. The court of appeals found error in the district court's construction of one of the patents-in-suit, specifically, construing a means-plus-function limitation into the claims, which had a domino effect on the issues of infringement and ultimately led the district court to grant summary judgment of non-infringement to Motorola. The court also found that the district court erred in excluding both parties' damages experts and in concluding that in absence of such expert evidence, there was no basis for finding a reasonable royalty and thus no provable damages for any of the parties' infringement claims.

This article focuses on the lessons of the case concerning the trial court's gatekeeper role with respect to the admissibility of expert testimony and proving damages in the form of reasonable royalties.

II. Admissibility of Expert Testimony Generally

Generally, expert testimony is governed by Rules 702 and 703 of the Federal Rules of Evidence. Rule 702 reads:

> A witness who is qualified as an expert by knowledge, skill, experience, training, or education may testify in the form of an opinion or otherwise if:
>
> (a) the expert's scientific, technical, or other specialized knowledge will help the trier of fact to understand the evidence or to determine a fact in issue;
>
> (b) the testimony is based on sufficient facts or data;
>
> (c) the testimony is the product of reliable principles and methods; and
>
> (d) the expert has reliably applied the principles and methods to the facts of the case.

In *Daubert v. Merrell Dow Pharmaceuticals*[2] the Supreme Court set forth the standard for admissibility of expert testimony under Rule 702 and designated the trial judge as the "gatekeeper" of that expert evidence. Since *Daubert* was decided in 1993, nearly all complex cases involving expert testimony involve challenges to a party's designated expert witnesses.

III. Reasonable Royalty Damages Generally

Section 284 of the Patent Act provides in pertinent part:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement *but in no event less than a reasonable royalty* for the use made of the invention by the infringer, together with interest and costs as fixed by the court.…
>
> The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.[3]

Reasonable royalty damages generally are assessed by assuming a "hypothetical negotiation" between a willing licensor and willing licensee at the time of the alleged infringement[4] using the following non-exclusive *Georgia Pacific* factors:[5]

1. The royalties received by the patent owner for licensing the patent, proving or tending to prove an established royalty.
2. The rates paid by the licensee for the use of other similar patents.
3. The nature and scope of the license, such as whether it is exclusive or nonexclusive, restricted or non-restricted, in terms of territory or customers.
4. The patent holder's policy of maintaining its patent monopoly by licensing the use of the invention only under special conditions designed to preserve the monopoly.
5. The commercial relationship between the patent holder and licensees, such as whether they are competitors in the same territory in the same line

of business or whether they are inventor and promoter.

6. The effect of selling the patented specialty in promoting sales of other related products; the existing value of the invention to the patent holder as a generator of sales of non-patented items; and the extent of such derivative or "convoyed" sales.
7. The duration of the patent and the term of the license.
8. The established profitability of the patented product, its commercial success and its current popularity.
9. The utility and advantages of the patent property over any old modes or devices that had been used.
10. The nature of the patented invention, its character in the commercial embodiment owned and produced by the licensor, and the benefits to those who used it.
11. The extent to which the infringer used the invention and any evidence probative of the value of that use.
12. The portion of the profit or selling price that is customary in the particular business or in comparable businesses.
13. The portion of the realizable profit that should be credited to the invention as distinguished from any non-patented elements, manufacturing process, business risks or significant features or improvements added by the infringer.
14. The opinion testimony of qualified experts.
15. The amount that the patent holder and a licensee would have agreed upon at the time the infringement began if they had reasonably and voluntarily tried to reach an agreement.[6]

There has been considerable litigation and debate over what an expert can and cannot testify to, what the expert must consider, and whether an expert must look to all fifteen of the *Georgia Pacific* factors in rendering an expert opinion. The bottom line is that it is not so much the content of an expert's opinion as the facts, principles, and methodologies upon which it relies that determines admissibility.[7]

IV. Patent Damages and Experts

There has been a significant increase in the number of cases decided based on the interplay between patent damages—especially reasonable royalty calculations—and expert testimony, most likely because of the significant damage awards being rendered by juries. One of the most significant decisions in this regard was *Cornell University v. Hewlett-Packard Co.*[8] In *Cornell*, Federal Circuit Judge Randall R. Rader, sitting by designation in the Northern District of New York, had warned the plaintiff prior to trial that the court would carefully assess the damages evidence, thereby signaling that there would have to be a reasonable relationship between the proffered evidence and testimony and the patented feature alleged to be infringed. When it became apparent that the plaintiff had failed to heed this warning, the court *sua sponte* interrupted the trial to conduct a *Daubert* hearing on the admissibility of the plaintiff's damages experts, who sought to offer testimony on the "entire market value" theory.[9] That theory is only available where "the patent related feature is the basis for customer demand."[10]

Judge Rader explained that the "entire market value rule" requires that: (1) the infringing components must be the basis for customer demand for the entire machine, including the parts beyond the claimed invention;[11] (2) the infringing and non-infringing components must be sold together so that they constitute a functional unit or are parts of a complete machine or single assembly of parts;[12] and (3) the infringing and non-infringing components must be analogous to a single functioning unit.[13] It is not enough, under this test, that the infringing and non-infringing parts are sold together for mere business advantage.[14] Ultimately, the *Cornell* court limited the testimony of the plaintiff's damages expert and later found it deficient enough to be grounds for granting the defendant JMOL after trial.[15]

Another significant case in this area is the Federal Circuit's decision in *Laser Dynamics, Inc. v. Quanta Computer, Inc.*,[16] in which the court recognized the "considerable risk" of a jury awarding excess compensation for the non-infringing components of an accused product where revenues of the entire product are used as a royalty base for a small element of a multi-component product accused of infringement.[17] Generally, the court noted, royalties should be based on the "smallest saleable patent-producing unit."[18] Using revenues for the entire product is proper only where it is shown that the patented feature drives the demand for the whole product.[19]

These cases underscore the Federal Circuit's concern with runaway verdicts in patent cases. As a result, the trial court has been delegated the difficult task of assessing patent expert damages evidence not only to make sure it is admissible under Rules 702 and 703 but also to ensure that the methodologies and facts relied upon are reliable.[20] There is an inherent tension between, on the one hand, admitting expert testimony that is based upon reliable principles, even if questionable, and allowing the deficiencies to be exposed at trial, and excluding the evidence altogether, on the other. This is the issue Judge Posner confronted with *Apple*.

V. The *Apple* District Court Proceedings

Apple sued Motorola in the Western District of Wisconsin for infringing fifteen of Apple's smartphone patents in its Droid, Cliq, and other smartphones. Motorola counterclaimed, alleging Apple's iPhone, iPad, and other products infringed six of Motorola's standard-essential patents that had been licensed to most other smartphone manufacturers. Only six patents were at issue on appeal: Apple's U.S. Patent Nos. 7,479,949, 6,343,263, and 5,946,647; and Motorola's 6,359,898, 6,175,559, and 5,319,712.

Judge Posner took over the case at the claims construction phase after it was transferred to the Northern District of Illinois. In construing the disputed claim terms, Judge Posner concluded, among other things, that Apple's '949 patent for tactile features on a mobile phone and the term "heuristics" constituted a "means plus function" claim that lacked sufficient support in the specification for some of the asserted limitations. This ruling led to a grant of summary judgment of non-infringement for Motorola regarding the '949 patent. Judge Posner also construed several other disputed claim terms for Apple's '647 and '263 patents and Motorola's '559 and '712 patents, and he granted Apple summary judgment of non-infringement of the '559 and '712 patents.

The appeal focused mainly on Judge Posner's evidentiary rulings after a requested *Daubert* hearing, in particular his exclusion of nearly all of the parties' respective damages experts, which impacted the court's summary judgment decisions and the parties' respective damages cases. For example, Judge Posner excluded the testimony of Apple's damages expert Brian W. Napper relating to a reasonable royalty for the '949 patent and an estimate of design-around costs for Apple's '263 patent. These rulings ultimately led the court to grant summary judgment to Motorola on those patents.

To determine the value of the '949 patent, Dr. Napper sought to compare the price of Apple's Magic Trackpad, a touchpad used on Mac computers in place of a traditional mouse, to the price of a traditional mouse.[21] Judge Posner found, however, that just because consumers "will pay more for a Magic Trackpad than for a mouse tells one nothing about what they will pay to avoid occasionally swiping unsuccessfully because their swiping finger wasn't actually vertical to the screen.…"[22]

With respect to valuation of the '263 patent, the approach Napper adopted involved estimating the cost of an additional chip identified by Apple's technical expert, Dr. Nathan Polish. Using this data, Napper opined that because the alternatives would be more expensive, Motorola would have been willing to pay a reasonable royalty instead. Judge Posner rejected this explanation, instead positing an imaginary conversation between Motorola and Napper, whom Judge Posner pretended was hired by Motorola to advise it on how to duplicate Apple's functionality at the lowest possible cost. Judge Posner posited that Napper's explanation—that that he relied on "an engineer who works for Apple"—would have been met with "*Dummkopf!* You're fired," and he excluded the testimony.[23]

The court found a reasonable royalty of zero for Apple's '647 patent based on its finding that Apple failed to reliably establish a royalty rate, which led the court to award summary judgment to Motorola on that patent.

The court also excluded several of Motorola's experts and its damages proof for (i) trying to separate out the value attributable to Motorola's '898 patent and (ii) opining about the value of a single patent out of Motorola's portfolio of standard essential patents that it regularly licensed to other smartphone manufacturers. Motorola licensing expert Charles Donohoe's proposed testimony opined that the first few patents in a larger standard-essential patent portfolio typically command 40-50% of the royalties for the entire portfolio. Based on this proposed testimony, Motorola's damages expert Carla S. Mulhern opined, as one of her estimates, that the '898 patent was worth 40%-50% of Motorola's standard-essential patent portfolio. Judge Posner rejected Donohoe's testimony on the ground that he "admitted that he knew nothing about the SEP portfolio at issue and did not even purport to link the 40%-50% rate to the claimed invention of the '898 patent.…"

In addition to rejecting Mulhern's opinion to the extent it relied on Donohoe, Judge Posner also rejected her estimate of Apple's design-around costs, which did not take into account the alternative of introducing the iPhone through Verizon (which did not use the networks to which the '898 patent was essential) because of what Mulhern considered to be "impracticalities with the Verizon option." Judge Posner excluded Mulhern's testimony on the ground that the failure to analyze the possibility of contracting with Verizon made her methodology unreliable.

Based largely on these rulings, Judge Posner held on summary judgment that neither party had established that it was entitled to damages or to an injunction—Apple because it failed to establish a causal nexus between the alleged irreparable harm and Motorola's alleged infringement, and Motorola because it failed to establish irreparable harm. Having found that neither party was entitled to any relief, the court dismissed all claims with prejudice prior to trial.

VI. The Federal Circuit Ruling

On appeal, the Federal Circuit, in an opinion by Judge Jimmie V. Reyna, found that reversal was warranted based solely on the district court's improper claim construction concerning the '949 patent, stating that the erroneous construction "tainted the district court's

damages analysis."[24] But the court also found reversal warranted because of more fundamental legal errors, namely, that the district court (1) did not consider the full scope of the asserted claims; (2) questioned the conclusions reached by the parties' experts; and (3) substituted its own judgment rather than simply assessing the reliability of the proffered expert opinions.[25]

Notably, the Federal Circuit criticized the district court for misconstruing its gatekeeper role with respect to the expert testimony. The court noted that a judge "must be cautious not to overstep its gatekeeping role and weigh facts, evaluate the correctness of conclusions, impose its own methodology, or judge credibility, including the credibility of one expert over another. *These tasks are solely reserved for the fact finder.*"[26]

Addressing the district court's rejection of Dr. Napper's testimony concerning the '949 patent on the ground that just because consumers will pay more for a Magic Trackpad than for a mouse "tells one nothing about what they will pay to avoid occasionally swiping unsuccessfully because their swiping finger wasn't actually vertical to the screen,"[27] the Federal Circuit noted that such a narrow focus on individual claim limitations in isolation was erroneous.[28] The court also noted that the district court had failed to consider whether Napper's principles and methods were sound or whether he relied upon sufficient data. The court reiterated that the proper inquiry "evaluates the expert's methodology in view of the full scope of the infringed claims."[29] Based on its conclusion that Napper's testimony was the product of reliable principles and methods applied in a reliable way and was supported by legally sufficient facts and data, the court of appeals held that his testimony was admissible.

The court also held that the district court erred by questioning Napper's valuations, which were based on estimating what consumers would pay for the infringed features by evaluating what they paid for comparable features, instead of evaluating the methodology Napper used to reach his conclusions. The court noted that the statute "requires a determination of a 'reasonable royalty,' not a reasonable consumer price,[30] but it pointed out that there are multiple reasonable methods for calculating a reasonable royalty, all with strengths and weaknesses, and that one or all of them may produce admissible testimony. "That one approach may better account for one aspect of a royalty estimation," the court stated, "does not make other approaches inadmissible."[31] For example, a party may use the royalty rate from sufficiently comparable licenses, value the infringed features based upon comparable features in the marketplace, or estimate the value of the benefit provided by the infringed features by comparing the accused product to non-infringing alternatives.

Essentially, the court was echoing the Supreme Court's instruction in *Daubert* that the role of a district court judge as gatekeeper is to ensure that expert testimony meets the minimum requirements of reliability. The court of appeals held that the district court had focused wrongly on whether there was a better way to calculate the damages rather than on whether the testimony was inherently reliable.[32] The court observed that the district court's concerns went to the weight of the evidence, not to its admissibility, and could be tested through the adversarial process at trial, including by cross-examination.[33]

The court of appeals also found error in the exclusion of Napper's testmony on the cost of a non-infringing substitute for features incorporating the '263 patent on the ground that it relied on information supplied by an Apple technical expert. The court of appeals noted that experts routinely rely on other experts hired by the same party to provide expertise beyond their own.[34] Indeed, Rule 703 expressly allows for such predicate evidence "if experts in the particular field would reasonably rely on those kinds of facts or data in forming an opinion on the subject."[35] The court stated that while "the potential for bias is an inherent concern with respect to all hired experts," that concern "implicates the weight to be given to the testimony, not its admissibility," as any bias can be exposed through cross-examination and the testimony of the opposing expert.[36]

As a practical matter, it would be nearly impossible to present expert proof in a patent infringement case with a single expert or without having one expert rely on the collateral expertise of another. For example, if the patent related to auto-racing technology, under Judge Posner's logic the patent holder would not be able to have an expert on combustible fuels rely on that party's expert on metallurgy, let alone have a damages expert rely on both. Such an approach, the Federal Circuit made clear, is "unreasonable and contrary to Rules 702 and 703 and controlling precedent."[37]

The Federal Circuit did affirm the district court's exclusion of Motorola licensing expert Donohoe's testimony.[38] The Federal Circuit recognized that the first patent in a larger portfolio might garner a larger royalty than later patents, but it agreed with the district court that Donohoe's testimony (and Mulhern's testimony, to the extent it relied on Donohoe) was inherently unreliable because proof of damages "must be carefully tied to the claimed invention itself," and Donohoe had failed to tie his 40%-50% estimate to "the technological contribution of the ['898] patent to the standard-essential patent portfolio."[39]

The court disagreed, however, with the exclusion of the remainder of Mulhern's testimony. The court found that, contrary to the district court's conclusion, Mulhern *did* consider the possibility of Apple contracting with Verizon. Moreover, her decision not to value that alternative based on its impracticality could be tested at trial through cross-examination and expert testimony.[40] The court also found that Mulhern's reliance on the royalty

rates in comparable licenses between Motorola and other cellular phone makers was "a generally reliable method of estimating the value of a patent," and that these other licenses would have accounted for the option of releasing a phone through Verizon. The court noted that whether the other licenses were sufficiently comparable went to the weight of the evidence rather than to its admissibility.

Turning to the district court's finding of a zero royalty rate for Apple's '647 patent, the Federal Circuit found that district court erred in several respects. First, the court of appeals held that a finding that a royalty estimate "might suffer from factual flaws" does not, by itself, support the legal conclusion that zero is a reasonable royalty.[41] Second, the court noted the procedural posture of the case—the claims construction phase, at which the court must assume the patents at issues are both valid and infringed. Consequently, and following the logic of section 284 that the minimum amount of damages that must be awarded is "a reasonable royalty," the court held that there was sufficient evidence for the trier of fact to decide what reasonable royalty to award.[42] "That Apple's royalty estimate may suffer from factual flaws," the court stated, "does not, by itself, support the legal conclusion that zero is a reasonable royalty."[43] The court thus reversed the grant of summary judgment and remanded the case for further proceedings.

VII. Conclusion

The Federal Circuit sent several messages in this case. First, patent damages must be reasonably related to the asserted claims. As with the "entire market value rule" and the "smallest saleable patent-practicing unit" concept, there must be a connection between what is infringed and the damages that may be awarded. As for expert testimony, it must be reliable and based on sufficient facts and data, but it doesn't have to be perfect to be admissible.

Endnotes

1. 757 F.3d 1286 (Fed. Cir. 2014).
2. *Daubert v. Merrell Dow Pharmaceuticals*, 509 U.S. 579 (1993).
3. 35 U.S.C. § 284.
4. *Versata Software, Inc. v. SAP Am., Inc.*, 717 F.3d 1255, 1267 (Fed. Cir. 2013); *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Drilling, USA, Inc.*, 699 F.3d 1340, 1357 (Fed. Cir. 2012).
5. *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970).
6. *Id.*
7. *Daubert*, 509 U.S. at 595.
8. *Cornell University v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279 (N.D.N.Y. 2009) (former Chief Judge of the Federal Circuit, Randall R. Rader, sitting by designation).
9. *Id.* at 283.
10. *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1580 (Fed. Cir. 1989).
11. *Fonar Corp. v. General Electric Co.*, 107 F.3d 1543, 1552 (Fed. Cir. 1997); *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1580 (Fed. Cir. 1989).
12. *Paper Converting Machine Co. v. Magna-Graphics Corp.*, 745 F.2d 11, 23 (Fed. Cir. 1984).
13. *Kalman v. Berlyn Corp.*, 914 F.2d 1473, 1485, 16 USPQ2d 1093, 1102 (Fed. Cir. 1990).
14. *See Rite-Hite*, 56 F.3d at 1549-50.
15. *Cornell*, 609 F. Supp. 2d at 293.
16. *Laser Dynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51 (Fed. Cir. 2012).
17. *Id.* at 67.
18. *Id.* (quoting *Cornell*, 609 F. Supp. 2d at 287-88); *see Versata Software, Inc. v. SAP Am., Inc.* ("The entire market value rule is a narrow exception to the general rule that royalties are awarded based on the smallest saleable patent-practicing unit.").
19. *Laser Dynamics*, 649 F.3d at 67.
20. *Honeywell International, Inc. v. ICM Controls Corp.*, No. 11-569, 2014 U.S. Dist. LEXIS 119466 (D. Minn. Aug. 24, 2014) (holding expert testimony admissible where expert testified that the use of the accused product was the smallest saleable unit, even where it was not the smallest component of the unit as a whole).
21. *Id.* at 1315.
22. *Id.* at 1316.
23. *Id.* at 1321.
24. *Id.* at 1315.
25. *Id.* at 1316.
26. *Id.* at 1314 (emphasis added).
27. *Id.* at 1316.
28. *Id.*
29. *Id.*
30. *Id.* at 1319.
31. *Id.* at 1315; *see Innovatio IP Ventures, LLC Patent Litig.*, MDL 2303, 2013 U.S. Dist. LEXIS 144061, 2013 WL 5593609, at *30-40 (N.D. Ill. Oct. 3, 2013) (undertaking a detailed evaluation of the different methods proposed by the parties of valuing the patents at issue).
32. *Id.* at 1319 ("Simply because other reliable methods of estimating a reasonable royalty may exist does not, by itself, render Napper's approach inadmissible.").
33. *Id.* at 1320; *see Daubert* 509 U.S. 579 ("Vigorous cross-examination, presentation of contrary evidence, and careful instruction on the burden of proof are the traditional and appropriate means of attacking shaky but admissible evidence.").
34. *See Dura Automotive Sys. of Ind., Inc. v. CTS Corp.*, 285 F.3d 609, 613 (7th Cir. 2002) ("[I]t is common in technical fields for an expert to base an opinion in part on what a different expert believes on the basis of expert knowledge not possessed by the first expert."); *Monsanto Co. v. David*, 516 F.3d 1009, 1015 (Fed. Cir. 2008) ("Numerous courts have held that reliance on scientific test results prepared by others may constitute the type of evidence that is reasonably relied upon by experts for purposes of Rule of Evidence 703.").
35. *Apple*, 757 F.3d at 1321.
36. *Id.*
37. *Id.* at 1322.

38. *Id.* at 1324.

39. *See ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010); *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1312 (Fed. Cir. 2002) (excluding patentee's damages model because the expert "[did] not associate his proposed royalty with the value of the patented method at all").

40. *Apple*, 757 F.3d at 1325.

41. *Id.*; *see Dow Chem. Co. v. Mee Indus., Inc.*, 341 F.3d 1370, 1382 (Fed. Cir. 2003).

42. *Norian Corp. v. Stryker Corp.*, 363 F.3d 1321, 1333 (Fed. Cir. 2004) (holding that "the jury's finding of no damages cannot be supported" because "the statute requires that damages to a successful claimant in a patent infringement suit shall not be less than a reasonable royalty"); *Riles*, 298 F.3d at 1311 ("The statute guarantees patentees a reasonable royalty even when they are unable to prove entitlement to lost profits or an established royalty rate."); *Lindemann Maschinenfabrik GmbH v. Am. Hoist & Derrick Co.*, 895 F.2d 1403, 1406 (Fed. Cir. 1990); *Annotated Patent Digest*, §30:7 ("When a patentee shows infringement, a presumption arises that the patentee is entitled to some form of damages. The Federal Circuit has explained that this presumption arises from the statute once infringement is admitted or proven.").

43. *Apple*, 757 F.3d at 1326.

Michael A. Oropallo is a partner and Bella S. Satra an associate with Hiscock & Barclay LLP.

The Continuing Evolution of Patent Eligibility Under 35 U.S.C. § 101

By Teige P. Sheehan

I. Introduction

Since 2010, and most recently in June 2014, the Supreme Court has issued four opinions limiting the patent eligibility of various inventions under 35 U.S.C. § 101. In addressing an issue that had been left relatively untouched by the Court for several decades, these recent decisions have significantly changed the extent to which various types of inventions across multiple technology sectors, from business methods and software to methods of medical diagnosis and treatment to pharmaceuticals and biotechnological innovations, are eligible for patent protection, regardless of whether the other statutory requirements for patentability (novelty, nonobviousness, definiteness) have been met. The lower courts and the PTO, in turn, continue to try to interpret the Supreme Court's guidance so as to implement these significant changes in the governing law.

This article presents an overview of evolving developments in patent eligibility since the Court's 2013 decision in *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*,[1] in which the Court held that genes are not eligible for patenting under section 101. First, it discusses guidance the PTO issued after *Myriad* and the Court's 2012 decision in *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*[2] and the PTO's ongoing revision of that guidance in response to critical comments from the public and subsequent Supreme Court precedent. It also discusses lower court cases in which the patentee in *Myriad* is attempting to enforce patent claims related to, but separate from, those that were before the *Myriad* Court. Finally, it discusses the Supreme Court's most recent ruling on the patent ineligibility of "abstract" ideas implemented by a computer, in *Alice Corp. Pty. v. CLS Bank Int'l*,[3] and the relationship of that decision to *Myriad* and *Mayo*.

II. *Mayo/Myriad* and the PTO's Guidance

Mayo and *Myriad* upended long-held understandings as to the scope of patent-eligible subject matter under section 101.[4] In *Mayo*, the Court relied on the judicially created "laws of nature" exception to hold that a method for optimizing dosing of a therapeutic drug by measuring its metabolite levels in individual patients was not patent-eligible.[5] The Court held that the claimed invention encompassed the application of a natural law (the relationship between metabolism rates and effective dosing) and that patent eligibility therefore required that the invention also include something in addition to that natural law that was more than "well-understood, routine, conventional activity previously engaged in by researchers in the field" and that was not "purely conventional or obvious."[6] Because the Court found that the claimed invention lacked any such additional features, it held that the invention was not patent-eligible.[7] However, the Court did not provide clear guidance for determining when a claim encompasses a natural law or for determining when adding something to the claim will suffice to avoid the natural-law exception.

In *Myriad*, the Court asserted the "laws of nature" exception to hold that isolated molecules of DNA, even if synthesized in a laboratory, are not patentable if their sequence matches that of naturally occurring genes, a reversal of several decades of PTO policy.[8] In dicta, the Court stated that discovery of a gene's sequence still will enable inventors to claim applications of such knowledge.[9] Nevertheless, the patent eligibility of such uses might be limited by *Mayo*. If a genetic sequence were not itself patent-eligible under *Myriad*, the *Mayo* holding that "one must do more than simply state [a] law of nature while adding the words 'apply it'"[10] might suggest that the scope of patent-eligible applications of a newly discovered genetic sequence will be limited. In addition, although the specific "product of nature" at issue in *Myriad* was DNA, the Court did not explicitly indicate whether other isolated "natural products" were likewise subject to exclusion.

Thus, in March 2014, the PTO issued guidance (hereinafter "the Guidance") to assist its Examiners in applying the holdings of *Mayo* and *Myriad* to patent applications.[11] The Guidance instructed examiners to pose the following questions:

(1) "Is the claimed invention directed to one of the four statutory patent-eligible subject matter categories: process, machine, manufacture, or composition of matter?";

(2) If yes, "[d]oes the claim recite or involve one or more judicial exceptions?"; and

(3) If yes, "[d]oes the claim as a whole recite something *significantly different* than the judicial exceptions?"[12]

Under the Guidance, patent eligibility requires an answer of "yes" to the first question and either "no" to the second question or "yes" to the third second and third questions.[13]

As to the second question, the Guidance stated that although *Myriad* was directed to the eligibility of isolated DNA, the overall rationale of the decision was not explicitly limited thereto.[14] Thus, the Guidance instructed

Examiners to give a claim its "broadest reasonable interpretation" in determining whether a claimed invention falls within a judicial exception to patent eligibility.[15] If any embodiment falling within that broadest reasonable interpretation "may" be characterized as a natural phenomenon or a law of nature, then the claim also must recite enough additional eligible subject matter in order to satisfy section 101.[16]

The Guidance also included a nonexclusive list of subject matter the recitation or invocation of which may require further examination for the presence of something "significantly different" to confer eligibility, and it explained that the analysis applies where there is "any doubt" about whether an exception is involved.[17] Examples of claimed subject matter that may trigger such an analysis include "chemicals derived from natural sources (e.g., antibiotics, fats, oils, petroleum derivatives, resins, toxins, etc.); foods (e.g., fruits, grains, meats and vegetables); metals and metallic compounds that exist in nature; minerals; natural materials (e.g., rocks, sands, soils); nucleic acids; organisms (e.g., bacteria, plants and multicellular animals); proteins and peptides; and other substances found in or derived from nature."[18]

For example, the Guidance stated that gunpowder is a natural product because it is "a mixture of naturally occurring saltpeter, sulfur and charcoal."[19] It stated that a method for treating a mood disorder by exposure to a synthetic source of white light invokes a "natural principle or phenomenon."[20] It also stated that an imaginary compound termed "Amazonic acid" purified from leaves of the "Amazonian cherry tree" and termed "Amazonic acid," which is useful in treating breast cancer, implicates the natural products exception from eligibility.[21] And it stated that a claim reciting pomelo juice mixed with "a preservative" would invoke an exception from eligibility because naturally occurring vitamin E is a preservative.[22]

As to the third question, the Guidance contained a twelve-factor balancing test for determining whether a claim that does "recite or involve" a judicial exception also recites "something significantly different" from the exception, with six factors supporting eligibility and six factors indicating ineligibility:[23]

Factors that weigh in favor of eligibility:

1. Product appears to be a natural product but turns out to be non-naturally occurring and "markedly different in structure" from natural products.
2. Claim meaningfully limits scope of method so that others are not substantially foreclosed from using an exception.
3. Claimed elements are more than nominally, insignificantly, or tangentially related to an exception.
4. Claims do more than describe exception with general instructions to apply or use it.
5. A machine or transformation of matter implements or integrates an exception, but the claim recites additional elements or steps.
6. Something more than well-understood, purely conventional, or routine is added to the exception.

Factors that weigh against eligibility:

1. Product is not markedly different in structure from natural product.
2. High level of generality encompassing substantially all practical applications of exception.
3. Recited elements/steps are those that are required by any application of the exception.
4. Recitations in addition to the exception are well-understood, purely conventional, or routine.
5. Recitations in addition to the exception are insignificant extra-solution activity, such as being merely appended to the exception.
6. Recitations in addition to the exception are merely a field of use.

As for the hypothetical inventions described above, the Guidance stated that none of the examples includes enough to make it "significantly different" from an exception so as to render it patent-eligible.[24] For example, even if, in nature, saltpeter, sulfur, and charcoal do not all exist in a single mixture, a mixture of them together to form gunpowder does not constitute something significantly different than a product of nature.[25] And because sunlight is generally known to affect mood, a novel method for treating a mood disorder (such as seasonal affective disorder) by exposing a patient to an artificial source of light is not significantly different from a (patent-ineligible) natural principle or phenomenon.[26] Furthermore, even if a person would have to eat thirty pounds of Amazonian cherry tree leaves per day in order to receive the same clinical effectiveness provided by ingesting one teaspoonful per day of purified Amazonic acid, the purified drug would be ineligible for patenting as not significantly different from a natural product.[27] And a claim reciting pomelo juice mixed with "a preservative" would be ineligible even though pomelo juice does not naturally contain the naturally occurring preservative vitamin E.[28] Thus, in addition to requiring a broad view of the exceptions to patent eligibility, the Guidance also imposed strict standards for what was required to confer eligibility on a claim that encompassed an exception.

The negative reaction of the patenting community to the Guidance was so strong that on May 9, 2014, the PTO held a public forum to explain the Guidance and to discuss its rationale.[29] During the forum, individuals and representatives from public advocacy groups (such as the Biotechnology Industry Organization (BIO), the American Intellectual Property Law Association, and the Intellectual

Property Law Section of the American Bar Association) expressed significant displeasure with the Guidance.[30] Complaints included the fact that the PTO had not solicited any public input or comment before releasing the Guidance; that the Guidance focused too much on an invention's structure over other attributes, such as function, in evaluating eligibility, in contrast to Supreme Court precedent; that it inappropriately blurred the distinction between patent eligibility under section 101 and patentability issues such as novelty under section 102 and nonobviousness under section 103; and that the PTO had focused too much on Supreme Court dicta rather than on trying to distill a coherent and useful direction from the Court's admittedly inconsistent rulings.[31]

The PTO also requested the submission of written public comments on the Guidance. The written comments overwhelmingly urged the PTO to alter the Guidance,[32] under which patent applicants were now receiving rejections for all kinds of inventions whose eligibility would not have been questioned just a short time before.[33] Consequently, in a presentation at the BIO International Convention in San Diego in June 2014, the PTO indicated that it would be updating the Guidance.[34] The PTO also stated that it had published several hypothetical exemplary claims and requested public recommendations as to how they should be analyzed for eligibility. In addition, the PTO invited the public to submit additional exemplary claims with suggestions as to how they should be examined under *Mayo* and *Myriad*.[35]

Thereafter, in September 2014 at a Biotechnology/Chemical/Pharmaceutical Customer Partnership meeting held by the PTO[36] and again at an IP & Diagnostics Symposium held by IPO,[37] the PTO gave its strongest indications yet that the Guidance would be significantly altered. The PTO stated that its intention had not been to set a high bar to patent eligibility in response to *Mayo* and *Myriad*, and it acknowledged that the Guidance had signaled too broad a scope of inventions that would trigger patent-eligibility scrutiny by including those that "involve" or "recite" a judicial exception rather than only those "directed" to one.[38] In that regard, as discussed in Section IV below, its change in position on the Guidance may have been a response not only to public feedback but also to the Supreme Court's further discussion of patent eligibility in *Alice*, which was decided after the PTO issued the Guidance.[39] The PTO also explained that the Guidance's test as to whether a claimed invention was "significantly different" from a judicial exception had been too narrow, focusing exclusively on structural differences and not taking into account other issues, such as functional differences.[40] Furthermore, the PTO stated that the twelve-factor balancing test was too complex.[41] As a result, the "significantly different" and twelve-factor balancing tests were to be removed from revised Guidance.[42]

Thus, like the patent community in general, the PTO has wrestled with how to meaningfully implement the Supreme Court's patentability rulings. At least the apparent responsiveness of the PTO to public comment may offer hope that Examiners ultimately may implement *Mayo* and *Myriad* in the least disruptive manner. Applicants who receive rejections should understand that the PTO's Guidance is still evolving and, in any event, is not binding in court. Until a more comprehensive body of case law has developed establishing the new rules for patent eligibility, applicants may do well to challenge rejections by appealing to the Patent Trial and Appeal Board and, if necessary, to the courts, when doing so is feasible and financially justifiable.

III. Continuing Litigation of *Myriad*-Related Claims

The PTO is not alone in struggling to implement the Court's new patent-eligibility jurisprudence. District courts and the Federal Circuit also have had to confront this new landscape.[43] Of particular note are a number of patent infringement suits filed by the patentee in *Myriad* in which it has asserted other claims that had not been before the Supreme Court. Whereas the declaratory judgment plaintiffs in *Myriad* had successfully challenged the validity of claims to isolated DNA whose nucleotide sequence matches that of naturally occurring genes, other claims, such as to DNA "primers" (short, synthetic sequences of DNA used to fabricate copies of intrinsic genes) and methods of using copies of patients' DNA to determine whether they confer susceptibility to developing breast cancer, had not been adjudicated.[44]

To enforce these claims, the patentee commenced plenary infringement suits against multiple defendants, asserting that they had infringed these still-viable claims.[45] The patentee moved for a preliminary injunction to prevent one accused infringer from offering its diagnostic tests while the action was pending.[46] In opposing the motion, the defendant argued, among other things, that the patentee was not likely to succeed on the merits of its infringement claims, based, in large part, on the argument that even though the Court in *Myriad* did not rule directly on validity of the claims, the holding in that case required a finding that these claims also were drawn to patent-ineligible subject matter.[47]

The district court agreed that the patentee was not likely to prevail on its infringement claims because the patent claims at issue were likely to be found invalid under section 101.[48] The court held that the claims to DNA primers covered sequences of nucleotides that were present in naturally occurring genes, molecules the *Myriad* Court had held were patent-ineligible products of nature whether or not they were assembled in a laboratory as primers are.[49] Surprisingly, the court also held that claims to primers modified by the addition of molecular

"tags"—appended molecules lacking from natural genes that enable detection of the primers to which they are attached and of larger sequences that incorporate such primers—also would have been drawn to ineligible subject matter.[50]

As to the claimed methods, the court found them ineligible as well. Generally speaking, the method claims recited testing whether portions of a person's DNA contain a genetic mutation that confers susceptibility to breast cancer.[51] The court noted that overall the naturally occurring sequence of the portion of DNA potentially containing the mutation had been held patent ineligible by the *Myriad* court.[52] Once that patent-ineligible information was known, the court opined, the additional, previously known steps involved in analyzing that portion to determine its genetic sequence did not involve anything more than "conventional activities that were well-understood and uniformly employed by those working with DNA" at the time the patents were applied for.[53] This holding seems to conflict with dicta from *Myriad* that the patent eligibility of applications of knowledge about these genes' sequences might survive that decision.[54] However, as noted above, the holding is not entirely unsurprising when *Myriad* is considered together with *Mayo*.[55]

The denial of the preliminary injunction motion is currently on appeal to the Federal Circuit.[56] At oral argument, which was held on October 6, 2014, the court seemed to be having trouble reconciling seemingly incompatible aspects of *Mayo* and *Myriad*.[57] In particular, it appeared to struggle with the tension between the requirement from *Mayo* that something more than routine, conventional steps must be added where a claim involves a judicial exception, on the one hand, and the statement in *Myriad* that the patentee should be able to benefit from having identified genes' sequences by patenting uses thereof even though the claims to the sequences themselves had been found patent-ineligible, on the other.[58] Pressing this point, the patentee stressed that the Supreme Court had held that some artificial sequences known as cDNA are patent-eligible even though creating cDNA is routine once the sequence of the gene on which it is based is known.[59]

How the court resolves this tension will significantly shape how *Mayo* and *Myriad* influence patent eligibility.[60] As noted during oral argument, however, the court could affirm the denial of the preliminary injunction on the ground that some other essential showing required for injunctive relief was absent (e.g., that the balance of hardships tipped in favor of the defendant, as the district court found) without addressing patent eligibility.[61] Or the court could affirm on the ground that the defendant had raised a sufficiently significant question of eligibility, without having to rule further on the patent-eligibility issue at this time.[62] In any case, no matter what the final disposition of the present appeal, it is likely that the Federal Circuit, if not the Supreme Court, may yet rule again on the patent eligibility of claims in this patent family.

IV. The Interrelationship of the *Mayo/Myriad* Holdings and the Patent Eligibility of Computer-Implemented Inventions

While the PTO and district court were wrestling with the Supreme Court's patent-eligibility rulings pertaining to natural laws and natural phenomena, the Court continued to address patent eligibility. On June 19, 2014, the Supreme Court handed down its decision in *Alice*,[63] in which the Court addressed a different patent-eligibility exception: that for abstract ideas. However, the Court relied on the eligibility analysis it had set out in *Mayo*, stating that the same test was applicable to any section 101 analysis:

> First, we determine whether the claims at issue are directed to one of those patent-ineligible concepts [natural phenomena, laws of nature, or abstract ideas]. If so, we then ask, what else is there in the claims before us? To answer that question, we consider the elements of each claim both individually and as an ordered combination to determine whether the additional elements transform the nature of the claim into a patent-eligible application. We have described step two of this analysis as a search for an inventive concept—i.e., an element or combination of elements that is sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the ineligible concept itself.[64]

The Court characterized the claims at issue in *Alice* as drawn to a method for "intermediated settlement, i.e., the use of a third party to mitigate settlement risk."[65] In that regard, the Court noted similarity between the claims before it and those that it held were drawn to a patent-ineligible abstract idea in *Bilski v. Kappos* in 2010.[66] Characterizing the claims in *Bilski* as drawn to the abstract concept of hedging risk, the Court stated that "there is no meaningful distinction between the concept of risk hedging in *Bilski* and the concept of intermediated settlement" at issue in *Alice*.[67] The Court therefore concluded that the answer to the first question stated above—whether the claims at issue were drawn to a patent-ineligible concept—was yes.[68]

Turning to what it called "*Mayo* step two," the Court considered whether the claims as a whole amounted to more than just instructions to apply the abstract idea of intermediated settlement.[69] Although the claims required performing settlement transactions via a computer, or a computer system or computer-readable medium for performing such method, the Court held that "the mere

recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention."[70] Thus, the Court held that the claims were drawn to abstract subject matter and were invalid.[71]

As was the case with *Bilski*, *Mayo*, and *Myriad*, *Alice* has introduced uncertainty concerning the validity of issued patents and the eligibility of inventions claimed in pending applications. For its part, the PTO issued preliminary guidance to its Examining Corps on implementing *Alice*.[72] This preliminary guidance prescribes a two-step analysis much like that the Court attributed to *Mayo* in *Alice*, and it repeats the Court's position that the test, or something like it, should be applied to all types of patent-eligibility analyses.[73] The PTO also solicited written comments (to be submitted by July 31, 2014) in advance of issuing more formal guidance.[74]

Of particular note, the Court's pronouncement in *Alice* that the same two-step test for eligibility from *Mayo* should apply to all patent-eligibility analyses may partly explain the PTO's shift regarding its *Mayo/Myriad* Guidance. For example, the Court held that the first question is whether claims are "directed to" a patent-ineligible concept.[75] The PTO's Guidance, in contrast, had focused more broadly on claims "involving" or "reciting" a judicial exception. But after *Alice* was handed down the agency signaled it was abandoning this broader language in favor of the narrower "directed to" formulation.[76]

V. Conclusion

It seems clear that it will take more time to sort out the ramifications of the Supreme Court's recent decisions on patent eligibility. Hopefully, as alleged infringers challenge patent eligibility in the courts, and applicants appeal eligibility-based rejections, a body of case law will develop that brings clarity to this area. Meanwhile, practitioners are encouraged to stay abreast of the fast-moving developments.

Endnotes

1. 133 S. Ct. 2107 (2013). For more background on *Myriad*, *see* Teige P. Sheehan, *The Supreme Court Holds Genes Are Patent-Ineligible Products of Nature*, 22 Bright Ideas No. 2 (Fall 2013), at 3.
2. 132 S. Ct. 1289. For more background of the Court's section 101 decision from 2012 in *Mayo Collaborative Servs. v. Prometheus Labs., Inc.* (132 S. Ct. 1289) (in which the Court held a method for optimizing drug dosing was a patent-ineligible law of nature), *see* Teige P. Sheehan, Mayo v. Prometheus*: The Overlap Between Patent Eligibility and Patentability*, 21 Bright Ideas No. 2 (Fall 2012), at 3.
3. 134 S. Ct. 2347 (2014).
4. *See Sheehan*, *supra* note 2, at 3; *Sheehan*, *supra* note 1, at 3.
5. *See Sheehan*, *supra* note 2, at 3.
6. *Id.*
7. *Id.*
8. The Court held that, as products of nature, such sequences fall "squarely within the law of nature exception" to eligibility. *Myriad*, 133 S. Ct. at 2117; *Sheehan*, *supra* note 1, at 3.
9. *Myriad*, 123 S. Ct. at 2120.
10. *Mayo*, 132 S. Ct. at 1294.
11. Letter from Andrew H. Hirshfeld, Dep'y Comm'r Patent Examination Policy, U.S.P.T.O., to Patent Examining Corps, dated March 4, 2014, http://www.uspto.gov/patents/law/exam/myriad-mayo_guidance.pdf (hereinafter "the Guidance"). The PTO also released a series of slides to help explain the Guidance. Evaluating Subject Matter Eligibility Under 35 U.S.C. § 101: March 2014 Update, http://www.uspto.gov/patents/law/exam/myriad-mayo_slides_20140319.pdf (hereinafter "the Guidance Slides").
12. Guidance, *supra* note 11, at 1-3; Guidance Slides, *supra* note 11, at 14-16, 29.
13. Guidance, *supra* note 11, at 1-3; Guidance Slides, *supra* note 11, at 14-16, 29.
14. Guidance Slides, *supra* note 11, at 27-28.
15. Guidance, *supra* note 11, at 1; Guidance Slides, *supra* note 11, at 8.
16. Guidance Slides, *supra* note 11, at 30.
17. Guidance, *supra* note 11, at 3.
18. *Id.*
19. *Id.* at 9.
20. *Id.* at 15-17.
21. *Id.* at 7-9.
22. Guidance Slides, *supra* note 11, at 67-74.
23. Guidance, *supra* note 11, at 3-5.
24. *Id.* at 3.
25. *Id.* at 9-10.
26. *Id.* at 15-17.
27. *Id.* at 7-9.
28. Guidance Slides, *supra* note 11, at 67-74.
29. *Forum Input on PTO's* Myriad *Eligibility Guidance Asks, "What Were You Thinking?,"* [2014] 88 Pat. Trademark & Copyright J. (BNA) No. 2163, at 179, 180 (May 16, 2014).
30. *See* Guidance For Determining Subject Matter Eligibility Of Claims Reciting Or Involving Laws of Nature, Natural Phenomena & Natural Products (hereinafter "PTO *Mayo/Myriad* Webpage"), available at http://www.uspto.gov/patents/announce/myriad-mayo.jsp.
31. *Forum Input on PTO's* Myriad *Eligibility Guidance Asks, "What Were You Thinking?,"* [2014] 88 Pat. Trademark & Copyright J. (BNA) No. 2163, at 179, 180-82 (May 16, 2014).
32. *New Patent Eligibility Comments Tell PTO Same Theme: Withdraw or Revise Guidance*, [2014] 88 Pat. Trademark & Copyright J. (BNA) No. 2176, at 1049 (Aug. 22, 2014).
33. Posting by Courtenay Brinckerhoff to PharmaPatents, http://www.pharmapatentsblog.com/2014/08/21/airing-the-usptos-naturally-occurring-dirty-laundry-the-subject-matter-eligibility-stain (Aug. 21, 2014).
34. Posting by Donald Zuhn to Patent Docs, http://www.patentdocs.org/2014/07/docs-bio-uspto-provides-update-on-myriad-mayo-guidance.html (July 1, 2014).
35. *See* PTO *Mayo/Myriad* Webpage, *supra* note 30.
36. Posting by Donald Zuhn to Patent Docs, http://www.patentdocs.org/2014/09/uspto-expected-to-issue-revised-myriad-mayo-guidance-in-october.html (September 17, 2014) (hereinafter "BCPCP Meeting").
37. Posting by Donald Zuhn to Patent Docs, http://www.patentdocs.org/2014/10/uspto-outlines-changes-to-myriad-mayo-guidance-at-bio-symposium.html (September 30, 2014) (hereinafter "BIO Symposium").
38. *See* BCPCP Meeting, *supra* note 36.

39. *See infra*, notes 74-75, and associated text.
40. *Id.*; BIO Symposium, *supra* note 37.
41. *See* BIO Symposium, *supra* note 37.
42. Although revisions to the Guidance were expected by the end of October 2014, as of this writing they have yet to be released. *Id.*
43. *See, e.g.*, *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 2013 WL 5863022 (N.D. Cal. 2013) (holding that a noninvasive method for prenatal genetic screening was ineligible for patenting because using cell-free fetal DNA (cffDNA) for this purpose as claimed involved "no more than well-understood, routine, conventional activity, previously engaged in by those in the field" and was therefore patent ineligible; the ruling is on appeal to the Federal Circuit (Case No. 14-1139); *In re Roslin Inst. (Edinburgh)*, 750 F.3d 1333, 1339 (Fed. Cir. 2014) (affirming the PTO's rejection of claims to a cloned sheep as drawn to patent-ineligible subject matter).
44. Sheehan, *supra* note 1, at 4; *In re BRCA1-, BRCA2-Based Hereditary Cancer Test Patent Litig.*, 2014 WL 931057, at *1 (D. Utah 2014).
45. Several infringement suits were consolidated with several suits seeking a declaration of patent invalidity, which had been filed against the patentee, in the U.S. District Court for the District of Utah. *Id.* at n.3.
46. *In re BRCA1-, BRCA2-Based Hereditary Cancer Test Patent Litig.*, 2014 WL 931057, at *1.
47. *Id.*
48. *Id.* at *54.
49. *Id.* at *45.
50. *Id.* at *48.
51. *Id.* at *27-30.
52. *Id.* at *51.
53. *Id.*
54. *Myriad*, 133 S. Ct. at 2120.
55. *See supra* note 10 and associated text.
56. Case No. 14-1361.
57. An audio recording of oral argument is available at: http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2014-1361.mp3 (hereinafter "Oral Argument").
58. *Id.*
59. *Id.*; *see* Sheehan, *supra* note 1, at 3.
60. Posting by Courtenay Brinckerhoff to PharmaPatents, http://www.pharmapatentsblog.com/2014/10/07/federal-circuit-hears-arguments-on-other-myriad-gene-patents (Oct. 7, 2014).
61. Oral Argument, *supra* note 57; *In re BRCA1-, BRCA2-Based Hereditary Cancer Test Patent Litig.*, 2014 WL 931057, at *56.
62. *Id.*
63. 134 S. Ct. 2347.
64. *Id.*, at 2355 (internal quotation marks, citations, and brackets removed).
65. *Id.* at 2356.
66. 561 U.S. 593 (2010).
67. *Alice*, 134 S. Ct. at 2357.
68. *Id.*
69. *Id.*
70. *Id.* at 2347, 2360.
71. *Id.* at 2360.
72. *See* Preliminary Examination Instructions for Determining Subject Matter Eligibility in view of Alice Corp. v. CLS Bank, http://www.uspto.gov/patents/announce/interim_alice_guidance.jsp.
73. *Id.*
74. *Id.*
75. *Alice*, 134 S. Ct. at 2355.
76. *See BIO Sympsium*, *supra* note 37.

Teige P. Sheehan is an attorney in the Albany office of Heslin Rothenberg Farley & Mesiti P.C in Albany.

Scenes from the Intellectual Property Law Section

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The Sagamore Resort • Bolton Landing, NY
October 23-26, 2014

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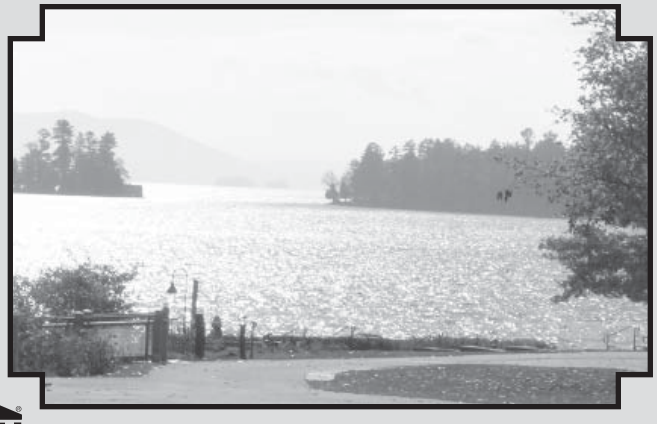

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See page 24 to become a member of the Intellectual Property Law Section

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* * *

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Section Committees and Chairs

The Intellectual Property Law Section encourages members to participate in its programs and to contact the Section Officers or Committee Chairs for information.

Advertising Law
A. Cassidy Sehgal-Kolbet
L'Oreal USA, Inc
575 Fifth Avenue, 34th Fl.
New York, NY 10014
csehgal@us.loreal.com

Brooke Erdos Singer
Davis & Gilbert LLP
1740 Broadway
New York, NY 10019
bsinger@dglaw.com

Copyright Law
Oren J. Warshavsky
Baker & Hostetler LLP
45 Rockefeller Plaza
New York, NY 10111
owarshavsky@bakerlaw.com

Paul Matthew Fakler
Arent Fox LLP
1675 Broadway
New York, NY 10019
paul.fakler@arentfox.com

Diversity Initiative
Joyce L. Creidy
Thomson Reuters
530 Fifth Avenue, 7th Fl.
New York, NY 10036
joyce.creidy@thomsonreuters.com

Ethics
Rory J. Radding
Edwards Wildman Palmer LLP
750 Lexington Avenue
New York, NY 10022
RRadding@edwardswildman.com

Philip Furgang
Furgang & Adwar, LLP
1325 Avenue of the Americas, 28th Fl.
New York, NY 10019
philip@furgang.com

Greentech
Rory J. Radding
Edwards Wildman Palmer LLP
750 Lexington Avenue
New York, NY 10022
RRadding@edwardswildman.com
Gaston Kroub
Kroub, Silbersher & Kolmykov PLLC
1699 E 2nd Street
Brooklyn, NY 11223-1822
gkroub@gmail.com

In-House Initiative
Chehrazade Chemcham
Colgate-Palmolive
300 Park Avenue
New York, NY 10022
Chehrazade_Chemcham@colpal.com

Sarah Crutcher Preuss
Nickelodeon Digital Media
1515 Broadway
New York, NY 10036
Sarah.Preuss@viacom.com

International Intellectual Property Law
Sujata Chaudhri
House 23, Sector 37
Arun Vihar Noida
UTTAR PRADESH 201303
INDIA
sujata@sc-ip.in

Internet and Technology Law
Richard L. Ravin
Hartman & Winnicki, PC
115 West Century Rd
Paramus, NJ 07652
rick@ravin.com

Legislative/Amicus
Charles Eric Miller
Sills, Cummis & Gross, P.C.
30 Rockefeller Plaza
New York, NY 10112
cmiller@sillscummis.com

Litigation
Marc A. Lieberstein
Kilpatrick Townsend & Stockton LLP
1114 Avenue of the Americas, 21st Fl.
New York, NY 10036-7709
mlieberstein@kilpatricktownsend.com

Paul W. Garrity
Sheppard, Mullin, Richter
& Hampton LLP
30 Rockefeller Plaza, 39th Fl.
New York, NY 10112-0015
pgarrity@sheppardmullin.com

Membership
William Robert Samuels
W.R. Samuels Law PLLC
280 Madison Avenue, Ste. 600
New York, NY 10016
bill@wrsamuelslaw.com

Robin E. Silverman
Golenbock Eiseman Assor Bell
& Peskoe LLP
437 Madison Avenue
New York, NY 10022
rsilverman@golenbock.com

Patent Law
Michael A. Oropallo
Hiscock & Barclay LLP
One Park Place
300 South State Street
Syracuse, NY 13202-2078
moropallo@hblaw.com

David B. Bassett
Wilmer Hale LLP
7 World Trade Center
New York, NY 10007-2140
david.bassett@wilmerhale.com

Pro Bono and Public Interest
Paula Joanne Estrada De Martin
Baker Donelson Bearman Caldwell & Berkowitz P.C.,
201 St. Charles Avenue, Suite 3600
New Orleans, LA 70170
pestradademartin@bakerdonelson.com

Debra Resnick
Charles River Associates
1155 Avenue of the Americas
18th Floor
New York, NY 10036
dresnick@crai.com

Trade Secrets
Andre G. Castaybert
Castaybert PLLC
830 Third Avenue, 5th Fl.
New York, NY 10022
acastaybert@ac-counsel.com

Douglas A. Miro
Ostrolenk Faber LLP
1180 Avenue of the Americas, 7th Fl.
New York, NY 10036
dmiro@ostrolenk.com

Trademark Law
William Robert Samuels
W.R. Samuels Law PLLC
280 Madison Avenue, Ste. 600
New York, NY 10016
bill@wrsamuelslaw.com

Transactional Law
Robin E. Silverman
Golenbock Eiseman Assor Bell & Peskoe LLP
437 Madison Avenue
New York, NY 10022
rsilverman@golenbock.com

Joseph John Conklin
Coty Inc.
350 5th Avenue
New York, NY 10118
Joseph_Conklin@cotyinc.com

Website Task Force
Itai Maytal
IBT Media
7 Hanover Square, 5th Fl.
New York, NY 10004
i.maytal@ibtimes.com

Young Lawyers
Teige Patrick Sheehan
Heslin Rothenberg Farley & Mesiti P.C.
5 Columbia Circle
Albany, NY 12203
tps@hrfmlaw.com

Nyasha S. Foy
2816 8th Avenue
New York, NY 10039
nyasha.foyesq@gmail.com

NEW YORK STATE BAR ASSOCIATION
INTELLECTUAL PROPERTY LAW SECTION
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ISSN 1530-3934 (print) ISSN 1933-8392 (online)

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