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**Judge John Gleeson's Keynote Address
at the 2011 Judges Dinner**

Thanks, Dale. I want to add my personal congratulations to you, Judge Gajarsa, on the recognition you so clearly deserve and also to the family members of Judge Rich, who must be very proud of his long and distinguished service to his country, to his court and to this organization.

I bet many of you were wondering why I am your keynote speaker tonight. I have been wondering about that myself. I am not a household name, as quite a few of the previous keynote speakers have been. I'm not from the Federal Circuit; I'm not even a circuit judge. I'm a district judge, a trench dweller, from Brooklyn no less.

There's one obvious possible reason: these are tight budget times and though I don't have any specific knowledge on the subject, I bet my appearance fee compares favorably to the fees of some of your recent keynote speakers. It's just a guess. When all is said and done tonight, you may decide on this keynote speaker subject that you get exactly what you pay for.

But beyond that possibility I have no idea why I'm up here. Dale was courteous, but his invitation didn't shed any light on why I was invited. He didn't suggest to me what to talk about or not to talk about. Naturally, I began to wonder: this is an association of intellectual property lawyers. Do they want me to talk about intellectual property? I was willing to try. I thought maybe I might comment on a recent

decision of the Federal Circuit, and I even found a good candidate, a case from this past December. It explored whether a post-*Bilski* GVR order affected a holding that asserted claims were drawn not to a law of

nature, but to a particular application of naturally occurring correlations, and accordingly do not preempt all uses of the recited correlations between metabolite levels and drug efficacy or toxicity. That case is definitely a gold mine for after dinner speakers, but I concluded for three reasons I probably ought to stay away from lecturing on IP law.

The first is a straightforward application of the "know thyself" rule: I'm not an expert in IP law. I don't want to

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May 13, 2011

PRESIDENT'S CORNER

Dear Fellow Members:

Putting pen-to-paper on this Friday-the-Thirteenth brings to mind a premonition that my term in office was destined to be a time of transition for the betterment of the Association.

Was I recruited to help transition the NYIPLA's "Ship-of-State", and if so did the Ship survive the transitioning? The answer is a resounding "YES, YES". My short report is that the Association has had an enormously successful year by any and all measures.

The Ship encountered nothing but blue skies and smooth sailing, making great strides toward a bright future. During this brief, shining moment of transition, the NYIPLA's financial future improved dramatically. Credit is largely attributable to the watchful eye of the NYIPLA's outgoing Treasurer, Alice Brennan. Alice also brought a visionary perspective to the table regarding the fiduciary responsibilities that Board Members owe to the Association. The NYIPLA owes a debt of gratitude to Alice.

Our new Executive Administrators, Robin Rolfe and Feikje Van Rein, played an instrumental role in the enhancement of the NYIPLA's finances. Moreover, Robin and Feikje improved the Association's future prospects in a myriad of ways, helping to seamlessly evolve the Association into an efficient, flexible and adaptive organization that is well suited to serve the needs of its members. This month's launch of a redesigned NYIPLA website is one example of Robin's and Feikje's efforts to support the NYIPLA's future.

As President-Elect, Terri Gillis proved herself to be a voice of reason, steadfastly serving the best interests of the Association.



The Association owes a debt of gratitude to Terri, and also to outgoing Board Member John Delehanty. It was John's idea to diversify the schools receiving the NYIPLA Diversity Scholarship. He brought to the attention of the Board the propriety of awarding the 2011-12 diversity scholarship to Cardozo Law School, by way of transition from prior awards to Fordham Law School.

The Association benefited this year with a return to a keynote address at the Judges Dinner by a sitting judge. This transition worked famously, and brought a breath of fresh air to the Dinner. I am most grateful to Judge Gleeson, and to Past President John Sweeney for the recommendation.

Judge Gleeson's speech is reproduced in its entirety in this issue of the Bulletin. Even if you heard it at the Judges Dinner, it is well worth reading. It is funny, insightful, and plainly brilliant.

Thanks also to other Past Presidents who steadfastly provided a source of unwavering support during my term in office. These include David Kane, Howard Barnaby, Andrea Ryan, Herb Schwartz, Marylee Jenkins, John Pegram and Doug Wyatt.

Thanks also to all of the Board Members for their active engagement and participation in the Board Meetings. Your dynamic involvement opened a dialogue that elevated our Association to a new level. I look forward to working with the incoming Board in my new role as Immediate Past President.

Thanks also to all the Committee Chairs and Co-Chairs for the variety of programs and other activities you helped catalyze this year. I hope to be able to thank each of you personally at future NYIPLA gatherings.

With kind regards,

Dale Carlson
NYIPLA President

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overstate it or sell myself short; it's not like I bring no IP knowledge whatsoever to this podium. In fact I've had cases in your field both as a lawyer and as a judge. For example, when I was a prosecutor, I had this murder investigation. The victim was a successful loan shark. The secret to his success was the people who owed him money actually paid him the 3 points a week he charged. You may not know this, but getting people to pay interest at a rate of 150% a year is a loan shark's greatest business challenge. The way this loan shark rose to that challenge was he told his customers he was a made guy in the Gambino Crime Family. This scared them, and that's why they paid up.

This business model worked like a charm until the loan shark came to the attention of a Gambino captain a couple of neighborhoods away. The captain was perplexed about two things: first, if this loan shark was a made guy, how come he'd never heard of him; second, and even more important, why wasn't he getting a piece of the loan shark's profits? So he sent his henchmen to bring him the loan shark, who immediately broke down crying and admitted he wasn't a made member of any family, let alone the Gambino Family. He said he was just using the Gambino Family name to help his business. So they whacked him and took over his loans.

I can tell some of you are still searching for the intellectual property connection. Think about it – it was really a trademark infringement case. The Gambino Family mark may not be registered, but it is very strong. And the holder of the mark has its own forms of alternate dispute resolution and punitive damages.

As a judge, I have experience with patent cases. Granted, it consists of just one trial. It was about lacrosse sticks. The plaintiff made some improvements to how you attach the nets to the different kinds of sticks, and he sued a stick manufacturer, claiming that it infringed his patents. The most challenging part of the case was when the jury asked me during deliberations if I'd send the 15 lacrosse sticks I'd received in evidence into the jury room. I wasn't sure how to respond. Like any good judge I was thinking one move ahead. What if I sent the sticks in and then they asked for a ball? What if they started fighting?

So I'm not a complete blank slate when it comes to intellectual property, but my experience is a bit thin. So my instincts told me I wasn't invited here to educate you on the fine points of patent, trademark or copyright law.

The second reason I figured I ought to steer clear of that some of you already know, and that is the last time I tried it, I got in trouble. It was almost ten years ago, and I was asked to speak to smaller gathering of lawyers from this very same organization. I was a young judge then and eager to please, and my idea was to try to be

funny about a current hot topic in IP law. So I did some research and found something I thought I could work with: there was this growing body of case law back then known as cyber-gripping, or “Companysucks.com” law. People were creating websites that consisted of a well-known company name followed by the word “sucks.” Ballysucks.com; Coca-Colasucks.com, you name it, followed by sucks.com. These sites existed for the sole purpose of bashing the companies whose names were being borrowed. The companies saw no humor in this at all, so they brought lawsuits, trying to shut them down on the ground that they were infringing their trademarks. And the courts were very unsympathetic. The companies were losing these claims on the ground that the sites were obviously just a form of parody -- no reasonable consumer was going to be confused and think that the companies really had anything to do with them.

I thought it might be funny to speak about these cases. My idea was I'd say that the companies were losing them because courts couldn't feel their pain. Judges are so coddled in our society that they can't appreciate what it's like to be ridiculed that way. Maybe if there were a SecondCircuitsucks.com they might feel a little differently about the matter. Since my premise was there was no such site, I of course needed to check my facts. So I did a search for SecondCircuitsucks.com. Actually, I had to do it twice. When I did it at work I got a screen that said that my request was an “inappropriate search” that was prohibited by our screening software. I went home that night, did the same search, and sure enough, I couldn't find any SecondCircuitsucks site. I was ready for my speech.

As luck would have it, we had a Board of Judges meeting within a week or so of my inappropriate search. There was a huge debate within the judiciary at that time about whether we should even have this screening software, and we were being briefed by our District Executive about how it was working. He told us it was working great, and we had hardly any inappropriate searches on any of the computers in the courthouse, mostly because the staff knew there was a log each week that listed every inappropriate search request and who made it. The deterrent effect of that log was great – there were only one or two inappropriate requests on the log each week. This was all news to me, and of course this business about an inappropriate search log caught my attention. As nonchalantly as I could, I asked what we did with the log. I was told that it was forwarded at the end of each week to the Chief Judge of the Second Circuit. I tried to picture in my mind's eye the Chief Judge – it was John Walker at the time – sipping his Monday morning coffee over the inappropriate search log, which had only one or two entries on it, and seeing that Gleeson over there in Brooklyn tried to log on to SecondCircuitsucks.com.

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So I wasn't eager to go down that road again. But the third and most powerful reason I decided not to speak about intellectual property law tonight was a particularly blunt conversation I had with a friend of mine, someone I've known a long time. He's a lawyer, and said to me "look, these people are intellectual property lawyers. They handle some of the most difficult, complex and sophisticated litigation in the world. If they wanted somebody to speak to them about what they do, they'd get someone with more brains than you; they'd get a judge from the Southern District."

Ouch, right? An A+ for candor, I suppose, and you do want your friends to level with you, especially after you become a judge, when everyone else except your spouse stops leveling with you, but that's a little harsh, don't you think?

Let me unpack my friend's comment a little for the non-lawyers among us. First, the part about the sophistication of the lawyering that's done by people in this room is beyond dispute. Here's just a tiny sampler of typical issues in recent Federal Circuit cases: Do the algorithms and formulas used in a digital image half-toning patent bring it too close to abstractness? Was there infringement under the doctrine of equivalents of a patent for a biasing/erasing oscillator in a magnetic tape recording apparatus having an erasing head for signals recorded in an azimuth track? Here's my favorite: Does a vaccine for treatment of Postweaning Multisystemic Wasting Syndrome in pigs – sounds pretty messy, don't you think? – infringe a patent claiming certain porcine circoviruses? I love that one. That's enough – you get it. You definitely have to have brains to do this work. In fact, the cases brought by the lawyers in this room are so specialized and difficult to access that Congress gave them their own private court of appeals. We honor those Federal Circuit judges here tonight, and take it from me, they deserve to be honored. I have admired the judges of the Federal Circuit from the moment the court was created back in 1982. Before then the appeals from patent cases went to the regular circuit courts, and I learned literally on my first day as a law clerk in one of those courts why we needed the Federal Circuit so badly. It was 1980, and I was lucky enough to clerk for Boyce Martin, a great guy and a great judge, who sits in Louisville, Kentucky on the Sixth Circuit. On my first day as his law clerk, his secretary sent me in to see the judge after I filled out my forms. I walked into his office and found him seated with his back to me at a huge conference table. As I got closer I saw he was surrounded by paper -- two-foot high stacks of different colored briefs and thick white appendices, which included the transcript of a long trial.

But the judge wasn't reading briefs or looking at appendices. And you could tell he hadn't – they were still bound by rubber bands in very neat piles, just like they

look when they come out of the boxes from the Clerk's office. Instead, he was leaning way back in his chair holding two pieces of paper up to the ceiling lights. First one, then the other, then one on top of the other, and he repeated that a couple of times. After about 30 seconds, he finally noticed me standing off to his side. When he did, he gave me his big, friendly grin and said "Hey, John! Great to see you! I was just deciding a patent appeal!"

The second part of what my lawyer friend told me is less obvious, especially to the non-lawyers, and much more controversial. It's this business about if they wanted someone with enough brains to discuss the fine points of IP law they'd have gotten a judge from the Southern District, not someone like me from the Eastern District. As painful as that was to hear, it's certainly not the first time in my life I've been exposed to the suggestion that maybe the Eastern District isn't quite up to par with the Southern. C'mon, let's face it, people have been whispering about this subject behind the backs of us Eastern District folks forever, at least for the 30 years I've been a lawyer and judge. Southern and Eastern District judges spend their entire professional lives mingling together at functions like these, and this alleged Southern District superiority is always the 800-pound gorilla in the room nobody mentions. It may be an uncomfortable topic, but I think it's about time we dragged it out into the light, and addressed it head-on, like the mature adults we are.

This is the only city of any size in the country that is divided into two federal districts, the Southern and Eastern Districts of New York. You are seated right now in the Southern District; its beautiful federal courthouse is in lower Manhattan and the district embraces Manhattan, the Bronx and some counties to the north. Across the river in Brooklyn you'll find our equally beautiful courthouse, and our district, which was carved out of the original Southern District by President Lincoln in 1865, embraces Brooklyn, Queens, Staten Island and Long Island. The striking similarities between the districts don't end with the lovely courthouses. The Southern District has the Empire State Building, the Woolworth Building, the Chrysler Building. The Eastern District has the Williamsburg Bank Building and 26 Court Street. The Southern District has Lincoln Center; the Eastern District has Coney Island. Southern has the New York Yankees, the most storied sports franchise in history. Eastern has the Mets. Southern has Madison Square Garden and the New York Knickerbockers; we have a hole in the ground and a team that plays in Jersey. Southern has Central Park right up the road here, with its magnificent Jacqueline Kennedy Onassis Reservoir. We have the Gowanus Canal, which, by the way, was recently designated a Superfund site.

Okay, enough with the striking similarities. There are some differences between the districts that affect what goes on in our courthouses, and I think when we drill down into this long-simmering Southern District v. Eastern District issue, you find its origins in those differences.

The Southern District is home to Wall Street, the financial capital of the world. It's got the stock exchanges, the investment banks, the big brokerages firms, captains of industry. Its United States Attorney's office is the flagship of the Department of Justice, and is staffed with the best and brightest lawyers in the country. Its bench? – the *crème de la crème*. Just like young baseball players dream of someday playing for the Yankees, young lawyers dream of being Southern District AUSAs, or judges, or both. They dream of prosecuting or maybe presiding over the trial of the next Michael Milken, Bernie Ebbers, Martha Stewart, Bernie Madoff. The patent bar brings to the Southern District judges a rich array of patent disputes – pharmaceuticals, medical devices, software, electrical engineering, you name it, no matter how complicated, those Southern District judges are ready for it.

And across the river in the Eastern District? We don't have stock exchanges or brokerage firms. We don't have a huge supply of patent litigation. What do have? We have gangsters. Brooklyn and Queens are the gangster capital of the world. Not every single one of them lives in our district. Just like the big banks have some back office employees in Queens and Brooklyn, our Cosa Nostra families have some back office gangsters here in Manhattan and up in the Bronx. But make no mistake about it, organized crime is our bread and butter, as much a part of our identity as potatoes are to Idaho. Maine's got lobsters; we've got mobsters.

People think you don't have to be so smart to catch mobsters. There, I said it. It's painful to say that out loud but at the same time it's therapeutic. In fact, I'll say it again: people think you don't have to be so smart to catch mobsters. I suggest to you that that simple assertion – that misconception – lies at the core of this supposed superiority of the Southern District. Right? Here in the Southern District, you have to be able to read financial statements, know what a Markman hearing is, what an audit committee does, what claim construction means. People think all you have to know over in Brooklyn is the names of the five families and wholesale value of a kilo of heroin. Let's face it, people think you elevate the importance of a case and the quality of the people involved in it when the case is here in the Southern District.

It is my goal in my remaining time tonight to destroy this myth, and by destroying the myth I hope to put an

end to this Southern District-is-better nonsense. No more snickering, no more eye rolling, no more talking about us after we leave the room.

The truth is people just don't understand how unbelievably difficult it is to make a case against gangsters. I'm going to help you come to that understanding. Patent lawyers will tell you – to give you just one example – that the burden of proving the invalidity of a patent is “especially difficult” when the infringer attempts to rely on prior art that was before the patent examiner during prosecution. I have no idea what that means – I just lifted it from a recent Federal Circuit opinion – but I admit it sounds pretty difficult. But when push comes to shove, it's no more complicated than a mob case. Right off the bat, you run into a problem that's as vexing as anything you'll run across in a patent case. You have to prove the existence of the criminal organization – the “enterprise” we call it in racketeering circles.

If you're going to charge someone with conducting the affairs of a Cosa Nostra through a pattern of racketeering activity, you better be prepared to *prove* the Cosa Nostra. La Cosa Nostra – translated it means “This Thing of Ours” – and made men are “Amica Nostra,” which means “Friends of Ours”. Ladies and gentlemen, these are *secret* societies. There's no web site for the Genovese Family. It doesn't file annual reports or 10Ks with the SEC. If you arrest a Luchese Family soldier, you won't seize a business card with an interlocking “LF” logo on it. These centuries-old organizations are secret, and the members of every Cosa Nostra family make it their business to keep them that way. It's very important to them that they don't even talk about La Cosa Nostra, *especially* in circumstances where they might be recorded. In fact, it's so important to them that they actually talk quite a lot about how important it is for them not to talk about La Cosa Nostra.

In a moment I'm going to demonstrate that for you with a recording. Before I do, a little warning about this recording and the others I'll be playing. There's some bad language on them. Mobsters cuss. It doesn't make them bad people. I've tried very hard several times to surgically bleep out the numerous curse words and still leave the rest for you to hear. It was very difficult, and in a way I'm glad my 13-year-old daughter couldn't be here, but hopefully what remains will not offend.

Okay? So let's listen to one mobster talking on tape about how important it is not to talk about La Cosa Nostra:

[recorded conversation]

AND FROM NOW ON, I'M TELLIN' YOU IF A GUY JUST MENTIONS “LA,” IF HE WANTS TO SAY,

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“LA, LA, LA, LA.” HE JUST SAY “LA,” THE GUY, I MEAN I’M GONNA STRANGLE THE *****. YOU KNOW WHAT I MEAN? HE DON’T HAVE TO SAY “COSA NOSTRA,” JUST “LA.”

So you tell me – how do you prove the existence of La Cosa Nostra when your targets are so disciplined, so tight-lipped they won’t even say “La”? Can it even be done? Don’t worry, I’m not just asking questions here – I’m going to answer them for you. The answer is yes, it can be done ... it’s hard, but it can be done. How? You scour the results of your investigation for every bit of circumstantial evidence that you can find of that secret society. Anything, no matter how subtle or oblique or indirect, knowing full well that you’ll have your skills as a lawyer to weave it together for the jury in summation. Then you present your circumstantial evidence to the jury. It might sound something like this:

[recorded conversation]

IT’S NOT A TOY. I’M NOT IN THE MOOD FOR TOYS, OR GAMES, OR KIDDING (ia). I’M NOT IN THE MOOD FOR CLANS, I’M NOT IN THE MOOD FOR GANGS, I’M NOT IN THE MOOD FOR NONE OF THAT STUFF THERE. THIS IS GONNA BE A COSA NOSTRA TILL I DIE. BE IT AN HOUR FROM NOW, OR BE IT TONIGHT, OR A HUNDRED YEARS FROM NOW WHEN I’M IN JAIL. IT’S GONNA BE A COSA NOSTRA. THIS AIN’T GONNA BE A BUNCH OF YOUR FRIENDS ARE GONNA BE “FRIENDS OF OURS,” A BUNCH OF SAM’S FRIENDS ARE GONNA BE “FRIENDS OF OURS.” IT’S GONNA BE THE WAY I SAY IT’S GONNA BE. A COSA NOSTRA. A COSA NOSTRA!

And then after you present your evidence you dig down and summon all the lawyering skills God gave you and that you’ve honed over the years to convince the jury that those bits of evidence form a mosaic that proves the Cosa Nostra. I tell you – and the trial lawyers in the room know exactly what I’m talking about – nothing compares to the feeling you get when you see the light bulbs going off in the jury box. You see in their faces that you’ve finally persuaded them that what he’s actually talking about in that conversation is a Cosa Nostra, that most secret of secret societies. I get goose bumps all over again just talking about it. This is why we became trial lawyers.

But that’s only step one. Proving the existence of the criminal enterprise is just the beginning. It’s just like a patent case – a patent lawyer isn’t done once she proves a patent; then she’s got to prove the infringement. Same with organized crime cases; after you prove that the Cosa Nostra actually exists, then you have to prove some crimes.

And if you think gangsters are careful when it comes to talking about La Cosa Nostra, that’s nothing compared to how careful they are when it comes to crimes. Ask your average patent or securities fraud lawyer and they’ll probably tell you proving infringement of a software patent or loss causation in a 10b-5 case is way more complicated than proving an organized crime murder. They’ll say they need to master the computer science or the complicated market dynamics, and then they need to find and prepare an expert. They think organized crime prosecutors have it easy, like gangsters don’t do anything but sit around hidden microphones and talk about who they whacked.

[recorded conversation]

WHEN “DiB” GOT WHACKED, THEY TOLD ME A STORY. I WAS IN JAIL WHEN I WHACKED HIM. I KNEW WHY IT WAS BEING DONE. I DONE IT ANYWAY. I ALLOWED IT TO BE DONE ANYWAY.

Okay, well sometimes they do sit around and talk about who they whacked, and I admit that makes the job a little easier. But don’t get the impression that all mobsters do is sit around and talk about who they murdered. Actually, sometimes they talk about who they’re going to murder:

[recorded conversation]

LOUIE DiBONO. AND I SAT WITH THIS GUY. I SAW THE PAPERS AND EVERYTHING. HE DIDN’T ROB NOTHIN’. YOU KNOW WHY HE’S DYING? HE’S GONNA DIE BECAUSE HE REFUSED TO COME IN WHEN I CALLED. HE DIDN’T DO NOTHIN’ ELSE WRONG.

I know what you’re thinking – I can feel it, and I see it in your faces. You’re thinking maybe this isn’t as hard as Gleeson says it is. Raise your hand if that’s what you’re thinking. Well, I’ve got you right where I want you, because there’s something you haven’t thought of yet. And here it is: who was that speaking on the tape? That tape was recorded by a bug – a FBI Special Operations listening device – hidden deep inside a building that 50 men hang out in every night, and 50 men were in there when those words were spoken. You think it’s so easy because *someone* happened to be recorded talking about crimes? Well, you can’t put *United States v. Someone* in the caption of your indictment, or *United States Against One of Fifty Men in the Ravenite Social Club*. You’ve got to name your defendant, and then you have to prove that the person you indicted is the guy on that tape.

And by the way, whenever I say “prove,” I’m not talking about the wimpy burden of proof you IP lawyers have. You only have prove your case by a preponderance of the evidence. Once you’re 51% right, you’re done and it’s off to the golf course. When prosecutors reach

a preponderance of the evidence they're just getting started, because they shoulder a much tougher burden – proof beyond a reasonable doubt. That's right – beyond a reasonable doubt. I can feel all the knees getting weak, as the civil lawyers all over the room realize how much more difficult someone else's job can be.

So who's on that tape? Which one of the more 50 gangsters in that building at that time is being recorded? Doesn't look so easy any more, does it? And you know what else? The defendant in a mob trial *never* opens his mouth before the jury – it's part of the oath of omerta – so the jury can't hear his voice and compare it to what's on the tape. You can feel all the smugness in here melting away. Lawyers are starting to sweat. Their wheels are turning furiously. How do we prove beyond a reasonable doubt who's on the tape?

The way this is going, I'm not sure I want to share any more of my trade secrets with you, but you did let me invite my family and a few friends, so here goes, the final lesson. Listen up. You start by listening to your evidence with exquisite care, over and over again. We can't do it here obviously, but it's not unusual to listen to a recorded conversation 100 times in a row. You scrutinize every single sound for anything that might be a clue: an accent, a lisp maybe, a mispronunciation, an unusual turn of phrase or figure of speech – something, any kind of clue – that you can put together with the rest of your evidence to help prove that the voice on that tape is the person you claim spoke those words.

Okay? Now, let's see if you can do it. There's a clue in the recording I'm about to play you to the identity of the speaker who is the target of your investigation. He's irritated that another organized crime group – it happens to be a Greek crime family – is moving a gambling business into the same neighborhood where our target already has a gambling business. Let's see how many of you pick it up the clue:

[recorded conversation]

MALE #1: THIS SPIRO, WAIT, WAIT, LET ME TELL YOU. WE GOT A GAME THERE FOR 20 YEARS. IS THIS RAT ****ING GREEK'S NAME SPIRO?

MALE #2: THAT'S RIGHT.

MALE #1: YOU TELL THIS PUNK I, ME -- JOHN GOTTI -- WILL SEVER YOUR MOTHER***** HEAD OFF! YOU *****. YOU'RE NOBODY THERE. "LISTEN TO ME," TELL HIM, TELL HIM "LISTEN, YOU KNOW HIM. HE'LL SEVER YOUR MOTHER***** HEAD OFF! YOU KNOW BETTER THAN TO OPEN A GAME THERE."

Raise your hand if you think you spotted the clue?

I actually thought I'd need more time than I had to make my point, but I think you got it already. Our bread and butter litigation in the Eastern District may not involve digital image half-toning patents or Postweaning Multisystemic Wasting Syndrome, but so what? It doesn't mean it's any less challenging or any less rigorous intellectually. And it doesn't mean that the prosecutors who do it, or the judges who preside over their cases, are not every bit as able as their counterparts over here across the river or on the Federal Circuit.

Even 17 years later, I still haven't lost that trait that all trial lawyers develop – I truly believe in my heart that by the time I sit down I have completely persuaded everyone in the room. But unfortunately, not everyone who needs persuading on this subject was able to make it here tonight, so I hereby deputize each of you to continue to spread the word – to continue the debunking of the myth about my beloved Eastern District. It'll come up now and then – associates talking about clerkships; a colleague trying to decide where to file a complaint. Maybe you'll even overhear a conversation like the one I'm about to play. It occurred two and a half years after that disastrous acquittal Dale mentioned to you. John Gotti beat our seven month racketeering case – the case Diane Giacalone and I prosecuted – in part by suborning some outrageous perjury about us both and by buying one of the jurors. Then he got wind of a new federal investigation of him two and a half years later when some subpoenas were served. Here's what he, his underboss and his consigliere had to say on the subject we've been discussing tonight:

[recorded conversation]

JOHN: THIS ***** PUNK OVER HERE. THEY HATE ME, THEM ***** PROSECUTORS. IF THIS IS GLEESON AGAIN, THIS ***** RAT MOTHER***** AGAIN.

SAMMY: YOU THINK IT'S GONNA BE HIM?

FRANKIE: I THINK THEY'LL ELEVATE IT.

SAMMY: YOU THINK THEY'LL ELEVATE – I DON'T THINK IT'S GONNA BE BY GLEESON OR GIACALONE ... GET

JOHN: (COUGHS)

SAMMY: ... MACK OR SOMEBODY ...

JOHN: I THINK – I WOULD SAY ...

SAMMY: ... WITH MORE BRAINS.

JOHN: SOUTHERN DISTRICT. I THINK WE'LL GO SOUTHERN DISTRICT.

SAMMY: I THINK SOMEBODY WITH MORE BRAINS. THEY DON'T WANNA LOSE THIS CASE.

Funny, right? You know it's been over 20 years since
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the FBI recorded that conversation, and I've been telling myself ever since that those men underestimated me and the wonderful lawyers on my trial team – Laura Ward, Pat Cotter, and Jamie Orenstein, as well as our boss Andy Maloney, who joined us for that trial. But I think I have to revisit that because I've made a pretty good case tonight that rather than underestimating us, they just overestimated themselves.

All of this in jest of course, intended only to bring a little levity to tonight's proceedings. For the record, the Eastern District --from the streets of downtown Brooklyn to Montauk Point -- is a beautiful, diverse, endearing place that I truly love. The more than 8 million people who live there are served by a group of dedicated district, magistrate and bankruptcy judges whose talents and expertise cover the entire legal spectrum, and whose collegiality and support never cease to amaze me. The same is true of our brother and sister judges here in the Southern District. All kidding aside, we're actually great friends, and we respect each other enormously.

And I know I speak for them and for all the judges in the room when I offer a special salute to our senior judges. Few people fully appreciate how much our courts depend on our senior colleagues who essentially work for no money. They not only shoulder a very large part of our caseload; they also provide the rest of us with their leadership and wisdom. We'd be sunk without them.

I want to say thanks to the New York Intellectual Property Law Association. Not just for the invitation to be your keynote speaker, although I am indeed honored by that, but thanks on behalf every one of the more than 100 judges in this room for all of this – the dinner, the cocktail hour, the dancing that follows and really for the Association itself. Occasions like this are so important to our legal community. I don't have to tell anyone in this room that life and work have a way of swallowing us whole, especially in this profession and in this city. We all have our lists: mine includes judging, teaching a couple of courses at NYU, homework checker and study helper, and participating whenever asked in CLE programs or moot courts. You have your own lists, but they all add up to the same thing – we are all so busy with our lives that we really *need* occasions like this. They make us stop and take a couple of steps back from the daily routine and catch up with and enjoy our colleagues, even if only for a few hours and even if there are almost 3,000 colleagues here. As far as our professional lives go, this is the good stuff – it is so important to gather like this, and to enjoy it, and to appreciate how fortunate we are to be part of this great profession. And especially today, on this somber

100th anniversary of one of our city's great tragedies – the Triangle Shirtwaist Fire – we shouldn't lose sight of how fortunate we are.

So thank you, for honoring us judges and including us in your gathering.

Indulge me for just a moment while I thank my family, and by thanking them I am also thanking the families of all public servants. The families of federal judges don't ask for or deserve sympathy from anyone. Like a lot of us here, Susan and I are from relatively modest backgrounds. In the immigrant's household I grew up in, the parents were short on education, short on money, in fact they were short on just about everything except faith and children. I'm the youngest of seven and when I was born that made nine of us in our two bedroom apartment in the Bronx. So no one appreciates more than Susan and me how well-off all of the public servants in this room are, in absolute terms, when compared to the rest of our society, especially in these difficult financial times, and when compared to our colleagues on the state bench, who really need the help of the organized bar to get a much-needed increase in their salaries. That said, the fact remains there are unsung heroes in the federal judiciary, and they are not judges. The opportunity costs of public service are real, but the people who bear the brunt of them are the spouses and the kids of judges. They bear the financial consequences of public service without the enormous satisfaction that comes from being a public servant – from serving you, your clients and our community. So once again, I find myself thanking Susan. When we got married almost 34 years ago, I was a foreman in a house painting company and had my own house painting business on the side. Financially, it's been downhill ever since, and now she's stuck with a public servant for life. But she and our beautiful girls Molly and Nora know how much my job means to me, and so they put up with me and even support me in it. I will be eternally grateful to them as a result.

My extended family – and by that, of course, I mean my law clerks – is well represented here tonight. My current clerks, Hayley Horowitz, Alicyn Cooley and Miriam Glaser, are all here with me, as is Ilene Lee, my wonderful case manager. And there are a few former clerks here as well. Law clerks are the very best part of a judge's job, which is saying something, because there are a lot of great parts of a judge's job.

I'm afraid I have overstayed my welcome, so I'll sit down in a moment. Thanks again to Dale and the entire New York Intellectual Property Law Association for having us judges here tonight. Thank you for listening and enjoy the rest of the evening. ■

Patent Reform Legislation

Significant patent reform legislation is currently pending in Congress.
These articles review and analyze particular aspects of the
Senate and House Bills.

REFORMING LITIGATION PRACTICES AND STRATEGIES

by Scott D. Stimpson, David C. Lee, and Rachel J. Lin¹

A. INTRODUCTION

The U.S. Senate approved Patent Reform Bill S. 23 on March 8, 2011, and the House of Representatives introduced its own bill, H.R. 1249, several weeks later. These bills are the culmination of reform efforts dating back to 2003 and of hundreds of congressional meetings since.² The stated goals of these bills are to improve the quality of U.S. patents and to provide better alternatives to litigation.³ While we wait for the Senate and the House to address differences in their respective bills, this article considers how various provisions may affect procedural aspects of patent litigation, and related strategic considerations.

We start with a brief description of the current system and the concerns that led to contemplation of patent reform. We next address some of the changes proposed by both the House and Senate versions of the proposed legislation, and then address the impact these potential changes could have on patent litigation procedure. Our conclusions are that the new law, if enacted in a form similar to either the Senate or House version, will create new issues and prompt new strategic decisions from both plaintiffs and defendants, in addition to generally providing new and potentially attractive alternatives to litigating validity claims.

B. BACKGROUND OF QUALITY CONCERNS – THE CURRENT SYSTEM

The U.S. Patent and Trademark Office (the “Patent Office”) reportedly receives an average of 2,000 patent applications per day and has a backlog of more than 700,000 applications waiting to be examined.⁴ This application volume has led to concerns that U.S. patent examination is rushed and lacks sufficient quality.⁵

While patent quality relies primarily on the Patent Office and the applicant, there are opportunities for third parties to play a limited role under the current system. During examination, for example, third parties may utilize a “protest” procedure to alert the Patent Office to prior art or information material to patentability.⁶ A protest, however, must generally be filed before publication

of an application.⁷ A third party can also indirectly influence examination by bringing prior art to an applicant’s attention and relying on the applicant’s duty of disclosure to relay prior art to the Patent Office.

After patent grant, any third party may test a patent’s validity through reexamination when there is a substantial new question of patentability.⁸ In both *ex parte* reexamination and *inter partes* reexamination, a third party may submit prior art and an explanation of how it applies to patent invalidity. For both reexamination procedures, however, the scope of review is limited, there is little incentive to commence them early in litigation, and there is no ability for the parties to settle and end the reexamination. Moreover, while *inter partes* reexamination allows the third party to participate through all stages of the reexamination, a third party in *ex parte* reexamination is prohibited from further submissions after the initial statement and reply.⁹

Of course, a party that is accused of infringement may challenge patent validity by a declaratory judgment proceeding in court rather than through reexamination in the Patent Office. But the current system permits the party to initiate *inter partes* reexamination on the same art at any time before a final judgment in the civil action.¹⁰

The following section summarizes some Senate and House reform provisions that seek to improve patent quality and provide better alternatives to litigating validity issues in court.

C. PATENT REFORM PROVISIONS 1. Proposed Post-Grant Review

Post-grant review is a new procedure added by both reform bills. It is a type of reexamination, with notable provisions that encourage early challenges to patentability. For companies contemplating a challenge to the validity of a granted patent, this new option would provide an interesting alternative, with a few restrictions.

If the post-grant review procedures become law, there would be at least four significant differences from the old system which might make post-grant review an attractive option for companies concerned about a recently granted or reissued patent:

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(1) The standard for obtaining a post-grant review would be relaxed from the “substantial new question of patentability” standard currently in place for reexaminations¹¹ to a preponderance of the evidence standard.¹² Thus, the bar for commencing a post-grant review would be lower.¹³

(2) Unlike current reexamination procedures, in post-grant review the patent could be challenged on Section 101 and Section 112 grounds, in addition to Sections 102 and 103.¹⁴ Moreover, while reexamination challenges under Sections 102 and 103 under current reexamination procedures can be based only on patents and printed publications,¹⁵ there would be no such restriction for post-grant reviews.

(3) The petitioner would be able to pick and choose invalidity grounds for the post-grant review – no longer would there be the fear of being estopped in litigation from asserting defenses that could have been (but were not) asserted in inter partes reexamination.¹⁶ (The petitioner would be estopped, however, from asserting in a later Patent Office proceeding any defenses that reasonably could have been raised.)¹⁷

(4) A post-grant review could be settled.¹⁸ Thus, unlike current reexamination procedures, the parties would be free to resolve their disputes amicably and end the Patent Office review.

There would be, however, some restrictions on post-grant reviews. Under the Senate version, post-grant reviews would have to be instituted within nine months of the patent grant; and under the House version, they would need to be instituted within a year of the grant.¹⁹ These timing restrictions may force difficult decisions for companies concerned about a recently issued patent. If the company has not been sued, for example, a decision would need to be made about whether to file a post-grant review within the narrow time window allowed (and potentially wake a sleeping dog); sit tight and possibly avoid a battle over the patent altogether; or be satisfied with a less attractive reexamination proceeding.²⁰

Another restriction on post-grant review is that it would not be available if the petitioner has already filed a civil action challenging the validity of the patent. And, depending on which version of the bill is adopted, counterclaims for invalidity may count as such a civil action.²¹

If the petitioner files a civil action for invalidity after the post-grant review, the Senate and House versions differ on what consequences would follow. Under the Senate version, the post-grant review would stop; under the House version, the civil action would stop unless there was an enumerated exception, such as a claim for infringement.²²

2. Inter Partes Reexamination

Both reform bills would modify inter partes reexamination procedures, with some changes favoring the patent

challenger, but with significant restrictions arguably making this option less desirable than post-grant review. Compared to post-grant review:

(1) The Senate version would allow reexamination to be granted under the lower preponderance standard, whereas the House version would maintain the current standard requiring a showing of a “substantial new question of patentability.”²³

(2) The bases for a validity challenge would remain limited under both versions – only challenges under Sections 102 and 103 based on patents and printed publications would be allowed.²⁴

(3) After a final decision, the petitioner would face a broader estoppel problem, being estopped from raising any argument that was or reasonably could have been raised in the reexamination.²⁵

Importantly, however, inter partes reexaminations could be settled, as is the case with post-grant reviews.²⁶

Thus, while there would be changes and some benefits to patent challengers with the revised reexamination procedures, post-grant review could be a more attractive option primarily due to the expanded grounds for challenging validity and a narrower estoppel in later litigation.

There are restrictions on the timing of inter partes reexaminations as well. Under both versions of the bill, reexamination would be available only after the period for post-grant review has expired.²⁷ Moreover, if the patent owner has served the petitioner with a complaint for infringement, the petition for inter partes reexamination would need to be made within a short time of the date of service (six months under the Senate version; nine months under the House version).²⁸ As with post-grant review, inter partes reexamination would be unavailable if the petitioner has already filed a civil action challenging validity.²⁹

3. Supplemental Examination

Supplemental Examination is introduced by the reform bills as yet another type of reexamination. It would allow the patent owner to request reexamination when there is a substantial new question of patentability.³⁰ It could be used to “consider, reconsider, or correct” relevant information.³¹ Supplemental Examination would allow, for example, a patent owner that has not been formally notified of an inequitable conduct problem, to potentially “wash” the art through the Patent Office and preclude a later inequitable conduct allegation.³²

4. Transitional Review of Business Methods

With respect to concerns about the quality of business method patents, both reform bills expressly provide for additional review of business method patents in a Patent Office proceeding called a “transitional proceeding.”³³ A transitional proceeding would be conducted like a post-

grant review, but there would be some differences in timing and scope. A petition could be filed only by a person or party that has been sued for infringement or charged with infringement,³⁴ but the time limits applicable to post-grant review would not apply to a petition for a transitional proceeding.³⁵ The scope of review under Sections 102 and 103 would be limited to narrower categories of prior art.³⁶ Estoppel provisions would also apply.³⁷

5. Other Provisions

Perhaps the biggest proposed change in the patent reform bills is the move to a first-inventor-to-file patent system.³⁸ Procedurally, if and when this provision becomes law, it should simplify litigation, particularly in situations under the current law where battles are waged over dates of invention. But unlike the other provisions addressed in this article, it would not provide new or substantially modified alternative avenues to litigation.

A few other provisions are also worth mentioning:

(a) Although best mode under 35 U.S.C. §112 would be maintained as a requirement for patentability, it would be removed as a defense to patent infringement.³⁹

(b) The 2004 Federal Circuit Court of Appeals decision in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc), held that a decision not to present an opinion of counsel in litigation can no longer be used to infer willfulness. The reform bills codify this decision and further provide that such a decision could not be used to prove willfulness or inducement.⁴⁰

(c) Protests would be available, and third parties would additionally be permitted to submit prior art until six months after publication or until the date of a first rejection, whichever is later.⁴¹

(d) The false patent marking cause of action under 35 U.S.C. § 292 would be revised so that it could only be brought by the United States to assess a penalty or by a person who has suffered competitive injury to recover compensatory damages.⁴² This standing requirement would apply retroactively to any false marking case pending at the time of enactment.

The reform bills do not include several provisions debated in previous congressional sessions, such as provisions relating to transfer-of-venue and damages.

Although the reform bills contain many other provisions, they are outside the scope of this article.

D. POST-REFORM PROCEDURAL AND STRATEGIC ISSUES

Under either version of the proposed reform legislation, companies will need to make early decisions that could impact on such things as post-grant review, inter partes reexamination, preliminary injunction proceedings, and

inequitable conduct allegations. Both patent holders and potential patent defendants will have new legislation to consider, and new decisions to make. Below, we address some of these issues from the perspectives of both patent holders and potential defendants.

1. Some Considerations for the Patent Owner

Patent holders looking for preliminary injunctions should consider filing a case and seeking a preliminary injunction within three months of the patent grant. If they do, then they would be assured of avoiding a stay of the motion for preliminary injunction pending resolution of validity issues in the Patent Office. At first blush, this timing issue may seem unimportant. After all, the Federal Circuit has already held in at least one case that it was abuse of discretion to stay a motion for preliminary injunction without considering its merits.⁴³ But new legislation will provide patent holders with another level of security, and hence they may want to commence consideration of preliminary injunction proceedings even while the patent is still in prosecution.

On the flip side for patent holders, bringing an early action on the patent may open up the possibility of a post-grant review procedure, where the patent defendant might never have brought that proceeding otherwise. That is, to avoid post-grant review possibilities, some plaintiffs might decide to remain quiet about the patent until after the period for post-grant review has passed, since post-grant reviews generally should seem less attractive to patent holders than reexaminations, which are more limited and create broader estoppels for patent challengers.

Another option that might be useful to patent holders in some situations is the Supplemental Examination, which could be used to “consider, reconsider, or correct” relevant information. If, for example, the patent holder sees a potential inequitable conduct issue brewing (one that has not already been asserted), Supplemental Examination will allow the art or other pertinent information to be considered through the Patent Office, and in most instances deprive the courts of the power to hold the patent unenforceable due to what might have otherwise been inequitable conduct.

2. Some Considerations for Potential Patent Defendants

Potential patent defendants will face some new strategic decisions, too. One general issue that should be considered with enactment of the new law is whether to monitor newly-issued patents in a particular field. Some companies (those particularly liking the post-grant review possibility) may opt to monitor newly-issued patents in their field, if not already doing so. Without monitoring, a newly-issued patent might go unnoticed until after the relatively short post-grant review period has expired.

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But for many companies (perhaps most), monitoring for newly-issued patents may not be worth the effort as it is yet another expense and burden on already taxed IP groups and their budgets. Moreover, there can be downside risks with monitoring. Willfulness and inducement, for example, are usually not alleged until after the time of first knowledge of a patent, so early knowledge of a patent raises this possibility.

If the potential patent defendant learns of the patent within the window of opportunity for post-grant review (by monitoring or otherwise), a decision must then be made as to whether or not to commence such a review. If the chances of litigation are considered high, good prior art is available, and there is a desire to avoid the more expensive litigation route, then a post-grant review may be an attractive option. After all, the procedure has a relatively low threshold burden of proof, it allows for more invalidity challenges, and it will not create estoppels in later litigation for arguments that were not presented at the Patent Office.

Declaratory judgment actions, when personal jurisdiction and case or controversy exist, are also an option that should seriously be considered (particularly if venue is important), but under either version of proposed reform legislation, such actions will preclude post-grant review if filed earlier than the post-grant review petition, and they will also preclude inter partes reexamination. Ultimately, of course, each situation will need to be carefully considered based on the facts at hand.

The new legislation may also force other new and early decisions from the accused infringer. At least under the Senate version of the bill, counterclaims for invalidity (a very common practice under the current law) would need to be given serious consideration. If the Senate version is passed, a counterclaim for invalidity may preclude post-grant review or inter partes reexamination. Under the House version, there would be no such concern.

Also, after service of an infringement complaint, assuming the post-grant review period has not expired, a decision must be made as to whether to commence such a review. And if the post-grant review period has expired, an accused infringer has only six months (or nine months under the House bill) after service of the infringement complaint to petition for inter partes reexamination. Under these accelerated time frames, accused infringers interested in Patent Office alternatives will no longer have the luxury of putting invalidity analyses on hold. For those companies interested in post-grant review or reexamination, therefore, the short time frames may force an early and thorough prior art search and invalidity analysis, so that Patent Office procedures may be properly evaluated.

Under the reform provisions, potential infringers might also want to be more aggressive in investigating possible inequitable conduct, and if supported, making early accusations. Otherwise, patent holders would have the option of potentially preempting an inequitable conduct defense through Supplemental Examination – a patent holder option that under both versions of the bill will disappear upon notification of the defense by a pleading that specifies it with particularity. Thus, accused infringers would no longer be able to rely without risk on discovery requests to flesh out inequitable conduct defenses, as a patent holder who sees it coming could simply request Supplemental Examination. Accused infringers should be proactive, to the extent reasonably possible, in ferreting out inequitable conduct in detail even before discovery begins.

E. CONCLUSION

Under the proposed legislation from both the House and Senate, new (and some would say significantly more attractive) Patent Office invalidity proceedings will become available. But time restrictions will be in place, too - clocks begin to run with events such as issuance of a new patent and commencement of an action, and some procedures we take for granted today (e.g., invalidity counterclaims) may have limiting effects on the possibility of Patent Office review. So, for now, we wait to see how things evolve, and what legislation will ultimately be enacted. It appears, however, that patent practitioners and their clients can look forward to seeing some interesting changes in United States patent practice.



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² See *Federal Trade Commission, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, October 2003; *Congressional Record-Senate*, March 8, 2011, pp. S1348, 1349.

³ See *Congressional Record-Senate*, at S1350.

⁴ *Id.*, at S1349.

⁵ *Id.*, at S1349-50 (Senator Leahy noting that “there is a concern about the quality of patents that have issued” and that “[p]atent examiners are facing a difficult task given the explosion in the number of applications.”)

⁶ 35 U.S.C. § 122(c); 37 C.F.R. § 1.291.

⁷ 35 U.S.C. § 122(c); 37 C.F.R. § 1.291(b).

⁸ 35 U.S.C. §§ 302 *et seq.*, 311 *et seq.*

⁹ See 35 U.S.C. § 305; 37 CFR § 1.550(g) (“The active participation of the ex parte reexamination requester ends with the reply pursuant to § 1.535, and no further submissions on behalf of the reexamination requester will be acknowledged or considered.”)

¹⁰ See 35 U.S.C. § 317(b).

¹¹ 35 U.S.C. §§ 303, 313.

¹² See Senate bill S. 23, p.51 (proposed Section 324(a)); House bill H.R. 1249, p.52 (proposed Section 324(a)).

¹³ There may be little practical difference, as about 92% of ex parte reexamination petitions and about 95% of inter partes reexamination petitions have been granted based on the “substantial new question of patentability” standard. See Patent Office statistics available at http://www.uspto.gov/patents/stats/Reexamination_Information.jsp.

¹⁴ See Senate bill S. 23, p.49 (proposed Section 321(b)); House bill H.R. 1249, p.50 (proposed Section 321(b)).

¹⁵ 35 U.S.C. §§ 301, 311(a).

¹⁶ See Senate bill S. 23, pp.53-54 (proposed Section 325(e)(2)); House bill H.R. 1249, pp.55-56 (proposed Section 325(e)(2)).

¹⁷ See Senate bill S. 23, pp.53-54 (proposed Section 325(e)(1)); House bill H.R. 1249, pp.55-56 (proposed Section 325(e)(1)).

¹⁸ See Senate bill S. 23, pp.58-59 (proposed Section 327); House bill H.R. 1249, pp.60-61 (proposed Section 327).

¹⁹ See Senate bill S. 23, p.49 (proposed Section 321(c)); House bill H.R. 1249, p.50 (proposed Section 321(c)).

²⁰ A company may not face this decision, however, if a new patent owner is eager to seek preliminary injunction, as the bills encourage filing an infringement claim within three months of patent grant by prohibiting, for such a filing, a stay of a motion for preliminary injunction based on a pending post-grant review. See Senate bill S. 23, pp.52-53 (proposed Section 325(b)); House bill H.R. 1249, pp.54-55 (proposed Section 325(b)).

²¹ See Senate bill S. 23, p.52 (proposed Section 325(a): “post-grant review may not be instituted or maintained if the petitioner or real party in interest has filed a civil action challenging the validity of a claim of the patent”). *But see* House bill H.R. 1249, pp.53-54 (proposed Section 325 has essentially the same prohibition, but with the exception that a counterclaim challenging validity does not constitute a civil action).

²² See Senate bill S. 23, p.52 (proposed Section 325(a): “post-grant

review may not be instituted or maintained . . .”) (emphasis added); House bill H.R. 1249, pp.53-54 (proposed Section 325(a)(2): “Stay of Civil Litigation”).

²³ See Senate bill S. 23, pp.36-37 (proposed Section 314(a)); House bill H.R. 1249, p.37 (proposed Section 314(a)).

²⁴ See Senate bill S. 23, pp.34-35 (proposed Section 311(b)); House bill H.R. 1249, p.35 (proposed Section 311(b)).

²⁵ See Senate bill S. 23, pp.38-39 (proposed Section 315(e)); House bill H.R. 1249, pp.40-41 (proposed Section 315(e)).

²⁶ See Senate bill S. 23, pp.43-44 (proposed Section 317); House bill H.R. 1249, pp.45-46 (proposed Section 317).

²⁷ See Senate bill S. 23, p.35 (proposed Section 311(c)); House bill H.R. 1249, p.35 (proposed Section 311(c)).

²⁸ See Senate bill S. 23, p.38 (proposed Section 315(b)); House bill H.R. 1249, p.39 (proposed Section 315(b)).

²⁹ See Senate bill S. 23, p.37 (proposed Section 315(a)); House bill H.R. 1249, pp.38-39 (proposed Section 315(a)).

³⁰ See Senate bill S. 23, pp.81-84 (proposed Section 257); House bill H.R. 1249, pp.99-103 (proposed Section 257).

³¹ See Senate bill S. 23, p.81 (proposed Section 257(a)); House bill H.R. 1249, pp.99-100 (proposed Section 257(a)).

³² See Senate bill S. 23, pp.82-83 (proposed Section 257(c)); House bill H.R. 1249, pp.100-02 (proposed Section 257(c)).

³³ See Senate bill S. 23, section 18, p.100 *et seq.*; House bill H.R. 1249, section 18, p.108 *et seq.*

³⁴ See Senate bill S. 23, section 18(b)(1)(B), p.101; House bill H.R. 1249, section 18(b)(1)(B), p.109.

³⁵ See Senate bill S. 23, section 18(b)(1)(A), p.101 (the filing deadline of proposed “Section 321(c) . . . shall not apply to a transitional proceeding”); House bill H.R. 1249, section 18(b)(1)(A), p.109 (the filing deadlines of proposed “Section 321(c) . . . shall not apply to a transitional proceeding”). Requests for transitional proceeding are only available for a period of four years from implementation, however. See Senate bill S. 23, section 18(b)(3)(A), p.103; House bill H.R. 1249, section 18(b)(3)(A), p.111.

³⁶ See Senate bill S. 23, section 18(b)(1)(C), p.101-02; House bill H.R. 1249, section 18(b)(1)(C), p.109-10.

³⁷ See Senate bill S. 23, section 18(b)(1), p.101 (“The transitional proceeding implemented pursuant to this subsection . . . shall employ the standards and procedures of, a post-grant review under chapter 32,” including the estoppel provision of proposed Section 325(e)(1)); House bill H.R. 1249, section 18(b)(1), p.108-09 (“The transitional proceeding implemented pursuant to this subsection . . . shall employ the standards and procedures of, a post-grant review under chapter 32,” including the estoppel provision of proposed Section 325(e)(1)). See also Senate bill S. 23, Section 18(b)(1)(D), p.102; House bill H.R. 1249, Section 18(b)(1)(D), p.110.

³⁸ See Senate bill S.23, section 2, p.2 *et seq.*; House bill H.R. 1249, section 2, p.2 *et seq.*

³⁹ See Senate bill S.23, pp.90-91 (proposed amendments to Section 282); House bill H.R. 1249, pp.105-06 (proposed amendments to Section 282).

⁴⁰ See Senate bill S.23, pp.33-34 (proposed Section 298); House bill H.R. 1249, pp.107-08 (proposed Section 298).

⁴¹ See Senate bill S.23, pp.71-72 (proposed amendments to Section 122); House bill H.R. 1249, pp.75-77 (proposed amendments to Section 122).

⁴² See Senate bill S. 23, p.17 (proposed amendments to Section 292); House bill H.R. 1249, pp.106-07 (proposed amendments to Section 292).

⁴³ *Procter & Gamble Co. v. Kraft Foods Global Inc.*, 459 F.3d 842, 847 (Fed. Cir. 2008).

Patent Reform Legislation

POST-GRANT PROCEEDINGS

by Peter G. Thurlow and Kenneth Canfield

On March 8, 2011, by a vote of 95-5, the U.S. Senate passed S. 23, the Senate's most recent attempt at patent reform. The bill, known as the "America Invents Act," represents the first time in six years of work on patent reform that the Senate has passed a patent reform bill. The House is working on its own bill (H.R. 1249) which includes provisions similar to those in S. 23. It is now up to the House to pass a bill and the two bodies to resolve any differences.

One area of focus of S. 23, as well as the current draft of H.R. 1249, is post-grant proceedings in the Patent and Trademark Office. This article will focus on how S. 23 changes the landscape of post-grant proceedings. The post-grant proceedings currently available include reissue, ex parte reexamination, and inter partes reexamination. S. 23 keeps reissue and ex parte reexamination substantially the same, but significantly revises inter partes reexamination, which is renamed "inter partes review," and introduces new "post-grant review," "supplemental examination," "transitional post-grant validity review of certain business method patents," and "derivation proceedings." Some notable differences between S. 23 and the current draft of H.R. 1249 will also be discussed.

Inter Partes Review

The inter partes review provisions in S. 23 are similar to the current inter partes reexamination provisions provided in 35 U.S.C. §§ 311–318 in that a petitioner may request review only under § 102 or 103 (novelty and obviousness) and only on the basis of patents or printed publications. Similarly, inter partes review in S. 23 includes estoppel provisions as provided in inter partes reexamination and does not allow for broadening of the claims. But inter partes review includes a number of new features that will significantly change post-grant inter partes practice. For example, it:

- Limits the time period when a request can be filed to the later of nine months after the grant of a patent or after a post-grant review (discussed below) is terminated (in H.R. 1249, the period is twelve months).
- Allows a preliminary response to be filed by the patent owner to explain why the inter partes review should not go forward, in contrast to the present system, which only allows a patent owner response after the PTO determines that there is a substantial new question of patentability.
- Gives the PTO a new, higher threshold to determine whether a review should go forward, based on

whether there is a "reasonable likelihood that the petitioner would prevail," as compared to the "substantial new question of patentability" threshold in current reexamination proceedings. The reasoning behind this change is that under the current threshold, requests for inter partes reexamination are too easily granted – 95% of requests have been granted since the institution of this proceeding in 1999.

- Prohibits an inter partes review from being instituted or maintained if the petitioner has filed a civil action challenging the validity of the patent or if more than six months have passed since the petitioner was served with a complaint alleging infringement. This change makes it more difficult for patent challengers to get "two bites at the apple," i.e., two opportunities to invalidate a patent, one at the PTO and one in the parallel litigation.
- Gives the PTO the authority to stay, transfer, consolidate, or terminate a related interference, reissue, or ex parte reexamination. This provision will allow the PTO to focus on one submission at a time, not multiple post-grant filings involving the same patent.
- Allows limited discovery consisting of depositions of witnesses on their written testimony and what is otherwise necessary in the interests of justice. The "interests of justice" standard is the same standard used for discovery in interference proceedings.
- In an attempt to streamline the proceedings, gives the new Patent Trial and Appeal Board ("PTAB"), not the PTO's Central Reexamination Unit ("CRU"), the authority to conduct inter partes reviews, and provides for appeal directly to the United States Court of Appeals for the Federal Circuit. Currently, inter partes reexaminations are heard by the CRU with appeals to the Board of Patent Appeals and Interferences ("BPAI"), and appeals from the BPAI to the Federal Circuit.
- Allows the parties to settle and therefore terminate an inter partes review based on a joint request by the petitioner and patent owner. Currently, inter partes reexaminations cannot be settled by the parties.
- Requires the final determination in an inter partes review be issued not later than one year after the institution of the review, except that for good cause shown, the period may be extended by not more than six months. For inter partes reexamination, it currently takes approximately thirty-eight months from filing a request to obtain an inter partes reexamination certificate.

Post-Grant Review

Post-grant review provides another way for a third party to challenge a patent. Post-grant review is similar to inter partes review in many ways. For example, it provides a similar estoppel provision and allows a preliminary response by the patent owner to explain why post-grant review should not go forward. In addition, a post-grant review cannot be instituted if the petitioner has filed a civil action that challenges the validity of the patent. Post-grant reviews will also be handled by the PTAB with decisions appealable to the Federal Circuit, and may be settled by the petitioner and patent owner. Post-grant reviews are also to be completed within one year after institution, with certain exceptions. Post-grant review and inter partes review differ, however, in several significant respects:

- **Timing:** A petition for post-grant review must be filed within nine months of patent issuance, whereas a petition for inter partes review cannot be filed until after the later of nine months from issuance or the termination of any post-grant review. (H.R. 1249 provides twelve months.)
- **Available arguments:** A petitioner in a post-grant review can request that the patent be invalidated on the basis of any provision of the patent statute, whereas a petitioner in an inter partes review can rely only on prior art patents and printed publications. This brings post-grant review more in line with European opposition proceedings.
- **Threshold for institution:** A post-grant review may be instituted only if “information presented in the petition, if not rebutted, would demonstrate that it is more likely than not that at least one of the claims challenged in the petition is unpatentable,” whereas an inter partes review may be instituted if there is a “reasonable likelihood that the requester would prevail with respect to at least one of the claims challenged.”
- **Discovery:** “[D]iscovery shall be limited to evidence directly related to factual assertions advanced by either party in the proceeding.” This appears to permit more discovery than an inter partes review, where discovery consists only of depositions of witnesses on their written testimony and what is otherwise necessary in the interests of justice.
- **Staying of preliminary injunction:** If an action alleging infringement is filed within three months of the granting of a patent, a court cannot stay consideration of a patent owner’s motion for preliminary injunction against infringement on the basis of the filing of a post-grant review or the institution of such a proceeding.

Supplemental Examination

While inter partes review and post-grant review provide ways for third parties to challenge a patent, S. 23 also provides a new way for a patent owner to request supplemental examination of his own patent. A patent owner can request supplemental examination to consider, reconsider, or correct information believed to be relevant to the patent. If the patent owner’s request raises “a substantial new question of patentability,” a reexamination similar to current ex parte reexamination is instituted. The effect of supplemental examination is that a patent will not be held unenforceable on the basis of conduct relating to information that had not been considered, was inadequately considered, or was incorrect in a prior examination of the patent if the information was considered, reconsidered, or corrected during a supplemental examination of the patent. H.R. 1249 bars supplementary examination in cases of fraud or attempted fraud in the original prosecution.

Transitional Post-Grant Validity Review of Covered Business Method Patents

S. 23 defines a “covered business method patent” as a “patent that claims a method or corresponding apparatus for performing data processing operations utilized in the practice, administration or management of a financial product or service, except that the term shall not include patents for technological inventions.” S. 23 provides for a post-grant review proceeding to determine the validity of these business method patents. The only eligible petitioners are individuals who have been sued for or charged with infringement of the business method patent.

Replacing Interference Proceedings with Derivation Proceedings

For issued patents, S. 23 replaces interferences with new “derivation” proceedings to determine if the inventor of an earlier-filed patent “derived” the invention from the inventor of a later-filed patent. A civil action can be filed only within one year of the issuance of the earlier-filed patent containing a claim to the allegedly derived invention and naming an individual alleged to have derived such invention as an inventor.

For pending patent applications, S. 23 also provides that an applicant may file a petition in the PTO to request the PTAB to institute a derivation proceeding on grounds that the inventor of an earlier-filed patent application derived the invention from an inventor named in the later-filed patent application. Any petition for such a derivation proceeding must be filed within one year of publication of a claim to an invention that is the same or substantially the same as the earlier application’s claim to the invention.

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The Future of Patent Reform

The Senate has already passed S. 23, and the House Judiciary Committee approved an amended version of H.R. 1249 by a vote of 32-3. The President has announced his support for S. 23 and stated that he is looking forward to signing a patent reform bill into law. The likelihood of patent reform appears to be at a high

point since Congress started this process more than six years ago. To the extent that a patent reform bill having the post-grant provisions described above is signed into law, the changes to post-grant proceedings will have a significant impact on how post-grant matters are handled at the PTO and how they affect parallel litigations involving the same patents. ■



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Moving UP ▲ & Moving ON ►►►

The Bulletin has introduced a new feature for the Association's members. If you have changed your firm or company, made partner, received professional recognition, or have some other significant event to share with the Association, please send it to the Bulletin editors: Wanli Wu (wwu@wiggin.com) or Robert Greenfeld (RGreenfeld@mayerbrown.com).

NYIPLA Calendar

Check program details at:
www.nyipla.org

2011 CLE Half-Day Trademark Program

► Tuesday, June 14, 2011 ◀
The Princeton Club
15 West 43rd Street, New York, NY

2011 CLE One-Day Patent Program

► Thursday, November 3, 2011 ◀
The Princeton Club
15 West 43rd Street, New York, NY

Day of Dinner CLE Program

► Friday, March 23, 2012 ◀
The Waldorf=Astoria Hotel
301 Park Avenue, New York, NY

90th Annual Dinner in Honor of the Federal Judiciary

► Friday, March 23, 2012 ◀
The Waldorf=Astoria Hotel
301 Park Avenue, New York, NY

Significant Patent Damages Cases Will Lead To More Rigorous Damages Proof ¹

by Lance E. Gunderson², Benjamin A. Keller³, and Daniel J. Melman⁴

Damages have often been a figurative afterthought in the rough and tumble world of patent litigation. Clients and litigators are so focused on proving infringement and validity that damages can be de-emphasized. The same can be said about court decisions. Of the patent opinions issued by the Court of Appeals for the Federal Circuit from June 2008 through June 2010, only 22 addressed damages.⁵ Some would argue that in recent times, this number has increased relative to the number of damages-related opinions issued in the 1980s and 1990s. More recently, however, it is clear that the Federal Circuit has signaled a renewed emphasis on damages proof. This article focuses on two recent Federal Circuit decisions and one District Court decision (in which a Federal Circuit judge wrote the opinion) which suggest that more damages proof will be required, and then offers some practical observations to IP litigators, experts, and clients on preparing and presenting their damages cases.

[Cornell University v. Hewlett-Packard Company: Without Economic Evidence of Entire Market Value, the Lowest Salable Unit Should Be Used as the Royalty Base](#)

Many a plaintiff has hoped to get the biggest number possible in front of a jury, realizing that even a small fraction of a significant royalty base would result in a large damages award. Certainly, to the extent the patent has contributed to the sales of a wildly successful product, the patent owner should be compensated for such success. Courts, however, are increasingly acknowledging that unless it can be proven that the patented feature is the basis, or at least a substantial basis, for the demand of the product as a whole, the value of the entire device should not be used as the royalty base. Such analysis has been deemed the Entire Market Value (“EMV”).

Generally speaking, under the EMV analysis, the entire value of a device or apparatus is used to calculate lost profits or a royalty base despite the fact that the patent may cover only a portion of said device or apparatus. This means that the damages are usually calculated by multiplying the royalty rate or percentage by the value of the entire product – as opposed to merely the value of the infringing component. For actions involving certain technologies, the application of the EMV can have a substantial impact on the amount of damages awarded. Thus, the Federal Circuit’s decision in *Cornell University v. Hewlett-Packard Co.*⁶ is important, as it provides insight on how courts may approach the EMV analysis going forward.

Cornell is the owner of U.S. Patent No. 4,807,115 (the

“115 patent”) relating to an Instruction Reorder Buffer (“IRB”), which the court described thusly: “[the ‘115 patent] is a small part of the IRB which is a part of a processor, which is part of a CPU module, which is part of a ‘brick,’ which is itself only part of the larger server.” Though Hewlett-Packard typically sells the larger servers, of which processors are a component, it did sell 31,000 processors “à la carte” during the relevant damages period. The court repeatedly advised Cornell that it would scrutinize its damages proof, for it suspected that Cornell might claim damages using a base well beyond the claimed invention. The court expected “well documented economic evidence closely tied to the scope of the claimed invention.”

Cornell’s damages expert originally proffered a \$36 billion royalty “base” which included all server revenue during the infringement period. Judge Rader of the Federal Circuit, sitting by designation in the Northern District of New York, disagreed with such an all encompassing royalty base and excluded it during a *Daubert* hearing. He then provided Cornell a short time to re-calculate an appropriate base. Cornell’s expert returned with a royalty base of \$23 billion based upon the value of the CPU “bricks.” The jury awarded \$184 million based on the \$23 billion base and a 0.8% royalty, reduced from the 2.5% royalty requested by the plaintiff.

On JMOL, Judge Rader excluded the \$23 billion base and opined that the \$8 billion worth of processors was the correct base. The court further reduced the base to \$6.7 billion to account for an implied license from the use of already licensed Intel processors. The resultant \$6.7 billion multiplied by the 0.8% rate yielded the judgment of \$53.5 million.

Judge Rader emphasized that no economic evidence was presented showing that the patented technology drove sales of the server or sales of the “brick.” He also stated repeatedly that the plaintiff did not provide demand curves or other real world evidence showing that the technology encompassed in the ‘115 patent was the basis for customer demand or even a partial basis for customer demand for the server or the “brick.”

Observations for Practitioners

IP litigators and damages experts alike should heed the implications from Judge Rader’s rulings in *Cornell*. When putting together jury instructions, asking for more detail from the jury rather than a single damages number can be useful in the appeals process (depending on one’s

point of view). Though the plaintiff had asked for a 2.5% royalty, the jury came back with a 0.8% rate. Making the rate itself part of the instructions allowed the court to focus on the royalty base during post-trial motions and gave more flexibility for the court to make a decision rather than having to re-try the entire damages portion of the case. A jury often arrives at a number somewhere in between what the plaintiff and defendant have proffered. Parsing out royalty rates, royalty bases and various elements of lost profits such as convoyed sales and price erosion will certainly provide post-trial flexibility rather than leaving the court with a single number that would be difficult – if not impossible – to deconvolute.

The focus on “demand” curves as a tool to prove that a particular patented technology is the basis or partial basis for customer demand is potentially troublesome. Although the intent is well meaning and makes theoretical sense, the practical application of gathering sufficient information through the discovery process coupled with the need for sufficiently granular data focusing on the patented element, as opposed to other elements that might drive customer demand, may hinder the ability to present relevant demand curves. On the other hand, the court’s request for demand-related proof has been made clear. Experts must do a better job at showing some type of economic, financial and business support tying the technology in question to an entire apparatus. Courts must be presented with proof that the patented technology is the basis or at least a partial basis for customer demand for the entire device. Otherwise, the royalty will likely be based on the lowest salable unit.

Such proof might mean survey evidence is necessary, though such evidence comes with its own issues and problems. The solution may be a more detailed market analysis. Perhaps a plaintiff should provide a more systematic analysis of advertising to pinpoint the touted features and benefits of a device. In some instances, a review of features and benefits from prior products can be compared to features and benefits of the subject technology with a corresponding analysis of prices and volumes. Clearly, a superficial analysis of EMV that may have been sufficient prior to *Cornell* will no longer pass Federal Circuit muster.

[*ResQNet.com, Inc. v. Lansa, Inc.*: The Calculation of Reasonable Royalties Using Licenses That Cover Similar Technologies](#)

Determining a fair and reasonable royalty has been described by the Federal Circuit as “a difficult judicial chore, seeming often to involve more the talents of a conjurer than those of a judge.”⁷ This view may be due in part to the uncertainty associated with one of the manners in which reasonable royalties are calculated – the

hypothetical negotiation paradigm. Under this approach, the “negotiation” is deemed to have taken place just prior to the first infringement, the patent is presumed valid and infringed, and the royalty is to be determined by multiple factors, including those identified in *Georgia-Pacific Corp. v. U.S. Plywood Corp.*⁸

In the 2009 decision in *Lucent Techs. v. Gateway, Inc.*⁹, the Federal Circuit vacated a \$350 million dollar award to the plaintiff, remanding the case for a new trial solely on the issue of damages. The Court observed that the damages-related evidence that both parties had proffered was neither very powerful nor presented very well. In particular, the Court homed in on the insufficiency of evidence supporting *Georgia-Pacific* factor number 2, the “rates paid by the licensee for the use of other patents comparable to the patent in suit.”¹⁰

Within six months, the Federal Circuit again visited this issue in *ResQNet.com, Inc. v. Lansa, Inc.*¹¹ There, the Court vacated an award for past damages, citing insufficiency of supporting evidence – this time in relation to *Georgia-Pacific* factor number 1: the “royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.”¹²

The patent at issue in *ResQNet* related to graphical user interfaces for personal computers. After a bench trial, the United States District Court for the Southern District of New York found infringement and awarded \$506,305 in past damages based on a hypothetical royalty of 12.5%. *ResQNet*’s expert had used seven licenses to arrive at this figure. Five of the licenses were “re-branding or re-bundling” licenses that furnished finished software products and source code as well as services such as training, maintenance, marketing, and upgrades. The other two licenses were “straight” rate-based licenses that had been entered into as a result of litigation over the patents in suit. On cross-appeal, *Lansa* challenged the methodology used by *ResQNet*’s damages expert in determining the royalty rate.

The Federal Circuit took issue with two parts of the district court’s analysis. First, the re-bundling licenses had exceptionally high royalties – nearly eight times that of the straight rate-based licenses. Second, *ResQNet*’s damages expert did not provide any link between the re-bundling licenses and the first factor of the *Georgia-Pacific* analysis. Simply put, the re-bundling licenses were unrelated to the patent at issue. It was the plaintiff’s burden to persuade the Court with legally sufficient evidence regarding an appropriate reasonable royalty rate, and its expert did not even attempt to show that these agreements embodied, used, or otherwise showed demand for the infringed technology.

Here, the most reliable licenses in the record were the “straight” licenses that had arisen out of litigation. And,

although the Federal Circuit acknowledged that it had previously stated that litigation can skew the results of the hypothetical negotiation, it remanded the issue with the instruction that the district court may consider the “panoply of events and facts that occurred thereafter and that could not have been known to or predicted by the hypothesized negotiators.”

Observations for Practitioners

ResQNet serves as an extension of *Lucent*, suggesting that district courts should consider licenses that are commensurate with what the defendant has appropriated – even when the license is one that has arisen as a result of a settlement agreement. This holding certainly impacts the practical aspects of patent litigation. Most obviously, as it relates to *Georgia-Pacific* factor number 1, the parties should attempt to ensure that past damages are calculated using licenses that (a) cover the patent at issue, and (b) are comparable to the technology used without authorization. A license, however, may not fit neatly into either of these categories. *ResQNet* thus also serves as a reminder of the importance of sound and detailed expert reports in anticipation of the court’s potential exclusion of a license from the damages analysis. As a practical note, caveats should be included in the analysis where applicable, as they may serve to alleviate some risk associated with relevancy objections.

ResQNet’s impact also reaches beyond the manner in which expert reports are drafted. Because prior licensing agreements and the “panoply of events and facts that occurred thereafter and that could not have been known to or predicted by the hypothesized negotiators” may be relied on, parties should consider reviewing all information and documentation that are even tangentially related to settlement-based licenses – especially those relating to the negotiation of the royalty rate. This may be particularly persuasive evidence in arguing for either a higher or lower royalty. And, as a result of *ResQNet*, objections to the discovery of such evidence may no longer be well founded.

Finally, *ResQNet* serves as a cautionary reminder that a plaintiff has the burden of proof to persuade the court with legally sufficient evidence regarding an appropriate reasonable royalty. If the plaintiff does not meet this burden, the defendant need not proffer expert testimony in rebuttal; the court may refuse to sustain a royalty award based on inappropriate or irrelevant licensing evidence.

Uniloc USA, Inc. v. Microsoft Corp.: The 25 Percent Rule – A “Fundamentally Flawed Tool”

In *Uniloc USA, Inc. v. Microsoft Corp.*,¹³ the Federal Circuit continued to scrutinize economic constructs for

damages awards in patent cases, addressing issues relating to the proper analysis of calculating reasonable royalty damages and vitiating a common and often criticized tool used by patentees for determining a baseline royalty rate in a hypothetical negotiation. In short, the *Uniloc* decision clearly signals that to prevail on its damages claim, a party must lay a clear factual foundation that establishes the relevance of any analytical theory to the specific facts of the case.

Uniloc owns U.S. Patent No. 5,490,216 (the “‘216 patent”) which is directed to a software registration system to deter unauthorized copying of software. Uniloc sued Microsoft, claiming that its Product Activation feature found in many of the software programs it sells, including its Microsoft Office products, infringed the ‘216 patent. Microsoft’s feature allowed authorized users to register and be issued a license to use the software based on information supplied by the user. Following an eleven-day trial, a jury found the ‘216 patent valid and infringed, awarding Uniloc damages in the form of a reasonable royalty lump-sum payment of \$388 million.

Uniloc’s damages expert had relied on an internal Microsoft document to assign a \$10 value to the alleged infringing feature in Microsoft’s accused products. The expert then applied the so-called 25 percent rule and calculated a baseline royalty rate of \$2.50 for each alleged infringing act. “The 25 percent rule of thumb is a tool that has been used to approximate the reasonable royalty rate that the manufacturer of a patented product would be willing to offer to pay the patentee during a hypothetical negotiation.”¹⁴ The rule apportions 25 percent of the operating profits of the accused product or feature to the patent holder and the remaining 75 percent to the manufacturer, suggesting that a licensee would pay 25 percent of its expected profits for the product or feature that incorporates the patented technology.¹⁵

Applying the *Georgia-Pacific* factors, Uniloc’s expert then examined whether the 25 percent value should be adjusted, but ultimately concluded that those factors were equally balanced between the parties. Multiplying the \$2.50 royalty rate by the number of issued licenses, the expert calculated a lump-sum royalty payment of \$565 million. Finally, as a “check” on the reasonableness of his analysis, Uniloc’s expert testified that his lump-sum royalty payment amounted to only 2.9% of Microsoft’s \$19 billion in revenue attributed to its software products.

In addition to JMOL motions attacking the jury’s verdict regarding infringement, validity, and willfulness, Microsoft sought a new trial on damages based on Uniloc’s improper reliance on the 25 percent and the entire market value rules. The district court denied

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JMOL of invalidity and granted JMOL of non-infringement and willfulness. On the issue of damages, the court granted Microsoft's motion for a new trial on the improper use of the entire market value rule, but rejected Microsoft's arguments regarding the 25 percent rule.

On appeal, the Federal Circuit issued a comprehensive decision dealing with various aspects of infringement, willfulness, invalidity and damages. On the issue of damages, the Court affirmed the district court's grant of Microsoft's motion for a new trial, rejected the 25 percent rule as a matter of law, and further refined its entire market value rule jurisprudence.

The Federal Circuit viewed the question of the proper use of the 25 percent rule as one of first impression, but acknowledged "passively tolerat[ing] its use where its acceptability has not been the focus of the case."¹⁶ The Court also noted that district courts "invariably admitted evidence based on the 25% rule, largely in reliance on its widespread acceptance or because its admissibility was uncontested."¹⁷ Deciding the issue in this case, the Court held that "as a matter of Federal Circuit law . . . the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation. Evidence relying on the 25 percent rule of thumb is thus inadmissible under *Daubert* and the Federal Rules of Evidence, because it fails to tie a reasonable royalty base to the facts of the case at issue."¹⁸

Analyzing relevant Supreme Court case law, the Federal Circuit explained that critical to assessing the admissibility of expert testimony is whether the expert "has justified the application of a general theory to the facts of the case." The Court continued that in the context of calculating patent damages, "there must be a basis in fact to associate the royalty rates used in prior licenses to the particular hypothetical negotiation at issue in the case." By contrast, "the 25 percent rule of thumb as an abstract and largely theoretical construct fails to satisfy this fundamental requirement. The rule does not say anything about a particular hypothetical negotiation or reasonable royalty involving any particular technology, industry, or party."¹⁹ The Court also observed that the rule is essentially arbitrary because it does not account for the actual profits of the products sold, the availability of close substitutes, or the relationships of the parties and the relative risks assumed by the purported licensee and licensor.

The Federal Circuit was also not willing to sanction use of the 25 percent rule as a baseline analytical tool: "It is of no moment that the 25 percent rule of thumb is offered merely as a starting point to which the *Georgia-Pacific* factors are then applied to bring the rate up or down."²⁰ Notably, the Court stated that examination of

the *Georgia-Pacific* factors as an analytical framework for calculating reasonable royalty damages remains a valid exercise – particularly those factors that look at "royalties paid or received in licenses for the patent in suit or in comparable licenses" and "the portion of profit that may be customarily allowed in the particular business for use of the invention or similar inventions" – but cautioned that "evidence purporting to apply to these, and any other factors, must be tied to the relevant facts and circumstances of the particular case at issue and the hypothetical negotiations that would have taken place in light of those facts and circumstances at the relevant time."²¹ Accordingly, the Federal Circuit held that the \$2.50 royalty rate calculated by Uniloc's expert using the 25 percent rule "had no relation to the facts of the case, and as such, was arbitrary, unreliable, and irrelevant" and, moreover, a post-application of the *Georgia-Pacific* factors could not remedy such a "fundamentally flawed premise."²²

The Court also rejected Uniloc's use of the entire market value rule as a "check" on the reasonableness of its damages claim. The Federal Circuit concluded that Uniloc failed to demonstrate that Microsoft's Product Activation feature created the basis for customer demand or that the entire market value of the accused products was derived from the patented contribution. Indeed, the Court noted that "[t]his case provides a good example of the danger of admitting consideration of the entire market value of the accused where the patented component does not create the basis for customer demand."²³ Notably, the *Uniloc* decision also clarified dicta in *Lucent Techs. v. Gateway, Inc.*, which had indicated that an entire accused product may be used as a royalty base if the rate is sufficiently low. As the Court stated in *Uniloc*: "The Supreme Court and this court's precedents do not allow consideration of the entire market value of accused products for minor patent improvements simply by asserting a low enough royalty rate."²⁴

Observations for Practitioners

The clear implication of the *Uniloc* decision is the importance of both relevance and specificity in presenting a party's damages case. The Federal Circuit has signaled that it expects district courts to act as gatekeepers, requiring parties to support their damages claims with economic proof and case-specific factual evidence closely tied to the particular patents, technologies, industries, products, and parties at issue.

Going forward, parties may need to devote more resources to damages related discovery and formulate their damages theories as part of their early case as-

assessments, engaging economists and damages related fact witnesses at earlier stages in litigation and in pre-litigation counseling. In addition, litigants should stress targeted discovery of business planning records and financial metrics relating to the accused products and to the specific patented technology, developing solid evidentiary support for their damages analyses. In addition to the overall profitability of an accused product, relevant discovery should focus on the motivation for, and economic impact of, incorporating a patented feature into an accused product, such as cost saving, price increase, differential profitability, and increased demand. Furthermore, attention should be given to relevant industry licensing and practice, and to specific market research and trends, as guides to assessing the reasonableness of the results of a hypothetical negotiation simulation and license royalty calculations. These considerations likely will increase the pressures – already exacerbated in the current world of electronic discovery – to locate, manage, and analyze vast amounts of damages related data.

Furthermore, litigants should ensure that the *Georgia-Pacific* factors are thoroughly analyzed and insist that both the license royalty rate and base properly reflect the incremental contribution of the patented technology. Damages experts must rely on relevant and specific facts and provide a link showing how those facts and their theories or economic principles simulate a hypothetical negotiation between the parties, and with respect to the patented technology at issue. Conversely, practitioners should carefully scrutinize adversaries' damages analyses and claims, and challenge improper use of irrelevant facts and flawed economic theories.

Conclusion

Rather than waiting until the end of discovery to engage an expert and gather damages proof, litigators need to address damages earlier in the case. Technical experts can be utilized to tie the patented elements to features and benefits of the accused products or devices. Technical experts may also assist with technical comparisons of the patents in suit relative to patents in existing license agreements. Damages experts may need to develop more in-depth analyses of relevant markets, customer preferences, purchase-drivers, and non-infringing alternatives whether by surveys or other means. Consideration may be given to analyzing price and volume changes over time for the products in suit compared to previous or comparable products.

As the cases discussed above demonstrate, the Federal Circuit has signaled that it demands greater attention to detail in the context of patent damages. In the absence of broad and early damages based planning and

discovery, parties and their attorneys will be challenged to establish sufficient support for their damages claims and experts will strain to bolster their opinions.



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¹ The views expressed herein are those of the authors specifically identified, and they do not necessarily represent the views of the authors' firm or clients. All authors are members of the New York Intellectual Property Law Association's Patent Litigation Committee.

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⁵ Statistics based on an analysis of Federal Circuit decisions performed by FTI Consulting, Inc.

⁶ 609 F.Supp.2d 279 (N.D.N.Y. 2009).

⁷ *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1574 (Fed. Cir. 1988).

⁸ 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

⁹ 580 F.3d 1301 (Fed. Cir. 2009), *cert. denied*, 130 S. Ct. 3324 (2010)

¹⁰ *Id.*, at 1325-7.

¹¹ 594 F.3d 860 (Fed. Cir. 2010).

¹² *Georgia-Pacific*, 318 F. Supp. at 1120.

¹³ 632 F.3d 1292 (Fed. Cir. 2011).

¹⁴ The Federal Circuit noted that the 25 percent rule has "met its share of criticism" by experts in the field. *Id.* at 1313.

¹⁵ Robert Goldscheider *et al.*, *Use Of The 25 Per Cent Rule in Valuing IP*, 37 *les Nouvelles* 123, 123 (Dec. 2002) ("Valuing IP").

¹⁶ 632 F.3d at 1314.

¹⁷ *Id.*

¹⁸ *Id.*, at 1315.

¹⁹ *Id.*, at 1317.

²⁰ *Id.*

²¹ *Id.*, at 1317-8.

²² *Id.*, at 1318.

²³ *Id.*, at 1320.

²⁴ *Id.*

As Time Goes By – “Women in NYIPLA”

by John B. Pegram

There were few female patent attorneys when I joined the profession 45 years ago. The most senior woman then in our Association probably was Margaret Wagner Smith who handled mechanical patent and trademark cases at the Davis Hoxie firm where I worked. She was a partner for many years in the New York office of Howson & Howson, joining Davis Hoxie as Of Counsel in 1965, when Howson’s New York office closed. Mrs. Smith joined the New York Patent Law Association in 1927 and, I understand, was active in committee work and sat with other members on the ballroom floor at the Judges Dinner. (In those years, spouses of judges and of members escorting judges sat in the balcony.)

Pauline Newman joined our Association in 1958 and was the first female Board member in 1968-72. She was at the top of her class when she obtained her Ph.D. in Chemistry from Yale in 1952; however, the professional opportunities for women at that time were limited. “That is simply the way it was,” she told me in a recent interview. She attended NYU School of Law where reputedly there was a 5% limit on female students (which was never filled) and joined the patent department of FMC Corporation.

At the time, she told me, she knew of one outstanding female patent attorney in New York – E. Janet Berry, who was patent counsel of National Distillers and a member of our Association.

Dr. Newman went on to become Director of FMC’s Patent, Trademark and Licensing Department in 1969, continuing in that position when FMC’s headquarters and her office moved from New York City to Philadelphia. She was very active during the 1970s and early 1980s in



a small group of prominent corporate patent counsel who worked for patent law reform

John B. Pegasus is a Past President and Interim Historian of NYIPLA, and a Senior Principal of Fish & Richardson, P.C.

and establishment of the Court of Appeals for the Federal Circuit. Since 1984, she has been a Circuit Judge of that Court.

The next female Board member after Judge Newman was Siegrun Kane, in 1981-1984. She is a leading trademark attorney, perhaps guided in that direction as the daughter of a patent lawyer. Maria C.H. Lin served on the Board from 1983-1986. Her involvement in our Association had strong support from our 1980-1981 President, Jerry Lee, and others at the Morgan Finnegan firm. Elsie Quinlan was a Board member from 1985-1988. I recall her earlier, devoted service as a member of the Meetings and Forums Committee and as Chair of the Publications Committee. Evelyn M. Sommer joined NYIPLA in 1971. She served on the Board in 1988-1991, and was active in committees both before and after her Board service. Her career has included work as General Patent Counsel of Champion International Corp. and in private practice.

Our first female officer was Mary-Ellen Moran Timbers, now Mary-Ellen Devlin, who served as Treasurer in 1984-1989. She started her patent career at her father’s firm, Cooper, Dunham, Clark, Griffin & Moran. After a few years, she moved to Boehringer Ingelheim Pharmaceuticals where she is now Executive Group Counsel, IP.

Andrea Ryan joined our Association in 1978 at the suggestion of partners in her firm, Brumbaugh, Graves, Donohue & Raymond, a patent firm with a long history of leadership in this and other bar associations. Andrea clearly benefited from that firm’s strong mentoring tradition. In NYIPLA, she has said, she never felt either overlooked or pushed forward because she was a woman. She served as a Board member in 1986-1989 and then went on up the ladder, serving as President in 1992-1993.

While active in our Association’s leadership, Andrea moved to White & Case and then was offered a job as General Patent Counsel at Warner-Lambert, a position she held from 1990-2000. She has described her work at Warner Lambert as the most exciting and rewarding in her career. Among her projects, for example, was patent protection for Lipitor.

Our Association’s future promises to include an increasing number of female leaders.

January 26, 2011 CLE Program
Topic: Microsoft v. i4i

The Committee on Meetings & Forums, chaired by Jay Anderson and Richard Martinelli, hosted a CLE luncheon at the Harvard Club. The program was titled “*Microsoft v. i4i*: Preponderant Evidence vs. Clear and Convincing Evidence – The U.S. Supreme Court Tackles the Standard for Judging Important Patent Validity.”

Among the panelists was the Honorable Paul Michel, retired Chief Judge of the Court of Appeals for the Federal Circuit. Donna M. Praiss, a partner at Michelman & Robinson, LLP, served as moderator.

Charles Miller, a partner at Dickstein Shapiro LLP, reviewed the background, chronology and issues of *Microsoft v. i4i*. He discussed the sources of the clear and convincing (C&C) standard as applied to patent cases, and the issues regarding evidence not considered by the PTO. He explained that several scenarios were possible: the Supreme Court might keep the C&C standard for all invalidity issues, enunciate a preponderance of evidence (POE) standard for all issues, or establish a split standard depending on whether the invalidity evidence had been before the PTO. He noted that many research institutions and technology start-up companies oppose a shift to a POE standard as weakening the presumption of validity and thus frustrating investors’ expectations.

James Dabney, a partner at Fried, Frank, Harris, Shriver & Jacobson LLP, argued that the Federal Circuit’s application of a C&C standard conflicts with Supreme Court precedent, and is not supported by 35 U.S.C. § 282, which establishes the presumption of patent validity. He noted that a standard of evidence of invalidity is not mentioned in that section, while the C&C standard is specified in 35 U.S.C. § 273(b)(4) for asserting an invalidity defense with respect to a business method patent, thus indicating that the POE standard should apply when a heightened standard is not explicitly prescribed. He also pointed out that the C&C standard is actually required in relatively few situations, for example, when deciding whether a person is lawfully present in the United States or should be removed.

Judge Michel stated his view that the Supreme Court should not alter the existing C&C standard, pointing out that this standard has been applied for nearly three decades, and that § 282 has been consistently interpreted to impose a C&C standard on a party asserting invalidity. He listed several possible effects of lowering the standard: reduced investment and royalties, lower portfolio values, and increased infringing activity. A split standard, in his view, would also have negative effects: increased litigation on the issue of whether art was considered by the PTO, jury confusion, and an increased volume of art placed in prosecution files. Judge Michel thought it is probable, however, that the Supreme Court will change the standard.



March 1, 2011 CLE Program
Topic: Protecting Consumer Privacy

The Privacy Law Committee hosted the CLE program “FTC Report: Protecting Consumer Privacy in an Era of Rapid Change”. The panelists were Leonard L. Gordon, Northeast Regional Director of the Federal Trade Commission, Steven C. Bennett of Jones Day, Randi W. Singer of Weil Gotschal & Manges, and Marc J. Lederer of Willkie Farr & Gallagher. Jonathan E. Moskin of Foley & Lardner (Chair of the Privacy Law Committee) was the moderator.

The panelists began with a discussion of the history of FTC enforcement of privacy rights leading to its December 2010 report “Protecting Consumer Privacy in an Era of Rapid Change”. This report focuses on how best to protect individual privacy on the internet in view of the increasing practice of “behavioral advertising”, namely, tracking individual computer users’ on-line activities for the purpose of delivering advertising targeted to the users’ patterns of conduct. The FTC recognizes that there are considerable benefits to allowing such advertising, given that so much of the content on the internet is paid for by advertisers. On the other hand, the FTC (and many consumer groups) are concerned about the potential dangers to consumers in tracking individuals’ conduct – particularly insofar as it concerns sensitive queries and activities (e.g. regarding medical or financial matters). On the basis of



such tracking, advertisers are able to develop highly detailed profiles of individual users. Even if such data is tracked only by IP address rather than individual name, the fact is that advertising firms increasingly have at their disposal the ability to de-anonymize the data.

One of the most controversial proposals under consideration by the FTC would require a “do-not-track” option (modeled on the FTC’s “do-not-call” registry) through which consumers could set their internet browsers to block tracking. The FTC is eager to establish a mechanism that will allow consumers greater access to, and enable them to exercise greater control or meaningful choice over, the data collected (particularly sensitive data) about them; limit data retention by internet advertisers; and control the sharing (or sale) of such data beyond the scope of any original consent. Particularly challenging is the need to adapt such policies to a world in which computing is increasingly done on mobile devices. Congress is also weighing legislative action and the Commerce Department is seeking to better coordinate government responses to new challenges to individual privacy, both among the states that have legislated in this area and with respect to foreign privacy regulations.

89th Annual Dinner in Honor of the Federal Judiciary

The New York Intellectual Property Law Association's 89th Annual Dinner in Honor of the Federal Judiciary on March 25, 2011 was, as always, a festive and memorable event.

Notwithstanding a less than robust economy, 2600 judges, NYIPLA members and their guests packed the Waldorf=Astoria where Association President Dale Carlson presided over the ceremonies.

The Keynote Speaker was the Honorable John Gleeson of the United States District Court for the Eastern District of New York. His remarks are printed in their entirety in this Bulletin.

The Association's Ninth Annual Outstanding Public Service Award was presented to the Honorable Arthur Gajarsa of the United States Court of Appeals for the Federal Circuit.

A special Lifetime Achievement Award honoring the late Honorable Giles Rich was presented to his granddaughter, Elizabeth Hallinan. All guests received a CD prepared by the Federal Circuit Historical Society commemorating Judge Rich's long and distinguished career.



Some of the more than 2600 members and guests



NYIPLA President Dale Carlson



The dais



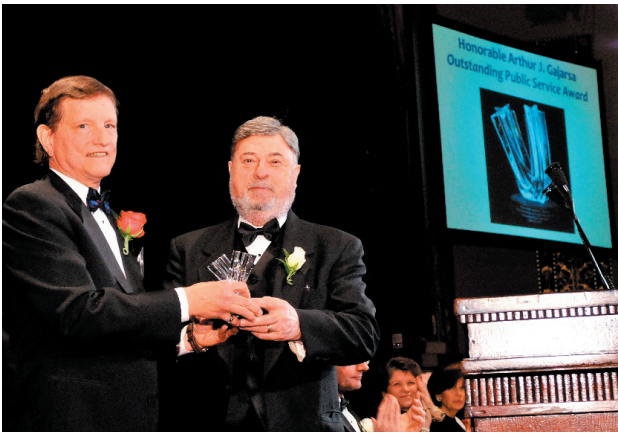
Hosts and honored guests at the Silver Corridor check-in



Dale Carlson presenting the Keynote Speaker's crystal to Judge Gleeson



Dale Carlson presenting the Lifetime Achievement Award to Judge Giles Rich's granddaughter, Elizabeth Hallinan



Dale Carlson presenting the Outstanding Public Service award to Judge Gajarsa



left to right: Susan Gleeson, Judge John Gleeson, NYIPLA President-Elect Terri Gillis, Dale Carlson, Ginger Carlson



Standing: Hon. Paul Luckern, Charles Hoffmann, Hon. Dennis Jacobs, Hon. Loretta Preska, Dorothy Auth, Hon. William Skretny, Hon. James Spencer, Alice Brennan
Sitting: Hon. John Gleeson, Dale Carlson, Hon. Arthur Gajarsa, Terri Gillis, Hon. Carol Bagley Amon, Hon. Garrett Brown, Thomas Meloro, Hon. Pauline Newman

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Judge Gajarsa with former NYIPLA President David Kane and Siegrun Kane



Federal Circuit Judge Pauline Newman and Friends



Hon. Michael Shipp and Mrs. Shipp, Mrs. Arpert and Hon. Douglas Arpert and Hon. John Lifland



Judge Rich's relatives with the Lifetime Achievement Award



Thomas Meloro, Jay Anderson



Mr. and Mrs. Edward Manzo



Post-Dinner Dancing

CLE Day of Dinner Program

Approximately 150 judges and attorneys attended the 2011 CLE Day of Dinner Program: *A View From the Bench on the Role of the Expert Witness in Patent Litigation*.

On the distinguished panel were Hon. Timothy B. Dyk, U.S. Court of Appeals for the Federal Circuit; Hon. Garrett E. Brown, Jr., Chief Judge of the U.S. District Court for the District of New Jersey; Hon. Susan G. Braden, U.S. Court of Federal Claims; and Hon. Theodore R. Essex, Administrative Law Judge, U.S. International Trade Commission.

NYIPLA Past President Christopher A. Hughes of Cadwalader, Wickersham & Taft moderated the panel and contributed the practitioner's view.

The Program was organized by the Association's CLE Committee (Co-Chairs Anna Erenburg and Richard E. Parke).



Standing: Dorothy Auth, Christopher Hughes, Hon. Susan Braden, Richard Parke
Sitting: Hon. Theodore Essex, Hon. Timothy Dyk, Hon. Garrett Brown

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Summary of the April 12, 2011 Board of Directors Meeting

The meeting of the Board of Directors was called to order at The Union League Club at 38 East 37th Street, New York, at 1:30 p.m. by President Dale Carlson. The Board meeting was preceded by a meeting of the Board with Committee Chairs and Co-Chairs who gave reports of their committees' activities in 2011. Terri Gillis, Charles Hoffmann, Susan Progoff, John Moehringer, Dorothy Auth, Ira Levy, Doreen Costa, Walter Hanley and Allan Fanucci were present. Alice Brennan and Tom Meloro participated by conference call. Also present were Robin Rolfe and Feikje van Rein of Robin Rolfe Resources. Absent and excused were John Delehanty, Leora Ben-Ami, Jeffrey Butler and Mark Abate.

The board discussed preliminary feedback from the Judges Dinner - which was overall quite positive. A Quiet Room designation was proposed for one of the satellite Waldorf rooms as a way to accommodate guests who wish to avoid noise and be able to hear the keynote speaker in their remote location.

The minutes of the March 15, 2011 Board meeting were approved.

Alice Brennan presented the Treasurer's report. Although the final accounting from the Judges Dinner is not yet complete, preliminary estimates indicate that the event was financially successful, and had enhanced attendance year-over-year.

Confirming the discussion with the Committee Chairs, the Day Of Dinner CLE event was considered a success and was well received.

Charles Hoffmann reported on the activities of the Amicus Brief Committee. The Committee has recommended the Board consider filing a brief in *Hyatt v. Kappos*, wherein the parties are currently petitioning for *certiorari*. The Committee recommends opposition to the *certiorari* request. After some discussion, the Board approved

the Committee's request and will review the draft brief before it is approved for filing.

In accordance with the Bylaws, the list of new members was read at which point the Board passed a motion to accept the new members.

As relates to the Giles S. Rich Diversity Scholarship, Feikje will pursue getting the final contract executed with Cardozo Law School.

John Moehringer reported on the Conner Writing Competition. Of the 46 entries, a group of 12 were selected which were then narrowed down to the top four. The Board approved the Committee's recommended winners.

Ira Levy reported on the progress of preparing the JPPCLE annual patent seminar. Thus far, 375 attendees are registered. USPTO Commissioner David Kappos is scheduled to give a morning address and the Honorable Arthur Gajarsa will give the luncheon address.

Charles Hoffmann reported that the Annual Meeting planning is moving forward on schedule. The announcement mailing will be sent to the membership on April 14, 2011. Dorothy Auth reported on the preparations for the upcoming Spring Trademark CLE event. The topics list has been prepared and the Committee is identifying appropriate speakers for the event. The luncheon speaker will be TTAB Judge Wolfson.

Dale Carlson reported that the District of Conn. is proposing new rules and has asked that the NYIPLA give comments on them. The Litigation Committee led by Tony LoCicero will provide the Board with a summary report.

The meeting was adjourned at 2:00 pm. The next scheduled meeting of the Board will be held on Tuesday May 24, 2011 at 5:30 pm at the Harvard Club.

THE NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION, INC.

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