

April 30, 2013

The Honorable Teresa S. Rea
Acting Under Secretary of Commerce for Intellectual Property and
Acting Director of the United States Patent and Trademark Office
Mail Stop OPEA
P.O. Box 1450
Alexandria, VA 22313-1450
ATTN: Elizabeth Shaw

via email ip.policy@uspto.gov

**RE: Response to “Request for Comments on a Patent
Small Claims Proceeding in the United States”
77 Fed. Reg. 74830 (December 18, 2012);
78 Fed. Reg. 14515 (March 6, 2013)**

Dear Acting Under Secretary Rea:

The American Intellectual Property Law Association (AIPLA) is pleased to have this opportunity to present its views with respect to the “Request for Comments on a Patent Small Claims Proceeding in the United States,” as published in the December 18, 2012, issue of the Federal Register (the “Notice”). 77 Fed. Reg. 74830 and 78 Fed. Reg. 14515, March 6, 2013 (extension of comment period).

AIPLA is a U.S.-based national bar association with approximately 15,000 members who are primarily lawyers in private and corporate practice, government service, and the academic community. AIPLA represents a diverse spectrum of individuals, companies and institutions involved directly and indirectly in the practice of patent, trademark, copyright, unfair competition, and trade secret law, as well as in other fields of law affecting intellectual property.

1. Provide a general description of your understanding of the need or lack of a need for a patent small claims court or other streamlined proceedings. If you believe there is a need, please provide a description of which types of patent cases would benefit from such proceedings. If you believe that there is not a need for such a court or proceedings, please share why you hold such a view.

In general, AIPLA believes there is a need for patent infringement claims to be adjudicated in a cost-effective matter. AIPLA is supportive of small claims proceedings in certain cases, provided however, that a number of concerns discussed below can be addressed adequately. Also, AIPLA notes that many of the issues with costs of patent litigation may be addressable through more streamlined case management in the district courts, and any new small claims proceedings should be tried first on a pilot basis.

The success of the patent system depends in part on three basic elements: (1) the prompt and effective issuance of patent rights for new and nonobvious inventions; (2) an effective system of enforcing those rights to exclude the unauthorized using, making, selling, offering or importing of those inventions; and (3) the timely expiration of those rights and public possession of the fully disclosed inventions into the public domain.

For a patent system to realize its potential, these features must be available to all inventions and all inventors, large and small. Costs will always be a challenge in any effort to improve the functioning of those elements, and the cost of enforcement has been well documented. However, whatever the cost difficulties of patent enforcement across the board, it is self-evident that those costs can be overwhelming for small entities, to the point of rendering their patent rights virtually useless. In addition, the costs of defending cases can be prohibitive for accused infringers as well.

AIPLA believes that, provided some key issues can be addressed, the U.S. patent system could be strengthened by creating a small claims proceeding that would improve the enforcement alternatives for those who cannot afford the current costs of litigation. Investigating the feasibility of such a special process would recognize that the patent rights of small entities, as well as their role in supporting small business and jobs, are no less important than the patent rights of large companies.

Enforcement Costs and the Need for a Small Claims Process

AIPLA regularly conducts a survey of its members on the business of practicing intellectual property law, and publishes the results of these surveys every other year. An important part of that survey is the member estimate of the cost of litigating IP rights, as incurred through several stages of the judicial process and according to the amount of money at risk in the litigation. The results of the most recent survey on patent enforcement costs are as follows:

| | |
|---------------------------------------|-------------|
| Less than \$1 million at risk | |
| End of discovery | \$350,000 |
| Inclusive, all costs | \$650,000 |
| \$1-\$25 million at risk | |
| End of discovery | \$1,500,000 |
| Inclusive, all costs | \$2,500,000 |
| More than \$25 million at risk | |
| End of discovery | \$3,000,000 |
| Inclusive, all costs | \$5,000,000 |

The survey reveals a subset of patent litigation that would benefit from a streamlined proceeding that would be less costly than traditional patent litigation (hereinafter, “small claims proceeding”). The responses indicate that the costs to litigate a patent claim at the low end of the “at risk” scale (hereinafter, “small” claims) are disproportionately high in comparison to the amount at risk. This litigation cost can be a barrier to enforcement of meritorious small patent infringement claims, and can also be a detriment to accused infringers who face substantial costs to defend relatively low-dollar damages claims.

Moreover, although the survey data suggests a need for a streamlined proceeding, it is not possible to quantify the actual need or to determine whether that need can reasonably be met without the actual experience of having such a proceeding in place. For example, the survey suggests that litigation costs may be a barrier to enforcing small claims, but it does not reflect just how many small patent infringement claims there actually are. Nor does it reflect how many are litigated, how many are never pursued because of the cost barrier, and how many cases settle quickly because of the prohibitive costs of litigation.

While economic costs are one factor, the human capital involved in enforcing and defending patents in protracted litigation can be stifling for companies. Would a new small claims proceeding be intended for and used by claimants who would otherwise use the existing system, or is it intended for a different group, or both? Would it add to the number of patent infringement suits filed or divert some suits from traditional to small claims litigation? Would a small claims “track” in Patent Pilot Courts be a possible alternative? Would a new small claims proceeding limit discovery, thereby reducing the associated costs? On the other hand, costs can be a significant concern for both parties, and there may be defendants for whom a streamlined resolution of infringement claims would be just as economical as it would be for the plaintiff.

Whether a small claims proceeding would actually be utilized will depend on whether a balance can be struck between the downside risk to a litigant, including the possible increased risk of an adverse result due to streamlined procedures, and the upside benefit of cost savings over traditional litigation. This may not be an easy balance to attain.

To answer these and other questions, AIPLA recommends that any small claims proposal be tried on a pilot basis initially. This would provide experiential data relative to whether the proceedings are fulfilling a need in light of any additional resources required, and would guide subsequent recommendations regarding the need for, and nature of, a permanent small claims proceeding. Below, we address some of the key issues around small claims proceedings.

- 2. Please share your views, along with any corresponding analysis and empirical data, as to what a preferred patent small claims proceeding should look like.*
- 3. Please share any concerns you may have regarding any unintended negative consequences of a patent small claims proceeding along with any proposed safeguards that would reduce or eliminate the risk of any potential negative unintended consequences, to the extent any such concerns exist.*

We address items 2 and 3 and the subparts of item 2 generally below, although data based upon AIPLA’s prior surveys is set out above.

Substantive Issues

Assuming an interest in and need for a small claims proceeding, a number of issues surrounding such a proceeding still require careful consideration. Any undertaking to develop a small claims proceeding would need to identify and address specific aspects of the litigation process where

high costs could be reduced without undermining the rights of either party and without unduly burdening the limited resources of the judiciary.

One of the key expenses associated with litigation is discovery. This is supported by the survey data set out above, showing the costs of discovery where less than \$1 million is at stake exceed one-third of that amount. Accordingly, AIPLA believes that any small claims procedure must, by definition, limit discovery. This could be accomplished by implementing narrow definitions of relevance (akin to the recent court rulings limiting discovery under Fed. R. Civ. P. 26(b); *cf. Abbott Laboratories v. Cordis Corporation*, Fed. Cir., No. 2012-1244, 3/20/2013), limiting the number of document requests and restricting interrogatories “to those seeking names of witnesses ..., the computation of each category of damage alleged, and the existence, custodian, location and general description of relevant documents ... and other physical evidence, or information of a similar nature” (S.D. N.Y. Local Rule 33.3). Other options might include limiting opportunities for pre-trial and summary judgment, or barring pre-trial claim construction hearings.

It is well established that the Seventh Amendment right to a jury trial applies to patent infringement cases.¹ Accordingly, AIPLA believes that any small claim procedure must accommodate the right to a jury trial unless both parties waived their Seventh Amendment rights. Such an alternative would immediately remove all patent litigation costs associated with juries, but it must be accompanied by trial limitations to account for the briefings associated with bench trials.

However, another alternative for a low-cost, small claims proceeding might be to reduce rather than eliminate the costs of a jury trial in patent litigation. Even though the Supreme Court has confirmed that the right to a jury trial attaches to patent litigation, the Seventh Amendment does not require a jury of 12 and that it can be satisfied with a jury of six.² While that decision expressed no opinion on whether any number less than six would suffice, it acknowledges that a “jury” requires a number “large enough to facilitate group deliberation combined with a likelihood of obtaining a representative cross section of the community.”³ The cost savings associated with a smaller jury could be found not only in the reduced human resources involved but also in the case management economies with respect to scheduling, voir dire, deadlines, and trial length.

Another substantive question to be resolved for a small claim patent proceeding is the preclusive effect of a judgment, which is integrally tied with the question of appeal. If a proceeding is designed with an opt-out alternative, the enforceability of small claims judgments against “downstream” parties could deter participation where those judgments resulted from an abbreviated proceeding. Additionally, the issue of how to resolve any preclusive effect for repeated post-judgment conduct must be addressed, so that an adjudicated infringer will not repeat the infringing conduct.

¹ *Markman v. Westview Instruments*, 517 U.S. 370, 377 (1996) (“[T]here is no dispute that infringement cases today must be tried to a jury, as their predecessors were more than two centuries ago.”)

² *Colgrove v. Battin*, 413 U.S. 149, 159-160 (1973) (the Seventh Amendment commands that the “right” of a jury trial be preserved, and the use of six members rather than 12 does not impair that right.)

³ *Id.*

Concerning appeal, AIPLA believes that additional considerations are needed regarding the ability to appeal from judgments in small claims proceedings. While the grounds for appeal may need to be limited, this needs to be balanced with the parties' interests in using small claims proceedings, not incentivizing repeated litigation for unhappy litigants, and still encouraging use of a small claims process in appropriate circumstances. Naturally, reduced grounds for appeal would only be justified if the preclusive effect of a judgment was narrowed from that normally presented. One possibility is to only allow a party to appeal when the judgment appears to be fundamentally unfair or the result of fraud, bias, or some form of prejudicial misconduct.

Any small claim patent proceeding must also address the issue of injunctive relief. AIPLA is of the opinion that costs of litigation rise when an injunction is requested or, phrased differently, the cost-benefit analysis shifts when an injunction is available. It may be that a party faced with a possible injunction will want to have a broader opportunity to litigate the issues or will want a right of appeal, and AIPLA believes that this is the most significant issue related to a party opting out of participation in the a small claims proceeding.

One concept that AIPLA has a small claim patent proceeding is a concern that it will not be utilized if the proceeding is voluntary or there is an easy opportunity to opt out of the proceeding. For instance, the Patent Code includes the opportunity for parties to submit "an existing patent validity or infringement dispute" to voluntary arbitration. 35 U.S.C. 294(a). It is AIPLA's view that this provision is underutilized, and therefore the Association is concerned that a voluntary small claim patent proceeding also would be underutilized if it is easily avoided.

Forum/Venue of Small Claims Pilot

A small claims proceeding that litigants would most likely elect to use would be one conducted before courts with experience in complex litigation, and even better, with experience in patent litigation. United States District Courts have this experience, although experience with patent litigation varies from district to district, and judge to judge. And many of the judicial districts that currently see a large number of patent case filings are also burdened with the busiest dockets and largest backlogs.

The districts selected for the Patent Pilot Program may be a good choice of venue for new small claims proceedings, and for a pilot of such proceedings, as judges in these districts have indicated interest in trying patent cases and will have the opportunity to give patent issues particular attention. But it may be that even this degree of centralization would unduly burden small litigants who might be precluded from having their case heard in a local forum. In addition, to the extent that the creation of a new small claims proceeding presents raises docket management issues, it is imperative that any discussion of possible additions to district court caseloads include input from sitting judges.

The caseload issues facing Article III judges might be alleviated by allowing federal magistrate judges hear small claims cases. In many cases, parties to traditional patent litigation, as in other litigation, are already consenting to have their cases tried by magistrate judges, and some magistrate judges have as much experience with patent cases as Article III judges. Of course,

both parties would need to consent to have a magistrate judge conduct the proceeding. Fed. R. Civ. P. 73.

Another possible consideration would be adoption of a small claims docket with streamlined discovery to be used in the district courts.

The U.S. Court of Federal Claims is another possible venue because the court has experience with patent litigation. The court also has a travel budget to travel to appropriate venues. Whether that budget would be large enough to handle small claims proceedings could be an issue. In addition, for the same reasons that some oppose the concept of specialized patent trial courts – such as concentration of power, elimination of geographical diversity, and affording special treatment to the field of patent law – there may be resistance to the idea of centralizing even small patent infringement claims in a single court. It may be more acceptable for the Court of Federal Claims to be one of several venues for small claims proceedings, rather than a sole venue.

At present, the U.S. Patent and Trademark Office does not appear to be a realistic venue for adjudicating infringement and damages issues. While it is experienced with validity issues, it does not have experience with infringement and damages issues. Also, it is in the very beginning stages of gaining experience with the new contested validity proceedings under the Leahy-Smith America Invents Act.

Available Remedies

A small claims proceeding would be intended to provide a mechanism for resolving those patent claims for which current litigation costs are disproportionately high in comparison to the amount at risk. The survey results above clearly indicate a correlation between the amount expended in litigation and the amount at risk, suggesting that costs can be contained by confining a proceeding to cases in which some limited amount is at risk. By the same token, the jurisdiction of the small claims proceedings should be limited to cases in which the downside risk to defendants will not be so high that they will simply opt out of a streamlined proceeding. The appropriate cap would be best developed through further information-gathering and hearings.

To be effective, the relief provided in a small claims proceeding would need to address both compensation for past harm as well as some protection against continuing infringement. On the other hand, the downside risk to a defendant of an injunction could far exceed a damages award and is difficult to quantify. For this reason, it is unlikely that injunctive relief could be made available in a small claims proceeding. However, consideration should be given to how a patentee could be compensated for continued infringement following a favorable judgment in the small claims proceeding.

Mechanisms for Streamlining the Proceeding

In the interest of a streamlined procedure, it may be advisable to limit the subject matter jurisdiction of a small claims proceeding to patent infringement claims and invalidity counterclaims or defenses. Consideration could be given to eliminating, in a balanced way,

certain claims and defenses that are frequently pleaded, generally require substantial discovery and court attention, and infrequently succeed, such as willful infringement and inequitable conduct.

It should be a goal of any small claims proceeding to provide a mechanism for defining key disputes as early in the proceeding as possible. Ideally, doing so can promote settlement, focus discovery and utilize judicial resources efficiently. Claim construction can often be dispositive of an infringement claim or invalidity defense. Consideration should be given to providing for early and meaningful exchange of infringement and invalidity contentions, followed by claim construction. Limits on the number of patent claims that can be asserted, and a mechanism for requiring the parties to limit the number of claim terms in dispute, could be established in procedural rules.

Numerous other procedural rules could help control the length and expense of a small claims proceeding. These include limiting the number of depositions (or deposition hours), limiting areas of document discovery, limiting the number of experts, and limiting the number of trial days. Of course, these are examples already within the power of district courts to implement by way of special rules. Whether there is a right of appeal to the U.S. Court of Appeals for the Federal Circuit could affect litigants' decision to use a small claims proceeding. Some might view this option as a necessary safeguard, and yet the cost of appeal and limited amount at risk would presumably limit the number of appeals actually filed. Information regarding the impact of such appeals on the Court's workload and docket should be gathered, and further consideration should be given to whether it is appropriate to devote resources of the Court to such appeals, especially if the small claims tribunal's decision is one to which res judicata or estoppel effect might not apply.

Concerns that a small claims proceeding could become a limited-risk vehicle for plaintiffs who might bring small claim suits with the intention of trying to settle them for nuisance/litigation costs should be allayed. This might be done by applying an appropriate damages cap, allowing defendants to opt-out, and requiring a plaintiff to provide early and substantive infringement.

There should also be sensitivity about adding to the caseload of courts that are already overburdened and that are facing increased limitations on resources. We recommend that discussion of a new proceeding for small claims engage sitting members of the judiciary so these issues can be completely vetted.

Conclusion

As is apparent from the discussion above, the challenge of providing a new, cost-effective patent enforcement proceeding for small claims will require care that the reducing costs in and improving access to patent enforcement do not undermine existing rights or the effective operation of the judiciary. This is a particular concern at this time because the patent system is in the middle of a dramatic transition with the implementation of the Leahy-Smith America Invents Act. This transition will be extremely complex, and could become more difficult if a new enforcement procedure were introduced without adequate limitations and controls.

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AIPLA believes that a small-claims proceeding is worth further study and consideration and should be tried on a pilot basis, assuming the issues and concerns raised above can be addressed.

Thank you for the opportunity to submit comments on this important question. We look forward to being of further assistance as this issue develops.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey I.D. Lewis". The signature is written in a cursive, flowing style.

Jeffrey I.D. Lewis
President
American Intellectual Property Law Association