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United States Patent and Trademark Office
Alexandria, VA 22313**

Request for Comments on)	
Preparation of Patent Applications)	Docket No. PTO-P-2011-0046
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**COMMENTS OF THE COALITION FOR PATENT FAIRNESS
REGARDING THE CREATION OF A PATENT
SMALL CLAIMS COURT IN THE UNITED STATES,
77 FED. REG. 74, 830-31 (DEC. 18, 2012).**

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TABLE OF CONTENTS

	Page
INTRODUCTION	1
COMMENTS	1
I. Requiring Mandatory Participation in a New Small-Patent-Claims Court Would Be Unconstitutional	1
II. Creating a Voluntary Small-Patent-Claims Court in a New Venue Has No Advantages Over the Current System and Would Often Increase Litigation Costs	3
III. Reform of the Current System is the Better Way.	5
CONCLUSION.....	5

The Coalition for Patent Fairness (“Coalition”) is a diverse group of companies dedicated to enhancing U.S. innovation, job creation, and competitiveness in the global market by modernizing our nation’s patent system. Coalition member companies, which include Adobe, Blackberry, Cisco Systems, Dell, Earthlink, Google, Intel, Intuit, Oracle, Rackspace, SAP, and Verizon, are active participants in the patent system and collectively own tens of thousands of patents and file thousands of patent applications each year. These highly innovative companies in the software, computer technology, and telecommunications industries believe that now, more than ever, it is important to have a patent system that ensures that all companies, both large and small, can devote all resources to productive, pro-growth innovation in the marketplace instead of burdensome, unjustified patent litigation that stifles such innovation.

We submit this letter in response to the United States Patent and Trademark Office’s Request for Comments on a Patent Small Claims Proceeding (“PSCP”) in the United States, 77 Fed. Reg. 74, 830-31 (Dec. 18, 2012).

INTRODUCTION

There has been an immense surge in the number of patent-related lawsuits filed in the federal district courts and in the International Trade Commission (“ITC”) in the past decade.¹ Many of these cases are brought by non-practicing entities (“NPEs”), which are increasingly targeting small innovators and start-ups.² The costs of responding to this wave of litigation are staggering: with about 4,000 lawsuits filed annually and an average cost of \$5,500,000 per lawsuit, American companies spend about \$22 billion per year on direct patent litigation costs.³ Finding the right way to reduce those costs would benefit not only all litigants, but the country as a whole.

The proposed PSCP, however, is the wrong response to a real problem. A mandatory PSCP would violate the Seventh Amendment. And a voluntary PSCP that avoids constitutional problems would offer nothing beyond what can be implemented more easily by agreeable parties in existing venues. The bench and the bar have suggested—and are implementing—other, more promising approaches to reducing litigation costs within the new district court patent pilot program, such as discovery limits and other streamlining initiatives. With productive change underway, now is not the time to create a new and duplicative litigation venue. The better approach is to promote reform in existing venues—especially district courts that are part of the patent pilot program—and to handle appropriate smaller-stakes cases using small-claim procedures within those courts.

COMMENTS

I. Requiring Mandatory Participation in a New Small-Patent-Claims Court Would Be Unconstitutional.

Over twenty years ago, commentators entertained the idea of a mandatory small-patent-claims court that would have exclusive federal jurisdiction over cases with small amounts in controversy. Under the proposed regime, once the patentee filed in the small-claims venue, the accused infringer could not opt to remove the case to federal court. But the problem with a

mandatory system is the same today as it was then: No mandatory PSCP can achieve its goal of reducing litigation expenses and still comport with the United States Constitution.

As this Office acknowledges in question 2(a) of its Request, the most touted cost-saving feature of a PSCP is its elimination of jury trials. But any system mandating that patent cases be handled without a jury in an Article I court or some other non-Article III venue would violate the Seventh Amendment. The Seventh Amendment requires patent cases to be tried before a jury unless all parties waive that right. As the Supreme Court has recognized, “there is no dispute that [patent] infringement cases today *must* be tried to a jury, as their predecessors were more than two centuries ago.”⁴ “Trial by jury is a fundamental guarantee of the rights and liberties of the people” that “might [be] waived ... but it [can]not be taken away by the court.”⁵ The analysis ends there. No Article I court or other non-Article III venue can have exclusive jurisdiction over any subset of patent cases because they are not equipped to try these cases to a jury, as required by the Seventh Amendment.⁶

In 1990, the American Bar Association’s Intellectual Property Section suggested a way to avoid the Seventh Amendment’s requirements, proposing that the decisions of any mandatory non-Article III PSCP be subject to ostensibly *de novo* review by a federal district court, thereby allowing a party initially denied its Seventh Amendment rights to exercise them in a new proceeding.⁷ But proposals that mandate litigation in non-jury venues and merely allow appeals to Article III courts do not remedy the constitutional infirmity of the initial proceeding. Furthermore, this supposed “cure” would be more expensive than the underlying ailment. Under this regime, litigants would be subject to the current costs of a federal court case *plus* the costs of a prior PSCP proceeding.

Recognizing this problem, the 1990 ABA-IP Report alternatively proposed that any party that lost the PSCP proceeding and then opted for the *de novo* jury trial and lost again would have to pay the prevailing party’s attorney’s fees and costs.⁸ But that would not solve the Seventh Amendment issue because it would create such an extreme financial disincentive to exercise one’s Seventh Amendment right to a jury trial that it would effectively deprive a litigant of that right. *See Follett v. McCormick*, 321 U.S. 573, 577 (1944) (“[T]he power to tax the exercise of a privilege is the power to control or suppress its enjoyment.”); *United States v. Jackson*, 390 U.S. 570, 581 (1968) (Where a provision “ha[s] no other purpose or effect than to chill the assertion of constitutional rights by penalizing those who choose to exercise them, then it would be patently unconstitutional.”).

Not surprisingly, more recent commentary, including a report from the same ABA IP Section in 2012, has rejected such an alternative proposal. *See American Bar Association Section of Intellectual Property Law, “Small” Patent Claims Court: Task Force Presentation to the Council 9* (Aug. 12, 2012) (“2012 ABA-IP Report”) (“It is not clear that a *de novo* trial necessarily resolves Seventh Amendment issues, because of the potential collateral estoppel effect of ‘small’ patent claims court proceedings. In addition, a *de novo* trial is contrary to the economy and efficiency concerns that the ‘small’ patent claims court is supposed to address.”); *see also* Robert P. Greenspoon, *Is The United States Finally Ready for a Patent Small Claims Court?*, 10 MINN. J. L. SCI. & TECH. 549, 556-57 (2009) (“Plaintiffs would find this cure both unappealing and radical. ... Nor is it clear that such a cure would pass the necessary test of

constitutionality. ... [Also,] removability would defeat the purpose of a ‘mandatory’ small claims procedure.”).

II. Creating a Voluntary Small-Patent-Claims Court in a New Venue Has No Advantages Over the Current System and Would Often Increase Litigation Costs.

Because any mandatory PSCP outside of the Article III court system would raise serious constitutional problems, the ABA’s IP Section has suggested a *voluntary* PSCP regime under which a patentee could file an infringement claim in the PSCP but the accused infringer could opt to remove the claim to federal court. 2012 ABA-IP Report at 12. But it is far from clear that there is any need for such a voluntary system. Moreover, this system (and any alternative voluntary PSCP system) would be more likely to drive litigation costs *up*.

As an initial matter, there is no need for a voluntary PSCP because equally effective alternatives already exist. If both the patentee and alleged infringer are willing to forego a jury trial and the Federal Rules of Civil Procedure, they can agree to streamlined arbitration before any of a number of existing tribunals. In such tribunals, the parties can nominate experienced patent practitioners as their arbitrators and choose any level of discovery appropriate to their budgets.⁹

Even if a party desires to stay in federal court, the parties can agree to limit costs in several ways. District courts can already impose limits on discovery to curb excessive litigation expenses. Working closely with the bench and bar, the Federal Circuit Advisory Council promulgated a model order regarding e-discovery in patent cases, which reduces costs by focusing discovery on the most important custodians and documents, but provides flexibility by allowing a party to seek additional discovery beyond the default at its own expense.¹⁰ Several district courts have adopted similar discovery guidelines.¹¹ Moreover, district courts can tailor case schedules to provide for early claim construction, with non-claim-construction discovery stayed until after issuance of the claim construction order,¹² which may move many cases toward an early resolution before either party incurs significant litigation expenses. And the parties themselves further can agree to forego certain discovery to reduce costs;¹³ empower the Court to decide the case on the papers without live witnesses;¹⁴ waive the right to a jury and agree to a bench trial;¹⁵ limit trial to certain representative claims or products;¹⁶ stay district court litigation during the pendency of proceedings before this Office;¹⁷ and stipulate to the amount of damages.¹⁸ Taken together, much of the benefit of streamlining discovery through a PSCP can be—or already is beginning to be—accomplished under the existing system by limiting the scope of discovery and tailoring case schedules to suit the needs of individual litigations.¹⁹

Furthermore, there is no unmet demand for a voluntary PSCP that would justify creating and implementing a whole new patent forum in addition to the ninety-four federal district courts and the ITC that currently exist. True, patent litigation is too expensive. And, just as true, this expense has a disproportionate impact on patentees with small claims and poorly-capitalized businesses, neither of which can easily afford to litigate to the hilt in federal court. But that has little bearing on the need for a voluntary PSCP. The real question is how often small-claim patentees have failed to pursue claims for lack of a voluntary PSCP even though their adversaries would have agreed to participate in such an alternative forum. As discussed above, cost-conscious adversaries have numerous ways to save costs under the existing system, whether

through arbitration, streamlined litigation or mediation. There is no evidence that the lack of *yet another* alternative cost-saving option has been the missing thing that has kept agreeable adversaries from resolving a substantial number of disputes—or any disputes for that matter. To the contrary, with the number of law firms willing to represent under-capitalized patentees on a contingency fee basis²⁰ and the number of NPEs seeking to buy patents from individuals for assertion in litigation,²¹ it seems unlikely that any inventor with a valuable (or even less valuable) patent lacks a means to assert that patent in litigation.

Additionally, granting a PSCP power to issue equitable relief, as some have suggested, *see* 2012 ABA-IP Report at 10, would likely negate any demand for a voluntary PSCP. To start with, injunctive relief is fundamentally incompatible with the idea of a “small claims” proceeding. For companies that survive and thrive by product sales, the threat of an injunction is the ultimate risk. Moreover, as the Federal Trade Commission and other commentators have widely recognized, patentees can unfairly leverage this risk in an effort to obtain extra holdup value beyond that attributable to the patent itself. If an injunction is not an available remedy, parties can discuss ways to align the costs of the litigation with the lower risk of a small claims proceeding. But if injunctive relief is available, plaintiffs are likely to request it to increase the settlement value of their cases, raising the stakes for defendants, and strongly discouraging defendants from remaining in the voluntary PSCP.

Finally, and ironically, a voluntary PSCP may actually increase costs and complexity for litigants that choose to participate. For example:

- *Mid-action removal to federal court.* Any PSCP would have a damages cutoff, above which a patentee could not institute a PSCP suit. But after engaging in discovery that results in identification of additional infringing acts, or learning that the alleged infringement may warrant enhanced damages under 35 U.S.C. § 285, the plaintiff may want to amend its damages claim to exceed the PSCP cutoff. As a result, the proposal in the 2012 ABA-IP Report would allow even the plaintiff to remove a “small” patent infringement case to federal court. But that result would just reboot the PSCP action as a federal court action, ultimately resulting in greater delay and expense.
- *Unnecessary multiplication of actions.* Once a PSCP suit is underway, one of the parties may discover a new cause of action related to the same transactions or occurrences being litigated. Patent litigants often discover and raise new claims such as unfair competition, Lanham Act, trade secret, and antitrust claims, yet none of this would be within the jurisdiction of a PSCP. *See* 2012 ABA-IP Report at 12 (“[T]he ‘small’ patent claims court [would] not have supplemental jurisdiction or jurisdiction over any substantive claims other than those of patent infringement ...”). This means that PSCP actions will often splinter off into additional, parallel, and uncoordinated federal court litigation.
- *Removal for tactical advantage.* A voluntary PSCP system can be gamed for tactical advantage. After all, “[i]f a defendant removed a case, its commencement in small claims court would end up having been a wasted expense with nothing gained. Even a defendant who removed under pretext would gain a tactical advantage, for the threat and actuality of removal would incrementally increase the plaintiff’s costs.”²²

These are just a few examples of how proceedings in the proposed PSCP could lead to *greater* transaction costs than if the action had started and remained in federal court.

In sum, there are numerous ways in which agreeable parties can reduce the costs of litigation under the existing system. There is no empirical evidence of any significant unmet demand for a voluntary PSCP, and there is every reason to conclude there is none. Indeed, if a voluntary PSCP were instituted, it would threaten, perversely, to drive costs up rather than down.

III. Reform of the Current System is the Better Way.

Patent litigation is too expensive, but there are better and more practical solutions to this problem than the creation of yet another venue to handle patent litigation. There is no basis to expect that the creation of a ninety-sixth patent litigation venue will make patent litigation less expensive than the procedures that litigants and the courts are already focused on identifying and implementing. The better solution is to continue to make changes within the existing system to streamline patent litigation, especially before the courts in the new patent pilot program. Such streamlining, or even creation of additional “small claim procedures” that could be voluntarily agreed to, within existing courts will decrease costs for both plaintiffs and defendants; those costs are significant and real for all, and implementing the right solution will benefit all.

And even without new formal procedures, judges can solicit parties and parties can solicit each other to consider bench trials, encourage mediation, streamline discovery, and limit the number of claims asserted, prior art used, and terms construed. A particularly impactful means of reducing expense would be to require enhanced, more detailed pleadings at the start of litigation rather than a year into it and to conduct early claim construction hearings, with non-claim-construction discovery stayed pending issuance of a claim construction order.

CONCLUSION

The Coalition supports continued discussion with courts and the bar on ways to reduce time spent in wasteful or unnecessary litigation activities and further streamline litigation within the existing system. But a PSCP, although well-intentioned, is neither a workable nor a needed solution, and it would serve only to draw attention and resources from other solutions that are more likely to provide real benefit.

¹ See, e.g., Terry Ludlow, *U.S. Patent Litigations Reach All Time High in 2011*, Chipworks (Mar. 8, 2012) (*available at* www.chipworks.com/blog/technologyblog/2012/03/08/u-s-patent-litigations-reach-all-time-high-in-2011/).

² See, e.g., Letter from Engine Advocacy to Reps. Bob Goodlatte and John Conyers, Members of Committee on the Judiciary (Feb. 27, 2013) (*available at* <https://www.eff.org/document/open-letter-shield-act>).

³ American Intellectual Property Law Association, *2009 AIPLA Economic Survey* 138-41 (2009).

⁴ *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 377 (1996) (emphasis added).

⁵ *Hodges v. Easton*, 106 U.S. 408, 412 (1882).

⁶ As currently written, 28 U.S.C. § 1338(a) provides another impediment to a mandatory PSCP in a non-Article III court. It prohibits patent cases in non-Article III tribunals, stating in relevant part that “[t]he district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks,” without regard to the amount in controversy. Thus, a mandatory PSCP in a non-Article III court would require both a constitutional amendment and a congressional rewrite of Title 28.

⁷ See Ronald L. Yin, *Federal Small Claims Procedure*, 1990 ABA Sec. Pat. Trademark & Copyright L. Comm. Rep. 194, 195 (1990) (“1990 ABA-IP Report”).

⁸ *Id.* at 195.

⁹ See, e.g., American Arbitration Association, *Commercial Arbitration Rules and Mediation Procedures*, Rule R-12(a) (2009); *Kimberly-Clark Worldwide, Inc. v. First Quality Baby Prods.*, 447 F. App’x 217, 219 (Fed. Cir. 2011) (describing the “series of agreements that constructed a dispute resolution process to help resolve the parties’ [infringement] disputes” and specifically noting that the parties could appoint an arbitrator).

¹⁰ See Federal Circuit Advisory Council, *An E-Discovery Model Order* (2011) (*available at* http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery_Model_Order.pdf).

¹¹ See, e.g., United States District Court for the District of Delaware, *Default Standard for Discovery, Including Discovery of Electronically Stored Information (“ESI”)* (*available at* <http://www.ded.uscourts.gov/sites/default/files/Chambers/SLR/Misc/EDiscov.pdf>); United States District Court for the District of Maryland, *Suggested Protocol for Discovery of Electronically Stored Information* (*available at* <http://www.mdd.uscourts.gov/news/news/ESIProtocol.pdf>).

¹² See *Parallel Networks, LLC v. Abercrombie & Fitch Co.*, 704 F.3d 958, 965-67 (Fed. Cir. 2013) (noting the district court’s “creative procedure designed to streamline” litigation by an early claim construction of key terms and summary judgment); *In re TR Labs Patent Litig.*, No. 09-cv-3883-PGS (DEA), Order (D.N.J. Jan. 4, 2013) (ordering early claim construction briefing and staying all non-claim construction discovery).

¹³ See *Shell Oil Co. v. United States*, 672 F.3d 1283, 1285 (Fed. Cir. 2012) (having “entered into comprehensive stipulations of fact in” an underlying action, “the parties agreed that no further factual development was necessary”); *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1371 (Fed. Cir. 2005) (“[T]o alleviate discovery burdens, both parties stipulated to the use of the record developed before the ITC” in a related case.).

¹⁴ See *Commonwealth Sci. & Indus. Research Org. v. Buffalo Tech., Inc.*, 542 F.3d 1363, 1369 (Fed. Cir. 2008) (“[T]he parties stipulated that the district court could make findings of fact with respect to disputed factual issues in . . . deciding the cross-motions for summary judgment.”).

¹⁵ See *In re Omeprazole Patent Litig. v. Apotex Corp.*, 536 F.3d 1361, 1366 (Fed. Cir. 2008) (noting that parties had waived a jury trial by stipulation); see also Fed. R. Civ. P. 39(b) (issues for which no jury trial is demanded are tried to the court).

¹⁶ See *Baxter Int'l, Inc. v. COBE Labs., Inc.*, 88 F.3d 1054, 1057 (Fed. Cir. 1996); *Miles Labs., Inc. v. Shandon Inc.*, 997 F.2d 870, 879 (Fed. Cir. 1993) (“Where the parties stipulate to ‘representative’ claims, ... a validity resolution for the representative claims applies to the other claims as well.”).

¹⁷ See *Semiconductor Energy Lab. Co. v. Chimei Innolux Corp.*, No. 12-cv-21, Order Granting Defendants’ Motion to Stay the Case (C.D. Cal. Dec. 19, 2012); *Clearlamp, LLC v. LKQ Corp.*, No. 12-cv-2533, Order Granting Motion to Stay (N.D. Ill. Apr. 17, 2013); *Bergstrom, Inc. v. Idle Free Sys., Inc.*, No. 12-cv-50254, Order Granting Motion to Stay (N.D. Ill. Mar. 21, 2013); *Capriola Corp. v. Larose Indus., LLC*, No. 12-cv-2346, Order Granting Motion to Stay (M.D. Fla. Mar. 11, 2013).

¹⁸ See *Creative Compounds, LLC v. Starmark Labs.*, 651 F.3d 1303, 1308 (Fed. Cir. 2011) (“[T]he parties stipulated to actual damages.”); *Heidelberg Harris, Inc. v. Mitsubishi Heavy Indus., Ltd.*, Nos. 99-1100, -1101, -1102, 2000 WL 1375270, at *4 (Fed. Cir. 2000) (noting that the parties had stipulated to the amount of damages and limited trial to issues of infringement and validity).

¹⁹ Cost-conscious parties can also agree to non-binding mediation, which is an option in almost every federal jurisdiction because it is an effective, low-cost way to achieve settlement. See *Schaffer v. Weast*, 546 U.S. 49, 58-59 (2005) (describing mediation as a cost-effective alternative to litigation); see, e.g., U.S. District Ct. for S.D.N.Y., Mediation/ADR notice (*available at* <http://www.nysd.uscourts.gov/mediation>); U.S. District Ct. for D.C., Court Mediation Program (*available at* <http://www.dcd.uscourts.gov/dcd/court-mediation>).

²⁰ See *The Rise of Contingent Fee Representation in Patent Litigation*, 64 ALA. L. REV. 335 (2012) (analyzing the rapid evolution of contingent representation in patent law,” which “includes top-tier litigation firms recently transitioning to taking on high value contingent cases, small entrants representing plaintiffs in lower value cases, and numerous general practice firms experimenting with contingent patent litigation”).

²¹ Intellectual Ventures Management, LLC, with a portfolio of nearly 40,000 patent assets actively promotes that it “purchase[s] inventions from individual inventors and companies of all sizes and licenses them to the world’s most innovative companies.” <http://www.intellectualventures.com/index.php/services-solutions/sell>. Acacia Research Group LLC asserts that it gives “a percentage of our net recoveries from licensing and enforcement, and in some cases an up-front cash payment,” <http://acaciatechnologies.com/clientagreement.htm>, touting “approximately \$90 million in cash and additional funds in Acacia Intellectual Property Fund, L.P., we are able to bring and sustain legal actions against infringers, if and when necessary.” <http://acaciatechnologies.com/whyuse.htm> (emphasis added).

²² Greenspoon, 10 MINN. J. L. SCI. & TECH. at 557.