COMMENTS REGARDING A SMALL CLAIMS PROCESS FOR PATENT ENFORCEMENT

Submitted in Response to the USPTO's Request for Comments on a Patent Small Claims Proceeding in the United States
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SCOPE OF COMMENTS

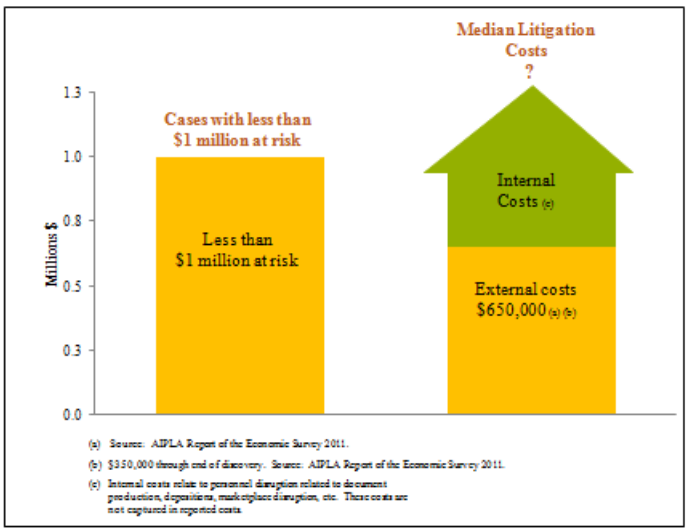
1. My comments address the need for a small claims process for patent enforcement and suggestions for use of damages experts in the process. In these comments, I have focused on examples of how these processes could be structured. There are many other variations of these processes that could also be effective.

THERE IS A NEED FOR A SMALL CLAIMS PROCESS FOR PATENT ENFORCEMENT

2. I support the implementation of a Patent Small Claims Process in the United States.

3. The current system for patent enforcement does not provide a cost-effective means for patent enforcement by patentees with limited financial resources or for patent infringement claims for which claimed damages do not sufficiently exceed the costs of traditional litigation.

4. The costs of patent litigation are not always justified by the amount at issue.[1] Median litigation costs for patent infringement litigation with less than $1 million at risk were $650,000 in 2011.[2] These costs ignore the party's internal costs of time and energy expended related to document discovery and depositions, which can be significant, and ignore potential business disruption caused by lengthy litigation.



External costs for these smaller cases represented at least 2/3 of the amount at risk. Internal costs related to personnel disruptions related to assistance with litigation further increase these costs. This does not represent a good return on investment and demonstrates the need for a more cost-effective approach to resolution of patent disputes.

[1] Although other considerations may justify the litigation.

[2] AIPLA Report of the Economic Survey 2011. Costs include outside legal and paralegal services, local counsel, associates, paralegals, travel and living expenses, fees and costs for court reporters, photocopies, courier services, exhibit preparation, analytical testing, expert witnesses, translators, surveys, jury advisors and similar services. These costs were higher for cases with more than $1 million at risk.

5. Unless the potential financial benefits sufficiently exceed the costs, patent enforcement may be uneconomical or unavailable. As a result, in infringement situations with damage claims that do not sufficiently exceed the cost of litigation, enforcement is unlikely or impossible. In those situations where a patentee pursues enforcement and establishes liability, but obtains damages less than the cost of enforcement, the patentee's risk/reward may not justify patent enforcement through traditional patent infringement litigation.[3]

6. I believe there is a need for a more cost-effective alternative dispute resolution process. I prefer to think of this as an "expedited" process, rather than just a "small claims process" because it may be attractive in many disputes in which the amount of potential damages exceeds those that may be considered "small claims." However, for purposes of these comments, I will focus on suggestions for a "small claims" process.

A SMALL CLAIMS PROCESS SHOULD ELIMINATE TRADITIONAL DISCOVERY AND MOST WRITTEN SUBMISSIONS

7. To sufficiently reduce litigation costs, a patent small claims process should eliminate traditional discovery and written submissions. The magnitude of cost-reduction necessary to make a small claims process feasible requires a dramatically different approach than traditional litigation. I believe that it is possible to provide a fair and reasonable resolution of patent small claims without traditional discovery and written submissions.

8. Too often I hear the suggestion that the way to make patent litigation less expensive is to simply do the same things that are typically done, but to do them faster and more efficiently. However, this merely nibbles around the edges of these costs, and does not sufficiently reduce costs to justify most small claims.

9. Traditional discovery and written submissions are extremely time-consuming and expensive, resulting in over half of the total costs of patent infringement litigation being incurred through the end of discovery.[4]

10. Only a tiny portion of all of the documents produced in traditional patent litigation are relied upon by the parties. As a result, significant time and expenses are incurred related to documents that are not used. However, each produced document is handled several times, even if it is irrelevant, insignificant or redundant. Every time a document is handled, time and costs are incurred. It would be far more efficient to limit document production to those documents that are relevant and necessary.

11. Written submissions are extremely time-consuming and costly. A process that eliminates most written submissions would be a much more cost effective approach.

[3] There may be situations in which there are strategic or other reasons that justify patent enforcement where realistic damages do not equal or exceed the cost of enforcement.

[4] For matters with less than $1 million at risk, $350,000 of total median costs of $650,000 was incurred through the end of discovery. Source: AIPLA Report of the Economic Survey 2011.

12. In my comments below, I describe an approach that it designed to minimize or eliminate the production of unnecessary documents, to focus on the production of only necessary information, and to eliminate most written submissions, resulting in significant time and cost savings.

DISPARITY BETWEEN A PATENTEE'S AND AN ALLEGED INFRINGER'S VIEW OF THE AMOUNT OF PATENT INFRINGEMENT DAMAGES INTERFERES WITH RESOLUTION OF DISPUTES

13. In my experience, there is often significant disparity between a patentee's and an alleged infringer's view of the amount of patent infringement damages, and these differing views often interfere with the early and cost-effective resolution of patent infringement claims. A realistic assessment of damages can facilitate resolution of patent infringement disputes.

14. Unfortunately, effective analysis of the amount of patent infringement damages often does not occur until late in the litigation process, after considerable time has elapsed, after considerable resources have been expended and after significant costs have been incurred.

A SMALL CLAIMS PROCESS SHOULD INCLUDE EARLY ANALYSIS OF DAMAGES

15. A process that results in early analysis of damages can help to narrow the expectation gap between the parties and facilitate earlier, and more cost effective, resolution of disputes. It may expedite resolution of disputes to implement procedures to address damages before liability. Alternatively, damages should be addressed at the same time as liability, not after.

USE OF DAMAGES EXPERTS IN NON-TRADITIONAL ROLES COULD FACILITATE A SMALL CLAIMS PROCESS FOR PATENT ENFORCEMENT

16. Use of damage experts in non-traditional roles could help facilitate a small claims process. Experienced damages experts can efficiently evaluate patent infringement damages, identify critical issues and determine damage categories and amounts.

17. Non-traditional roles for damage experts that could facilitate efficient and cost-effective resolution of patent claims include the following:

- Early neutral damages evaluation
- Early neutral damages decision
- Damages Arbitrator

18. There are many ways in which these procedures could be structured. Below I describe one alternative model for each of these roles.[5]

[5] I do not address a process for liability issues in these comments. However, many of these procedures could also be applicable to liability.

Early Neutral Damages Evaluation

19. For early neutral damages evaluation, one damages expert would be appointed as a neutral ("the damages neutral"). Neither party would retain its own testifying damages expert or conduct its own damages discovery. Instead, the damages neutral would direct limited discovery and would provide an evaluation of damages using a process such as the following:

- The damages neutral would identify specific data (such as relevant sales units, revenue and profitability) to be produced by each side. The damages neutral would identify a prescribed format, such as an Excel spreadsheet, in which this data is to be produced. The damages data/document production for each side would be limited to ten or fewer pages, unless additional information is specifically requested by the damages neutral.
- The damages neutral would telephonically interview up to three representatives of each party, such as a marketing representative and a financial/accounting representative to gather information. For example, through these interviews, the damages neutral may gather information regarding the products at issue, the market for these products, the bases for demand, alternatives, profitability and licenses. This could be done with or without the presence of the other party and/or their legal counsel. Although this process would be conducted by the damages neutral, an alternative could be provided for the opposing party to have a limited amount of time at the end of the interviews to make their own inquiries.
- The damages neutral may gather publicly available information or request such information from the parties.
- The damages neutral could, but would not necessarily, request written input from the parties regarding damages. Any such written submissions would be limited to a specified word count. Alternatively, these limited written submissions could be at the option of the parties.
- The damages neutral would provide a preliminary damages neutral evaluation regarding the types and amounts of damages, and identify the primary issues impacting the determination. This neutral evaluation could be presented verbally via a telephone conference (the less time-consuming and less expensive option), or in writing.
- If desired, each party could then be given an opportunity to respond to the preliminary damages neutral evaluation, either orally or in writing. Any such response would be limited in length.
- The damages neutral would provide a final damages neutral evaluation regarding the types and amount of damages. The final damages neutral evaluation would probably be in writing, but would be very brief to minimize the costs involved.
- The damages neutral evaluation could then be utilized by the parties and/or a decision-maker (such as an arbitrator or judge) to facilitate resolution of the matter, either through settlement or through a binding decision by an arbitrator or judge.

Early Neutral Damages Decision

20. An early neutral damages decision process would be structured similarly to the early neutral damages evaluation described above, except that the damages neutral's decision would be binding on the parties, without involvement by a separate decision-maker.

Arbitrator

21. In a patent small claims arbitration process, a damages expert would be appointed as an arbitrator.

Arbitration regarding damages only:

The arbitration could be limited to the subject of damages and would be conducted by a sole damages arbitrator.

Arbitration regarding all issues:

Alternatively, the arbitration could address both liability and damages and would be conducted by a panel of three arbitrators. The arbitral panel would be comprised of one attorney, one technical expert and one damages expert.

Arbitration procedures:

To minimize costs, the arbitration procedures would focus on an oral hearing, directed by the arbitrators. Neither party would be required to be represented by counsel, but could be if they chose. There would be only limited discovery conducted by the arbitrator(s), and document production would be limited to a minimal number of pages. Any written submissions would be limited in length.

During the hearing, each party would be given an opportunity to "tell their story." Each party could present fact witnesses and/or expert witnesses, but most questioning would be conducted by the arbitrators. Cross-examination would be limited and would be done after the arbitrators had completed their questions. This procedure would be much like witness conferencing ("hot-tubbing") sometimes used in international arbitration.

The arbitrator(s) could provide preliminary finding(s), or identify key issues during or after the hearing and the parties could be given an opportunity to respond, either orally or in writing (limited in length).

The arbitrator(s) decision would be binding, with limited ability for appeal. This process would provide for prompt resolution of patent disputes with limited costs.

THERE SHOULD BE LIMITS ON MATTERS UTILIZING A PATENT SMALL CLAIMS PROCESS

22. Matters utilizing a small claims process should be subject to certain limits, such as the following:

- A cap on the amount of damages; and
- Limits on the number of defendants subject to the small claims process for a single patent.

THESE PROCEDURES CAN PROVIDE A REASONABLE, PROMPT AND COST EFFECTIVE RESOLUTION OF PATENT DISPUTES

23. I have evaluated damages related to hundreds of patent infringement claims and am confident that a reasonable result can be achieved by utilizing the above processes. Is it perfect? Of course not, but neither is traditional litigation.

24. These procedures are not unprecedented.

- Some damage experts provide early analysis to their clients as a way to provide clarity to damages issues, to facilitate efficient discovery and to facilitate settlement. Similar procedures could be effectively applied by a damages neutral to provide similar results, but with the benefit of better information from both parties and better chances of resolution.
- Small claims courts for non-patent matters provide parties an opportunity to "tell their story," and to obtain inexpensive and prompt resolution without traditional discovery or written submissions. Although patent disputes are more complex than most small claims matters, similar concepts could be effectively applied.
- Non-lawyers have traditionally served as arbitrators and provide useful expertise and perspective. Damage experts' knowledge and expertise can be particularly useful regarding the complex nature of patent damages.

25. I believe that the processes described above, or variations on these themes, can provide a reasonable resolution of patent disputes in a short time period with minimal costs.