

March 9, 2013

To: United States Patent & Trademark Office

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Re: Request for Comments on Patent Small Claims

Docket No. PTO-P-2012-0050

I respectfully submit my comments in response to the above request for comments.

Topic 1: Benefits of a Small Claims Court

As discussed in the notice, the needs for such a court have been addressed in prior roundtables. These comments, therefore, focus on two primary benefits.

First, a patent small claims court can benefit small inventors. Of course, this is no surprise, given the subject of these comments. But the benefits extend beyond merely aiding small inventors. If small inventors—especially individuals—are able to enforce their patents at a lower cost, then they are more likely to do so themselves rather than assign the patent to an NPE/PAE to assert. While licensing intermediaries can be valuable market participants, it is always better if you can avoid one layer of complexity.

There are tradeoffs to disaggregation of enforcement, however. As I argue in my forthcoming article, *The Securitization of Patents*, 63 *Duke L.J.* ____ (2013), there are benefits to aggregation. For example, the aggregator can bundle technology from many different sources and offer it in one place. Also, companies may prefer having a single negotiation to settle a thousand disputed patents instead of litigating in small claims court against a thousand different individuals. Furthermore, if the damages limit is set improperly, then companies may still face difficult choices about which cases to settle and which cases to oppose. The full article is available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2227103.

Second, a patent small claims court can benefit small defendants. Assertion of patents against many small defendants rather than their suppliers has become a more common tactic in the past year. Many consider it distasteful, in large part because the settlement demand is often well above reasonable royalty damages, yet far, far below the costs of mounting a real defense to the patents. Thus, any small claims plan must include the ability to seek declaratory relief, or to otherwise force plaintiffs to file in the small court when they seek lesser damages. Otherwise, simply filing an Answer in district court may be one-third or more of the demanded settlement.

¹ University affiliation is provided for identification only. These comments reflect the views of the author and no others, including Villanova University.

Topic 2: The Shape of Small Claims

- a) Venue: The venue should be spread around the country. Travel would only defeat the purpose of keeping costs low. Courts should probably be specialized, like the tax courts.
- b) Subject matter: Subject matter should be limited to infringement, damages, and non-prior art invalidity. Inequitable conduct, prior art, willfulness, and other discovery intensive subjects would be left out.

Participation should be mandatory if either party meets the criteria and the other party does not opt out. Thus, all patent disputes involving a) a defendant with net worth/revenues below some threshold, or b) a patent claim with alleged damages below some threshold should be required to litigate in small claims. The fairness in the system is that each party gains something in exchange for what it gives up. I don't have any particular views on the thresholds.

To avoid small claims, a defendant could allege an affirmative defense of invalidity (or crosscomplain), and a plaintiff could opt out by providing colorable damage computations. Overblown damages complaints to avoid the court should be penalized (via fee shifting, for example).

- c) Jury waiver: I think parties should not be required to waive a jury if they "choose" small claims, because small claims should not be optional (for at least one of the parties).
- d) Special pleadings: Some form that shows either the size of defendant or estimated damages should be required to determine eligibility.
- e) Filing fee: Fees should be low, and perhaps scaled with potential damages.
- f) Multiple parties: Only single parties should be allowed to participate. Adding parties increases complexity and costs. The one exception would be mandatory joinder of a patent owner.
- g) Attorneys: Attorneys should be allowed, but corporations should be able to represent themselves. Small claims would be a great opportunity for law school clinics to handle patent disputes.
- h) Case management: Early claim construction is critical, as is early disclosure of sufficient documentation to calculate damages. Furthermore, some method of presenting damages theories would be helpful.
- i) Remedies: Damages must be capped; that is one of the ways one would land in patent small claims. I don't have any particular views, but I think the cap could be scaled to either i) net worth, ii) revenues, iii) costs of component parts. The injunction question is more difficult. On the one hand, the inability to challenge validity increases

injunction risk. On the other hand, defendants can opt-out by challenging validity. I think the proper balance is to disallow injunctions. The injunction risk allows plaintiffs to increase settlement pressure to seek amounts greater than reasonable damages. This is not a problem per se, but it does run counter to the goals of small claims, such as minimizing the stakes and getting to a quick resolution of reasonable damages.

- j) Fee shifting: Other than shifting for abuses, as discussed throughout these comments, no general fee shifting is necessary. Indeed, this might be unfair for those who appear pro se and cannot collect fees even if they win.
- k) Mediation: No comment
- l) Transcription: These are difficult questions. Perhaps audio recording could preserve the record at a lower cost. Appealing parties could then pay for transcription if necessary. Decisions should be written, especially because they will likely include some sort of claim construction.
- m) Precedent: Small claims should definitely be res judicata/claim preclusion between the parties. Other rulings should also be issue precluded. Otherwise, a plaintiff could continue to sue defendants despite an adverse claim construction or a non-prior-art invalidity finding. Plaintiffs unhappy with issue determination are always free to appeal.
- n) Enforcement: Outcomes should be enforced like any other judgment.
- o) Review: District Courts should review decisions in the same way they review bankruptcy court decisions. This is necessary, because the judges will likely be Article I judges.
- p) Constitutional Issues: Presumably, the same constitutional issues will arise for patent small claims as in tax court or bankruptcy court. The resolution of issues should comply with the procedures in place for those courts.
- q) Self-Support: Patent small claims are unlikely to be self-supporting, especially if they keep filing fees low. The costs of such a system should be borne by society as a whole; its benefits for innovation—both for allowing patentees to enforce patents and for allowing defendants to minimize costs and damages—will be gained by society as a whole.
- r) Evaluation: No comments.

Topic 3: Unintended Negative Consequences

The unintended negative consequences relate to the second potential benefit of small claims. One of the reasons more patent holders have not mounted widespread campaigns

against end-users is that it is simply uneconomical to do so. By providing a small claims court, it may embolden patent holders to approach even more end users because the cost of enforcement would decrease.

One solution to this consequence—a solution that should be implemented anyway—would be to require patent holders to sue makers of enabling technology. This makes economic sense in any event, given that end users can seek indemnification. Rather than the social costs associated with royalty stacking and additional indemnity proceedings, patent holders should be required to go right to the source. Only upon showing that end users infringe on their own volition (that is, there is no enabling technology, or the enabling technology is general purpose) would patent holders be allowed to approach end users.

One could also imagine more onerous penalties for approaching end users with damages demands that are out of line with realistic damages, such as fee shifting if a small claims award is lower than the initial demand. More aggressive rules might require refunding of license fees if *any* end user challenges the initial demand and obtains a lower damages award.

It is likely that patent small claims will become a forum for setting damages, but even if it does, this is a beneficial role, assuming that damages are capped and scaled.

Please do not hesitate to contact me with questions or comments.

Very truly yours,

/s/

Michael Risch