



The United Inventors Association of America
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Washington, DC 20036

April 29, 2013

Via email: ip.policy@uspto.gov

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

ATTN: Elizabeth Shaw

Re: United Inventors Association of America Response to Docket No. PTO-P-2012-0050, "Request for Comment on a Patent Small Claims Proceeding in the United States."

Dear Acting Under Secretary Rea:

We are the United Inventors Association of America. We write to give you our comments to Docket No. PTO-P-2012-0050, "Request for Comment on a Patent Small Claims Proceeding in the United States," first published in the Federal Register December 18, 2012 (response deadline extended to April 30, 2013).

These comments will first explain some background about the UIA, then reflect on the general need for patent small claims proceedings (including some specific responses to Patent Office questions), and finally end with discussion of

empirical evidence from our UIA member survey that supports the creation of a patent small claims proceeding.

I. BACKGROUND ABOUT THE UIA

The UIA is the nation's largest independent nonprofit organization serving the needs of inventors. The UIA has over 15,000 individual members, including inventors who have had personal, frustrating encounters with patent infringement that was too "small" to justify pursuing in the current expensive federal court system. As explained below, our members want a properly-fashioned patent small claims proceeding. Such a proceeding would be a welcome and needed addition to our innovation environment.

The UIA formed in 1987, originally composed of Patent Office employees. The UIA's original funding came from the Patent Office itself. Over the years, the UIA developed a separate existence from the Patent Office. The UIA is a 501(c)(3) educational foundation that promotes the education of independent inventors on important topics that affect innovation and the public interest. Its activities have evolved since its initial founding. Under the guidance of an active board and committed staff, it currently supports several missions.

First, the UIA supports almost 100 inventor clubs nationwide. Second, the UIA sponsors over 500 inventor booths at national trade shows to put inventors in contact with corporate buyers for major brands, and to provide a venue for educational speakers and panels. Third, through these and other activities (including maintaining a substantial website at uiausa.org), the UIA educates

inventors about techniques, opportunities and risks within the idea-commercialization process. In this role, the UIA aspires to give inventors the necessary understanding to avoid scam artists trying to extract high fees with unrealistic promises of idea-to-marketplace outcomes. Fourth, pertinent here, the UIA reaches out to legislators, government agencies and jurists about the needs of the independent inventor community.

II. GENERAL NEED FOR A PATENT SMALL CLAIMS PROCEEDING

The Patent Office's Request for Comment comes at an opportune time. Recent court decisions have amplified the dilemmas facing patent owners confronted with small-scale infringement. Individual inventors experience those dilemmas the most.

On the one hand, a patentee's pursuit of licensing revenues in amounts below the expected costs of litigation may now be deemed an indicator of "bad faith" in the bringing of a lawsuit. *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, (Fed. Cir. 2011) ("The record supports the district court's finding that Eon-Net acted in bad faith by exploiting the high cost to defend complex litigation to extract a nuisance value settlement from Flagstar."). But simultaneously, the law of patent damages has brought renewed emphasis on "apportionment," and strict limitations on "entire market value" theories. Under apportionment, patentees are forbidden from using the revenues of a whole infringing product as a base for reasonable royalty damages, in favor of the revenue apportioned to the subset of the product that causes the infringement. *Uniloc USA, Inc. v. Microsoft Corp.*,

632 F.3d 1292, 1320 (Fed. Cir. 2011) (“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.”).

In other words, claimable damages are getting smaller, at the same time that making small claims for damages will put patentees at risk of being punished with fee-shifting. These contrary trends are troubling. They whipsaw all patentees, not just independent inventors, but affect independent inventors the most.

These trends are occurring in the shadow of the notoriously high cost of litigating a patent infringement case. Based on surveys by the AIPLA, it appears that a typical infringement case involving claims for less than \$1 million in damages will cost nearly that amount to bring to trial. American Intellectual Property Law Association, 2011 Report of the Economic Survey. Other research shows that about 40% of all patent cases litigated to a patentee-favorable judgment result in awards of less than \$2 million. Michael J. Mazzeo, Jonathan Hillel, & Samantha Zyontz, *Predicting the Unpredictable: An Empirical Analysis of U.S. Patent Infringement Awards* 14 (October 20, 2012). Available at SSRN: <http://ssrn.com/abstract=2164787>.

Something is plainly wrong. When infringement is on a small scale, it costs more to remedy the infringement than the damages amounts that can be recovered. The system is failing a significant population of its stakeholders.

Patentees (including individual inventors) with legitimate claims that are relatively small would act irrationally to assert their rights because of the expected costs. See Robert P. Greenspoon, "Is the United States Finally Ready for a Patent Small Claims Court?," 10 Minn. J. L. Sci. & Tech. 549, 550-51 (2009).¹ And it turns out, a large fraction of legitimate claims that go to judgment are indeed relatively small. Something dramatic is needed to reduce transaction costs to allow the patent system to serve its role for the most stakeholders possible – including those with small claims.

This state of affairs hurts independent inventors most of all, and it thereby hurts our national economy. The patent laws have a unique place in our system of laws because they are the "firmware" of new business formation and risk-based investment. The nation relies on individuals acting under the incentives of the patent laws to create new ideas, bring new investment, create new companies, disrupt incumbent industries, and thereby increase small business employment. Nearly every successful large business started as a small one, and nearly every small technology company has one or a handful of individual inventors to thank for its formation.

The UIA knows that the often-prohibitive cost of defending a patent against infringement has a negative blowback effect. When individuals perceive

¹ While these comments are UIA comments, one of the undersigned is the author of the cited 2009 law review article. If he were submitting personal responsive comments on his own behalf, he would refer to the content of his 2009 article. That does not appear to be necessary, since USPTO policy staff are already familiar with it.

that after all of their hard work and money getting a patent they cannot afford to enforce it, they get discouraged. Getting discouraged, they stop inventing. As the Chief Patent Counsel for Conair Corporation stated at a recent symposium on patent small claims proceedings, the Patent Office might give you a right, but under the current system, you don't necessarily have the right to enforce that right.

The UIA staff and board see every day how inventing improves people's lives, gives them confidence and a sense of self-worth, seeds the creation of new small business, and brings new ideas to market to help consumers. Inventors already accomplish these things with the uneasy feeling that the cards are stacked against them. When on top of that, impossibly high costs make it hopeless to defend a patent from infringement, that has a ripple effect on inventor morale. The current system therefore discourages activities that the patent laws were intended to encourage. The jobs the economy needs are never created.

In short, the opportunity to patent something is one of the main drivers of independent invention. Yet the perception has grown among independent inventors that the patent right is not worth what it should be. Inventors have less confidence in recent years that a patent protects anything. It is simply too expensive to get relief when those rights are infringed.

It is no wonder that nonpracticing entities have stepped in. The high cost of patent litigation is the main reason why independent inventors turn to

nonpracticing entities for help. We believe that nonpracticing entity business models will become less attractive, and inventors will be less motivated to sell their enforcement rights, if ways can be found to empower individual inventors to get relief on their own. A small claims proceeding should do that by radically driving down the cost of litigation for small-scale infringement.

III. JURY TRIALS AND APPEALS

Having addressed the need for a small claims proceeding (Question 1), we now single out two specific issues within the Request for Comment: jury trials and appeals. How these are woven into a small claims proceeding will have a major impact on whether the inventor community buys into it.

Subsection 2(c) of the RFC asks whether “parties should agree to waive their right to a *jury trial* as a condition of participating in a small claims proceeding.” The UIA responds: no. Barring access to the courthouse unless an inventor gives up his valuable Constitutional right to a jury trial is counterproductive, not necessary, and probably unlawful.

First, independent inventors would tend to shun a small claims proceeding if a jury waiver were mandatory. Independent inventors believe that bench trials favor big business. They want the right to a jury trial. They sense that in a world where the “cards are stacked against them,” the right to a jury trial is one of the only factors left in their favor. Big business otherwise has all the weapons, including larger financial resources to bully individuals into lowball settlements or not pursuing a claim (effectively, a “compulsory license by default.”).

Second, a well-designed jury trial framework will be *more efficient* (not less efficient) than a bench trial framework. This fact is based on several well-known institutional differences between jury decisionmaking and judge decisionmaking. A jury is forced to agree to a resolution (a verdict) by the end of a trial.² Its members have nothing else to do. Once deliberations begin, there are no distractions. In most cases, they need only render a “black box” verdict, and do not have to explain their reasoning. Juries deliberate relatively fast, sometimes in just a few hours and sometimes in just a day or two. The jury’s verdict is entitled to the highest level of deference on appeal, motivating post-verdict settlements. But a judge, no matter how well intentioned, is in the opposite position. Distractions remain. The gathering of evidence can become sporadic, divided by days or weeks between witnesses. Judges do not necessarily act quickly at the close of evidence to render a judgment. When they do render a judgment, it must be thoroughly reasoned, and must be written in the form of findings of fact and conclusions of law. All of these distinctions from juries slow down a judge and increase litigation costs. The judge’s findings and conclusions also get less deference on appeal than a jury’s outcome, thus making resolution by settlement after judgment less likely.

Keeping juries is not only desirable, it is probably mandatory. The right to a trial by jury in a patent cases is guaranteed under the Seventh Amendment to the United States Constitution. As we understand the implied scenario, a small

² Since the proceeding being analyzed is already one governing a “small” claim, no concern can exist over “runaway juries.”

claims litigant would have a choice – either go to the prohibitively expensive federal court to preserve the jury trial right, or waive that right to receive the benefits of a small claims proceeding. But access to a small claims system cannot legitimately be withheld on this basis. The “doctrine of unconstitutional conditions” would likely make such a rule unconstitutional. For example, in *Palmer v. Valdez*, 560 F.3d 965 (9th Cir. 2008), the appeals court narrowly upheld a district court’s benefit to a litigant granted on condition of a jury trial waiver, but only by a 2-1 vote with a strong dissent. The litigant was granted the right to use telephonic (rather than in-court) testimony, but only if he waived a jury trial. Here, a litigant would gain access to an entire type of court proceeding, conditioned on waiving a jury trial. The views of the dissenting judge in *Palmer* would very likely end up being the views that prevail when access to a small claims proceeding is analyzed under the “unconstitutional conditions” framework. Specifically, the government cannot condition a benefit on a basis that infringes upon an individual's constitutionally guaranteed interest. *Perry v. Sindermann*, 408 U.S. 593, 597 (1972). In other words, a court cannot allow the government to accomplish through a condition something it cannot demand outright. *Id.*

Like jury trials, appeals represent an important structural component of any new system. Question 2(o) of the RFC asks what “the nature of *appellate review* should be including whether there should be a direct appeal to the U.S. Court of Appeals for the Federal Circuit or whether there should be intermediate

review by a U.S. district court or some other venue.” The UIA believes that appeals must be at least as simple as appeals in the present system.

For appeals, there should be only a direct appeal to the Court of Appeals for the Federal Circuit. Interposing an intermediate layer of appeal between these levels would be perceived as another tool available to deep-pocketed big business to force an individual inventor to waste funds on the long path toward pursuing relief. For an individual inventor who wins a small claims case at trial, the journey should be near an end. While an infringer should have a right to seek judicial review, that right should not be embellished and enhanced in ways that create additional layers, additional cost and additional delay.

IV. THE “FLOODGATES” ARGUMENT

The UIA expects that certain interests might be apprehensive about any expansion of access to justice, since it would supposedly “open the floodgates” to new claims. Such concerns would be misplaced in the context of a patent small claims proceeding. For one thing, such claims would expressly be “small,” and such proceedings would be designed with the intention of reducing litigation costs. Therefore, by its very nature, the new small claims proceeding would remove a source of opportunistic litigant behavior, and chill efforts by *either* side in a dispute to use the costs of litigation to magnify burdens on the opponent and achieve illegitimate ends. The ultimate effect will be beneficial for all participants in the patent system – more cases decided (or settled) on the basis of underlying merit rather than litigation costs.

The “floodgates” argument misses the point for another reason. The very goal of fashioning a new patent small claims proceeding is, overtly and self consciously, to allow more claims to be brought than are currently being brought. That is its point – to cure the imbalance in the system. Until now, important stakeholders (including some individual inventors) have been excluded from a system that they relied upon when inventing, seeking patent protection, and forming small businesses. An additional small claims proceeding seeks deliberately to expand inventor access to fulfill the already-existing goals of the patent system. Any notion that this would open the “floodgates” to more litigation thus would be a mistaken characterization of what, in reality, would be a restoration of balance. Expanding access to justice would embody recognition that the rewards for innovation belong to all aggrieved patentees, even when the scope of any interference with their rights is relatively small.

V. ANECDOTAL AND SURVEY EVIDENCE OF INDEPENDENT INVENTORS SUPPORTS THE NEED FOR A PATENT SMALL CLAIMS PROCEEDING

In February 2013, in anticipation of these comments, the UIA constructed a member survey, distributed it to the 15,000 UIA members, and posted a link to it on its website. The survey had five questions with defined response choices, and two open ended questions. The survey was permitted to be anonymous, and respondents were cautioned not to reveal confidential or privileged information. Respondents were told that their responses would be made public through these

Patent Office RFC comments. Respondents were asked for their city, state and first name / last initial.

The five defined response questions were:

Please indicate the degree to which you agree or disagree with the following statements.

1. Independent inventors are often left out of patent processes that benefit big business.
2. The current system of challenging infringement on a patent is ineffective for most individual inventors.
3. The cost of defending a patent is affordable for most inventors.
4. As an independent inventor I feel the current system of challenging patent infringement is fair to all parties.
5. The ability to defend my patent influences my decision to pursue patent protection for my inventions.

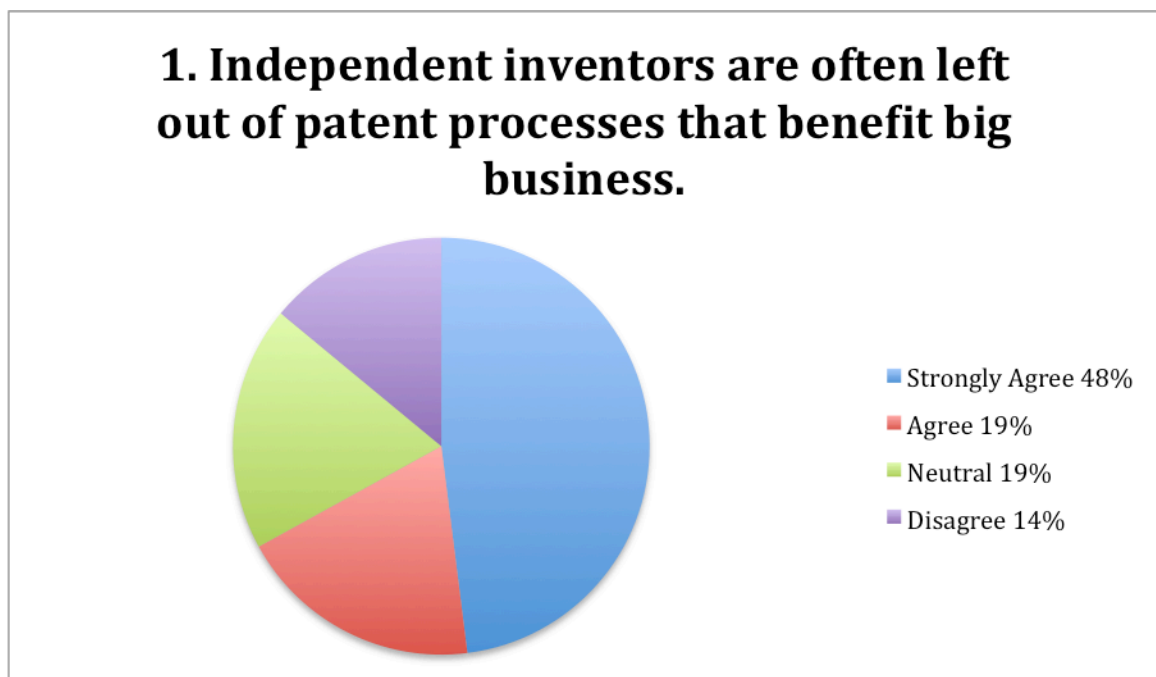
Permitted responses to each question were “strongly disagree,” “disagree,” “neutral,” “agree” and “strongly agree.”

As shown above, the questions themselves were designed so that particular viewpoints would yield answers at opposite ends of the response spectrum. For example, it would be illogical for responses to questions 2 and 4 to be in harmony, but logical for them to be opposites (e.g., “strongly agree” to question 2 but “strongly disagree” to question 4). This questioning technique allows for detection of outliers.

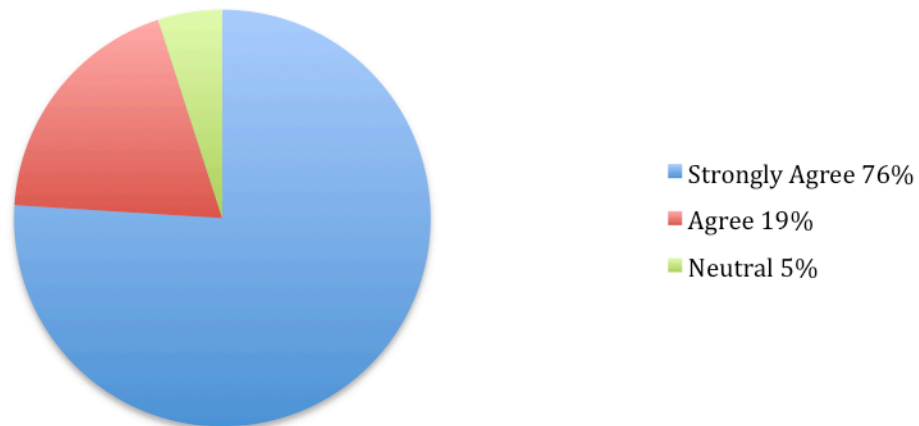
The open ended questions were:

1. Please tell us your experiences related to the infringement of your patent.
2. Please tell us your thoughts on the use of a Patent Small Claims Proceeding for independent inventors.

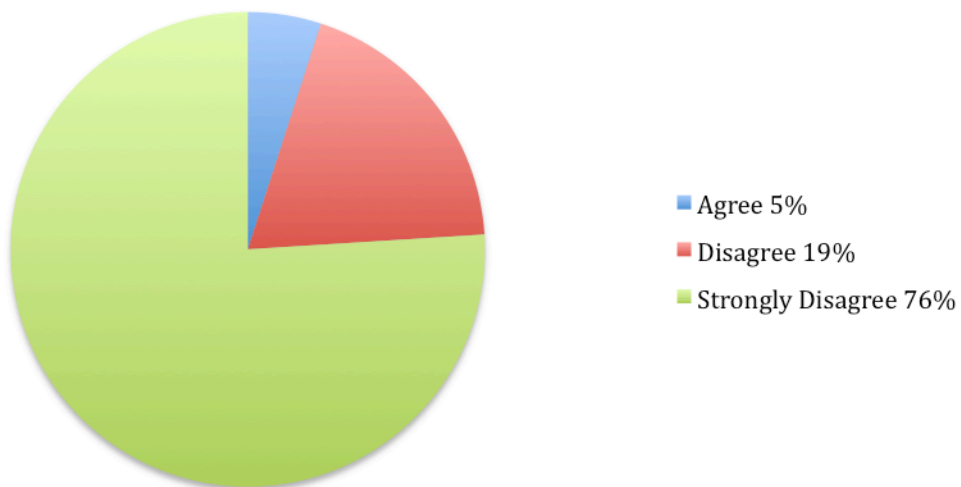
The survey responses corroborate the need for a patent small claims proceeding. The results from the defined-response questions were plotted graphically as follows:



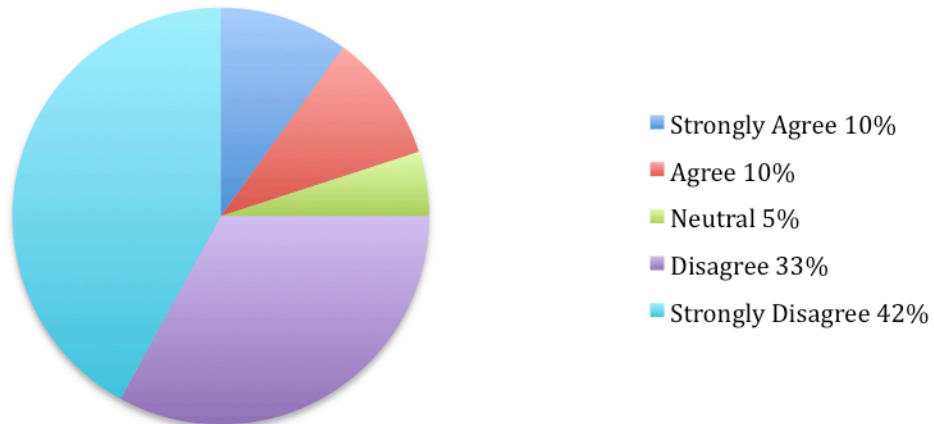
2. The current system of challenging infringement on a patent is ineffective for most individual inventors.



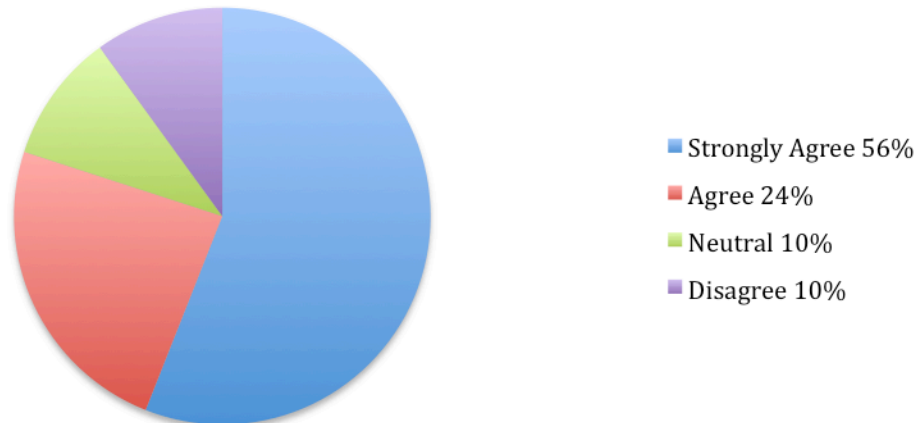
3. The cost of defending a patent is affordable for most inventors.



4. As an independent inventor I feel the current system of challenging patent infringement is fair to all parties.



5. The ability to defend my patent influences my decision to pursue patent protection for my inventions.



These results demonstrate resounding support for a change to help independent inventors. Not a single survey respondent believes that the current

system of challenging infringement is effective for most individual inventors (question 2). In addition, 95% of all respondents believe that the cost of “defending a patent” (*i.e.*, enforcing against an infringer) is unaffordable to most inventors (question 3). And only 10% disagree that the ability to enforce (should it becomes necessary) affects the decision to pursue patent protection (question 5).

The results from the open-ended questions were, if anything, even more compelling. Several respondents were moved to tell their personal stories. These were stories of disappointment and hardship caused by the excessive costs of the current patent system for small claims. Here are a few examples (indicating which open-ended question the response addresses). We have kept the text raw and unedited (except for one redaction to protect an identity), to show the palpable inventor frustration with the current patent enforcement system:

William F. of Pennsylvania:

1. I am very concerned about the ability and or process to defend a patent infringement. This favors the party with the most money.
2. I think this is a great idea and promote innovation unlike the current system that keeps developers from jumping in because of the cost of litigation to defend their work.

Brian B. of Alabama:

1. Yes, my patent was and is being infringed upon! I did contact a local lawyer here in Mobile, Al. and he said that it was definitely infringement but it was not a big enough case for him to handle. There are lights sold on every web-site such as _Amazon, e- bay and almost all lighting companies. I even got a letter of apology from Amazon. They took the lights off and a week later they were back up under a different company. I contacted a contingency lawyer and they gave me a list of things to do/ I did all they told me, and they said that is wasn't enough, I had to do more things and I just got fed up. I have all the work, people, and companies that I talked with and I would love some kind of assistance. My patent number is [REDACTED]. If you go on almost any web-site or lighting companies that sells over the internet, you will see infringement everywhere.
2. I have not talked with anyone who would help me, but everyone said there is infringement going on. It is just to much work to go after the claim and I don't have the resources. It has caused so much stress, I just gave up and continued to try and license my patent to get the resources to go after the infringement the other web-sites and lighting companies that are selling the type of lights I have a patent on. I even called one of the company's and they told

me where they got the lights. I called the number they gave me and it was a casket making company in Ga. Lawyer's that do that kind of work want so much money that the average independent inventor does not stand a chance to protect their hard work

David P. of Washington:

1. all information here is publically available. i invented the gel filled mousepad for computer users in 1995 pat# 5,566,913. In 1998 i entered into an exclusive licensing contract with Case Logic, they paid me a 5% royalty for 6 years. (approx \$600,000) Case Logic exited the marketplace in 2004 due to aggressive marketing by other companies (3M) to 'buy shelf space' in retail stores, CaseLogic could no longer compete and they dropped the Geleez product line. in 2005 i took over the production and sales of the Geleez mousepad and filed a patent infringemnt lawsuit in Minnesota naming - 3M, fellowes, kensington, ACCO, fourstar. i settled out of court under council from my lawyer with the logic that the patent has never been 'tested' in court. I settled the lawsuit and took a "nuisance" fee of <\$x0,000 as payment, on millions and millions of units of sales by the defendants approx .0001 royalty rate. I did not have the funds or experience to pay for a 'protracted' lawsuit, my lawyer was ill equiped to fight the defendants. In 2007 I filed a

second patent infringement lawsuit against - staples, velo (chinese knock off company), belkin, sp richards. The defendants immediately filed a re-examination request with the uspto (the lawsuit was stayed). after 4 years and appealing to the BPAI, the patent stood and came out stronger with new claims going from 21 claims to 35 claims. THE DAY AFTER THE RE-ISSUE CERTIFICATE, the defendants filed a SECOND re-examination request, it was granted AGAIN. I am in the 2nd year of the second reexamination, the lawsuit has been stated 6 years. All the money i made on the patent has been spent defending the re examinations. I am now in debt and doubtful the patent will with stand a second reexamination, i have exhausted my funds, and likely have only months left of answering the 20th office action by the uspto. The dfendants can request a THRID re-examination. There is no question in my mind a patent is not worth the time, money and effort I have put into trying to protect my patent rights. Even thou the gel mousepad product has been wildly successful product and has helped millions of computers users prevent carpal tunnel syndrome and US government OSHA recommends gel mousepads and gel wristrests as part of a safe computer workstation environment. I am proud of inventing a useful and helpful product, however I have risked all of my retirement and facing financial ruin,

all while big corporations have made millions and millions of dollars of profit, and Velo the Chinese company is 'un touchable', even if I win my lawsuit, they will likely never pay a penny. I have 22 other inventions I have patented, however my first and most successful patent has brought me only grief. A lone inventor doesn't have a chance against big corporations, the US Constitution section 8, does NOT protect inventors rights

Shawna P. of Washington:

2. It is still too costly. It would wipe out our small business finances. We are left with trying to use those funds to obtain as much of the marketplace as possible BEFORE the infringing product takes hold. We feel we do not have a viable route to protecting our patent.

The narrative responses confirm the insights of the other responses. The independent inventor community has silently suffered under a current patent system that is not capable of effectively resolving small claims disputes.

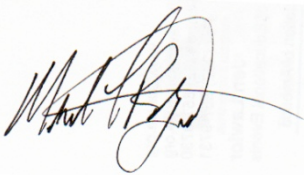
VI. CONCLUSION

The UIA appreciates this opportunity to supply its comments on the merits of a patent small claims proceeding. As reflected above, the time is ripe for such a proceeding. Our inventor-membership would greatly benefit from such a proceeding, which would go a long way toward restoring trust and inventor confidence in a system that many in the inventor community feel has been co-opted by forces acting against their interests.

Respectfully submitted,



Warren Tuttle
Board President
United Inventors Association of America



Mark Reyland
Executive Director
United Inventors Association of America



Robert Greenspoon
Board Member
United Inventors Association of America