Patent Trolling and Copyright Mass Claim Filings

Thursday, April 20, 2017
6:30 p.m.
Fordham Law School, Room 2-01A
150 West 62nd Street
New York, NY 10023

Moderator:
Professor Olivier Sylvain, Fordham Law School

Instructors:
Ray Beckerman, President, Ray Beckerman P.C.
Lawrence Cruz, Chief Patent Counsel, Conair Corporation
Ronald Prague, EVP & General Counsel, Synchronoss Technologies, Inc.
Matthew Siegal '87, Partner, Stroock & Stroock & Lavan LLP
Barry Werbin '81, Counsel, Herrick Feinstein LLP

CLE MATERIALS
TABLE OF CONTENTS

I. Outline.................................................................i
II. Panelist Biographies..............................................ii
III. Articles..............................................................iii
Should something be done to block patent trolls from foiling innovation and Copyright mass filers from suppressing free expression, or is the real problem that large corporations want to trample the rights of inventors and artists without just compensation? Join us as we peek behind the rhetoric and discuss real world examples of the problems encountered by actual parties to this incendiary dispute.

6:30 p.m. | Introduction
6:37 p.m. | Patent panelists
   - Industry Perspective
   - Non-Practicing entity
   - Patent Trolls
   - Proposed Legislation
6:48 p.m. | Copyright panelists
   - What is a Copyright “Troll”?
   - What are Copyright Non-Troll “Mass Filings”?
   - Worst Trolls Violate Legal Ethics and Laws – Prenda Law Inc. Study
   - Malibu Media – Troll or Aggressive Mass Filer Copyright Protector?
   - Defending Against Copyright Trolls
   - Will a Copyright Office Smalls Claims Process Impact Trolls/Mass Filers?
6:58 p.m. | Open discussion and Q&A
7 – 7:30 p.m. | Free flow, generic discussion generated by audience questions
RAY BECKERMAN  
*President, Ray Beckerman P.C.*  
Ray is a commercial litigator and internet law attorney with extensive experience in business law, copyright, trademark, entertainment, libel, slander, internet, computer software, business torts, and other areas, and has litigated hundreds of cases.

He began his legal career with Phillips, Nizer, Benjamin, Krim & Ballon, working his way through night law school, and upon graduation becoming an attorney in that firm. He is the author of several blogs, including “Recording Industry vs. The People”, which is ranked by Justia.com as one of the most popular all time copyright law blogs in the U.S., and is a member of the Hall of Fame of Slashdot.org, a popular tech website. He is a current member of the Entertainment Law Committee of the New York City Bar Association, and a former member of its Copyright Law, Information Technology Law, Entertainment Law, and Civil Courts committees.

He is a frequent speaker and has published many articles on copyright and internet law issues raised by new technologies.

He’s also a recreational runner, a beginning Kung Fu student, and active in the social media world as @RayBeckerman on Twitter and the author of social media blog, “Ray’s 2.0”. When fellow lawyers follow him on Twitter, he always follows back.

LAWRENCE CRUZ  
*Chief Patent Counsel, Conair Corporation*  
Lawrence Cruz has been Chief Patent Counsel at Conair Corporation for the past ten years. Conair is a global company headquartered in Stamford, Connecticut that produces and sells a variety of consumer and industry appliances and products. His career started as a Patent Examiner at the United States Patent and Trademark Office in 1987, and he has held in-house patent counsel positions at two Fortune 500 companies and was an associate in a patent litigation firm. He earned a JD from George Washington University Law School in 1992, and a B.S. in Mechanical Engineering from Southern Illinois University in 1987.
RONALD PRAGUE  
*EVP & General Counsel, Synchronoss Technologies, Inc.*

Ronald Prague serves as Executive Vice President, General Counsel and Secretary and has been with Synchronoss Technologies since August of 2006, overseeing all corporate and legal affairs for the company.

Mr. Prague comes to Synchronoss from Intel Corporation, where he was group counsel for Intel’s communication infrastructure group. Prior to joining Intel, Mr. Prague practiced for ten years with the New York law firms of Haythe & Curley (acquired by Torys LLP) and Richards & O’Neil (acquired by Bingham McCutchen), focusing on litigation, mergers & acquisitions, securities and intellectual property matters. He also has extensive experience guiding companies through public offerings.

Mr. Prague is a graduate of Northwestern University School of Law and earned a Bachelor of Science degree with distinction from Cornell University.

MATTHEW SIEGAL  
*Partner, Stroock & Stroock & Lavan LLP*

Matthew W. Siegal (Fordham Law ’87) is a partner in Stroock’s Intellectual Property Group. He concentrates his practice on extensive patent litigation, prosecution, opinion, licensing and due diligence for large multinational corporations, mid-size companies, start-ups, sole inventors and entrepreneurs.

Mr. Siegal has also prosecuted U.S. and worldwide patent applications in chemical, materials, biotechnical, electrical and mechanical fields. Mr. Siegal has also pursued appeals, *inter partes* reexaminations and *ex parte* reexaminations before the Patent Trial and Appeal Board.

In addition, Mr. Siegal has provided licensing and due diligence assistance in connection with asset purchases and financing, freedom-to-operate and third party infringement, strength of portfolio analyses and litigation outcome predictions. He also prosecutes trademark and copyright applications and oppositions, and drafts and negotiates domestic and international license and settlement agreements.

BARRY WERBIN  
*Counsel, Herrick Feinstein LLP*

Barry Werbin (Fordham Law ’81) is senior counsel at Herrick, Feinstein LLP and a member of the firm’s Intellectual Property and Technology Practice since he founded it over 20 years ago. Barry routinely handles copyright and trademark infringement and registration matters, other litigation involving licenses, publicity rights, trade secrets and software, as well as transactional licensing, IP counseling, software and web site development, and online commerce issues across many sectors, including art, publishing, entertainment, music, sports, apparel, retail
and content delivery. Barry was a prior Chair of the NYC Bar Association’s Copyright & Literary Property Committee and is a standing member of the City Bar’s IP Council. He serves on the Executive Committee of the NY State Bar Association’s Entertainment, Arts and Sports Law (EASL) Section, where he is co-Chair of the Committee on Publicity, Privacy & Media and a regular contributor of copyright-related content to the EASL online blog. Barry is a member of the Copyright Society of the USA and its New York Chapter Planning Committee. He is a frequent lecturer on intellectual property issues.
On June 5, 2015, Plaintiff Malibu Media, LLC filed this lawsuit against an unnamed and unidentified Defendant, John Doe, as the subscriber to an identified internet protocol ("IP") address, "IP 66.108.67.10." The case appears to be part of the latest iteration of "a nationwide blizzard of civil actions brought by purveyors of pornographic films alleging copyright infringement by individuals utilizing a computer protocol known as BitTorrent." In re BitTorrent Adult Film Copyright Infringement Cases, 296 F.R.D. 80, 82 (E.D.N.Y. 2012).

Malibu alleges that John Doe violated the Copyright Act of 1976, 17 U.S.C. §§ 101 et seq., by downloading and sharing over the internet a large file containing 127 movies owned by Plaintiff, including such titles as Cum In Get Wet and Tie Her Up For Me (Compl. Ex. B.) Malibu alleges that its investigator, IPP International UG, "downloaded one or more bits of each of the digital media files" from John Doe, (Compl. ¶ 20), and used "proven IP address geolocation technology" to trace the internet activity in question to a Time Warner Cable ("TWC") account in this district. (Compl. ¶ 6). Malibu also alleges that "Defendant’s Internet Service Provider can identify the Defendant,” (Compl. ¶ 11), and on June 18, 2015, it moved for leave to subpoena
Time Warner Cable pursuant to Fed. R. Civ. P. 26(d)(1) to discover the identity of the individual to whom the IP address is registered. For the following reasons, Malibu’s motion is denied.

**LEGAL STANDARD**

Ordinarily, a “party may not seek discovery from any source before the parties have conferred as required by Rule 26(f), except in a proceeding exempt from initial disclosure under Rule 26(a)(1)(B), or when authorized by these rules, by stipulation, or by court order.” Fed. R. Civ. P. 26(d)(1). The Court can order earlier discovery if the party seeking discovery shows “good cause.” Ayyash v. Bank Al-Madina, 233 F.R.D. 325, 326 (S.D.N.Y. 2005). The following factors frame the “good cause” inquiry in cases of online copyright infringement:

1. [the] concreteness of the plaintiff’s showing of a *prima facie* claim of actionable harm, ... 2. [the] specificity of the discovery request, ... 3. the absence of alternative means to obtain the subpoenaed information, ... 4. [the] need for the subpoenaed information to advance the claim, ... and 5. the [objecting] party’s expectation of privacy.


**BACKGROUND**

I. **BitTorrent**

The Court’s understanding of BitTorrent comes primarily from Judge Spratt’s opinion in *Patrick Collins, Inc. v. Doe 1*, 288 F.R.D. 233 (E.D.N.Y. 2012), Judge Marrero’s

---

1 Rule 26(a)(1)(B) is not applicable to this case. It covers actions for review on an administrative record, forfeiture actions *in rem*, *habeas* actions, *pro se* actions by prisoners, administrative summons enforcement, actions by the United States to recover payments or to collect on student loans, ancillary proceedings, and arbitration enforcement.
opinion in *Next Phase Distribution, Inc. v. John Does 1-27*, 284 F.R.D. 165 (S.D.N.Y. 2012), and Magistrate Judge Brown’s opinion in *In re BitTorrent Adult Film Copyright Infringement Cases*, 296 F.R.D. 80 (E.D.N.Y. 2012). BitTorrent is a peer-to-peer file-sharing protocol that allows users to transfer large files over the internet by breaking the complete file (the “Seed”) into small pieces to be downloaded in parts. Other users (“Peers”) download a small “torrent” file that contains an index of the pieces and directions for connecting to the Seed. When Peers connect to the Seed, they download pieces of the file at random, and begin sharing each piece once it has completed downloading. After all the pieces are downloaded, the BitTorrent software reassembles the pieces into a complete file for the Peer to view.

BitTorrent is distinguished from other file sharing protocols by its users’ ability to upload and download files simultaneously. This non-sequential download structure reduces the bottleneck of traffic, which allows for faster download speeds. The Peers that are uploading and downloading the same Seed file from each other at a given point in time are collectively called a “Swarm.” Members of a Swarm are able to see the IP addresses of other Peers to whom they are connected. In addition, BitTorrent “tracks” the pieces of a file as it is shared, so Peers can identify the IP addresses from which the file was downloaded.

II. Copyright Trolls

Recent empirical studies show that the field of copyright litigation is increasingly being overtaken by “copyright trolls,” roughly defined as plaintiffs who are “more focused on the business of litigation than on selling a product or service or licensing their [copyrights] to third parties to sell a product or service.” Matthew Sag, *Copyright Trolling, An Empirical Study*, 100 IOWA L. REV. 1105, 1108 (2015). “The paradigmatic troll plays a numbers game in which it targets hundreds or thousands of defendants, seeking quick settlements priced just low enough
that it is less expensive for the defendant to pay the troll rather than defend the claim." *Id.* The lawsuits most frequently target anonymous John Does for alleged infringement related to the use of BitTorrent. Indeed, of “the 3,817 copyright law suits filed in 2013, over 43% were against John Does and more than three-quarters of those related to pornography” *Id.* at 1108-09. But almost none ever reaches a hearing. Rather, the “lawsuits are filed to take advantage of court-ordered discovery [under Fed. R. Civ. P. 26(d)] to break the veil of anonymity that separates IP addresses from the account information of actual human beings.” *Id.* at 1109; see also *Digital Sin, Inc. v. Does 1-176*, 279 F.R.D. 239, 241 (S.D.N.Y. 2012). They then use this information to quickly negotiate settlements on mass scale without any intention of taking the case to trial. See, e.g., *Media Prods., Inc., DBA Devil’s Film v. John Does 1-26*, No. 12-cv-3719, at 4 (S.D.N.Y. June 18, 2012) (explaining that the settlements in these BitTorrent cases are “are for notoriously low amounts relative to the possible statutory damages, but high relative to the low value of the work and minimal costs of mass litigation. Cases are almost never prosecuted beyond sending demand letters and threatening phone calls.”).

In 2012, judges in the Southern District and across the country began awakening to the danger of copyright trolls, especially in the context of pornography. For example, the late Judge Harold Baer, Jr. explained that “[i]n such cases, there is a risk not only of public embarrassment for the misidentified defendant, but also that the innocent defendant may be

---

2 Initially, these lawsuits attempted to join every Peer from a given BitTorrent Swarm in infringement actions, which is why the defendants in the captions are typically “John Does 1-X,” with X being a large number. However, over the past few years, judges in this District and others became hostile to mass joinder in these cases, characterizing the approach as an effort to circumvent the filing fees owed by Plaintiff. See, e.g., *Digital Sins, Inc. v. John Does 1-245*, 11-cv-8170, 2012 WL 1744838, at *3 (S.D.N.Y. May 15, 2012) (Judge McMahon explaining that “[t]he only economy that litigating these cases as a single action would achieve is an economy to plaintiff—the economy of not having to pay a separate filing fee for each action brought.”). Facing higher costs, many of the most prominent filers seem to have ceased bringing large-scale “John Doe” actions. Remaining entities now sue each defendant individually.
coerced into an unjust settlement with the plaintiff to prevent the dissemination of publicity surrounding unfounded allegations.” *Media Prods., Inc*, No. 12-cv-3719, at 4. The largest copyright trolls were increasingly unscrupulous in abusing the litigation process to exploit this dynamic. *See In re BitTorrent Adult Film Copyright Infringement Cases*, 296 F.R.D. 80, 89 (E.D.N.Y. 2012) (“The most persuasive argument against permitting plaintiffs to proceed with early discovery arises from the clear indicia, both in this case and in related matters, that plaintiffs have employed abusive litigations tactics to extract settlements from John Doe defendants.”); *Patrick Collins, Inc. v. Doe 1, Patrick Collins, Inc. v. John Does 1-37*, No. 12-cv-1259, 2012 WL 287832, at *3 n.2 (C.D. Cal. Jul. 11, 2012) (“the federal courts are not flexible enough to be shaped into ‘cogs in a plaintiff’s copyright-enforcement business model. The Court will not idly watch what is essentially an extortion scheme, for a case that [Plaintiffs have] no intention of bringing to trial.”); *Malibu Media, LLC v. Does 1-5*, 2012 WL 2001968, at *1 (S.D.N.Y. June 1, 2012) (“This Court shares the growing concern about unscrupulous tactics used by certain plaintiffs, especially in the adult films industry, to shake down the owners of specific IP addresses from which copyrighted adult films were allegedly downloaded.”); *Digital Sins, Inc. v. John Does 1-245*, No. 11-cv-8170, 2012 WL 1744838, at *3 (S.D.N.Y. May 15, 2012) (“In these BitTorrent cases, [] numerous courts have already chronicled abusive litigation practices . . . ”); *SEO Pictures, Inc. v. Does 1-20*, No. 12-cv-3925, 2012 WL 2034631, at *1 (S.D.N.Y. June 5, 2012) (“Finally, early discovery has been used repeatedly in cases such as this one to harass and demand of defendants quick settlement payments, regardless of their liability.”); *Digital Sin, Inc. v. Does 1-176*, 279 F.R.D. 239, 242 (S.D.N.Y. 2012) (“This course of conduct indicates that the plaintiffs have used the offices of the Court as an inexpensive means to gain the Doe defendants’ personal information and coerce payment from them. The Plaintiffs
seemingly have no interest in actually litigating the cases, but rather simply have used the Court and its subpoena powers to obtain sufficient information to shake down the John Does.”).

These tactics, warned Judge Baer, “could turn copyright protection on its head.” Media Prods., Inc., DBA Devil’s Film v. John Does 1-26, 12-cv-3719, at 4 (S.D.N.Y. June 18, 2012). In order to prevent that from happening, judges began attaching conditions to the various subpoenas they issued, but have found that plaintiffs often ignore them.

III. **Malibu Media, LLC**

Malibu Media, LLC is a California company owned by Collette Field and her husband, Brigham Field. The company produces erotic videos and distributes them through its subscription website, “X-art.com.” Subscribers can obtain unlimited access to Malibu’s pornographic video catalog for a monthly fee of $24.95 or $99.95 annually. (Field Decl. ¶ 12).

Malibu hires private investigators to seek out internet users who download or share Malibu-copyrighted videos (See Compl. ¶ 20), and brings lawsuits against them. Malibu is a prolific litigant: between January and May 2014, for example, Malibu was responsible for 38% of copyright lawsuits filed in the United States. Gabe Friedman, *The Biggest Filer of Copyright Lawsuits? This Erotica Web Site*, NEW YORKER, May 14, 2014, available at http://www.newyorker.com/currency-tag/the-biggest-filer-of-copyright-lawsuits-this-erotica-web-site. And the company has filed more copyright actions against John Doe defendants than any other plaintiff in each of the past three years. See Sag, *supra* at 1132.

Malibu spends much of its brief touting its integrity as a content-producer and distinguishing itself from copyright trolls. It cites comments by Judge Baylson during a 2013 “bellwether” trial in the Eastern District of Pennsylvania meant to test the viability of Malibu’s claims. Judge Baylson stated that “Malibu is not what has been referred to in the media and

However, Malibu’s corporate strategy relies on aggressively suing for infringement and obtaining accelerated discovery of the IP address holder’s identity from the ISP. It then seeks quick, out-of-court settlements which, because they are hidden, raise serious questions about misuse of court procedure. Judges regularly complain about Malibu. For example, in May, Judge Timothy Black of the Southern District of Ohio surveyed some of Malibu’s questionable conduct in litigations across the country. See Order to Show Cause, ECF Doc. No. 15, Malibu Media, LLC v. Ryan Ramsey, No. 14-cv-718 (S.D. Ohio May 26, 2015). He found that, while “Malibu Media asserts that it is necessary to invoke the Court’s subpoena power to ‘propound discovery in advance of a Rule 26(f) conference’ . . .[,] not a single one of these 60 cases [filed in this district over the previous 12 months] has even progressed to a Rule 26(f) conference.” Id. at 5. Indeed, most are dismissed even without the issuance of a summons. Id. Malibu’s motive is to use the federal courts only to obtain identifying information in order to coerce fast settlements. Id. at 8 (citing Malibu Media, LLC v. Does 1-54, No. 12-cv-1407, 2012 WL 30302, at *5 (D. Colo. July 25, 2012); Malibu Media, LLC v. Does, 923 F. Supp. 2d 1339, 1345-46 (M.D. Fla. 2013)).

Malibu effectuates its strategy by employing tactics clearly calculated to embarrass defendants. For example, in recent complaints filed in the Wisconsin federal courts, an attached “Exhibit C” listed additional pornographic videos downloaded to the defendants’ IP
addresses using BitTorrent. The titles in Exhibit C were extremely racy and lewd,³ and the
district court sanctioned Malibu when it learned that Malibu did not even own the copyrights for
the titles; rather, it had gratuitously listed them to coerce larger, faster settlements by further
shaming defendants. See Malibu Media LLC v. John Doe subscriber assigned IP address

When courts have attempted to place restrictions on the subpoena to prevent
Malibu from abusing the process to extort defendants, Malibu has flagrantly disregarded them.
For example, after one court issued “two orders unambiguously ordering [Malibu] to file [the
identified IP-registrant’s name] under seal,” Malibu filed it publicly anyway. Order to Show
Cause, ECF Doc. No. 17, Malibu Media, LLC v. Austen Downs, 14-cv-707 (S.D. Ohio May 26,
2015). And in the Eastern District of New York, Magistrate Judge Gary Brown took additional
precautions to protect John Doe’s identity by explicitly instructing that “the subpoenaed
information be sent directly to the Court, ex parte and under seal.” Patrick Collins, Inc. v. Doe 1,
288 F.R.D. 233, 236 (E.D.N.Y. Nov. 20, 2012). Malibu instead served subpoenas that requested
the identifying information be sent directly to Plaintiff’s counsel. Id.

DISCUSSION

Plaintiff asserts that good cause exists to grant its motion to subpoena Time
Warner Cable, the internet provider, because (a) it has established a prima facie claim for
copyright infringement against Defendant; (b) it has clearly identified the specific information it
seeks; (c) there is no other way to obtain Defendant’s identity; (d) identifying the Defendant is
necessary for Plaintiff to advance his claims; and (e) Defendant does not have a legitimate

³ e.g. “[Bestiality] Young Blond . . . Dog (www.sickporn.in)” is the redacted version of one such title.
interest in remaining anonymous. In support of its motion, Malibu filed declarations by Collette Field, the owner of Malibu, and Patrick Paige, a former detective in the Palm Beach County Sheriff’s Department who worked in the computer crimes unit.

First, it is doubtful whether Malibu has in fact established a *prima facie* claim here. A *prima facie* copyright infringement claim consists of two elements: (1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original. See *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co., Inc.* 499 U.S. 3400, 361 (1991). As Judge Marrero observed in *Next Phase Distribution, Inc. v. John Does 1-27*, 284 F.R.D. 165, 171 (S.D.N.Y. 2012), “if the Motion Picture is considered obscene, it may not be eligible for copyright protection.” Further, even if Malibu’s copyrights are valid, Malibu has not established a violation by the individual to whom the relevant IP address is registered. As Judge Oetken explains,

> [t]he fact that a copyrighted work was illegally downloaded from a certain IP address does not necessarily mean that the owner of that IP address was the infringer. Indeed, the true infringer could just as easily be a third party who had access to the internet connection, such as a son or daughter, houseguest, neighbor, or customer of a business offering internet connection.

*Patrick Collinc, Inc. v. Does 1-6*, No. 12-cv-2964, 2012 WL 2001957, at *1 (S.D.N.Y. June 1, 2012) (internal citations omitted); see also *In re BitTorrent Adult Film Copyright Infringement Cases*, 296 F.R.D. 80, 84 (E.D.N.Y. 2012) (“[T]he assumption that the person who pays for Internet access at a given location is the same individual who allegedly downloaded a single sexually explicit film is tenuous, and one that has grown more so over time.”); *Digital Sin, Inc. v. John Does 1-176*, 279 F.R.D. 239, 242 (S.D.N.Y. 2012) (Judge Nathan finding that approximately 30% of John Does identified by their internet service providers are not the individuals who actually downloaded the allegedly infringing films). The risk of misidentification is great in a world with ubiquitous Wi-Fi, and given courts’ concerns that these
sorts of allegations – especially by this plaintiff – are likely to coerce even innocent defendants into settling, the risk of misidentification is important to protect against.

And even if Plaintiff could definitively trace the BitTorrent activity in question to the IP-registrant, Malibu conspicuously fails to present any evidence that John Doe either uploaded, downloaded, or even possessed a complete copyrighted video file. (See Compl. ¶ 24 (“IPP International UG downloaded from Defendant one or more bits of each file hash listed on Exhibit A.”) (emphasis added); Fieser Decl. ¶ 15 (“Our software downloaded one or more bits of each file hash listed on Exhibit A from the IP address referenced on Exhibit A.”)). Another district court has noted that

[i]ndividual BitTorrent file pieces are worthless . . . If it is the case that a Doe Defendant logged onto the BitTorrent swarm, downloaded and then uploaded a single piece to the IPP server, and then logged off, all he has done is transmit an unusable fragment of the copyrighted work. . . . [T]he Court notes that Malibu’s case is weak if all it can prove is that the Doe Defendants transmitted only part of all the BitTorrent pieces of the copyrighted work.


Finally, Plaintiff’s assertion that there is no alternative means of obtaining the desired information is inadequate. The only support for it comes from the declaration of Patrick Paige who, as Magistrate Judge Fox found in a different case, lacks personal knowledge of the methodology used by ISPs to match the IP address with its registrant. *Malibu Media, LLC v. John Doe subscriber assigned IP address 207.38.208.137*, 15-cv-1883, ECF Doc. No. 16 (Apr. 10, 2015). The Paige declaration that Judge Fox found deficient nearly three months ago is identical to the Paige declaration submitted in support of this motion. It fares no better this time.
There is no doubt that online piracy of digital media is a major problem today. Ordinarily, the “federal court system provides litigants with some of the finest tools available to assist in resolving disputes.” In re BitTorrent Adult Film Copyright Infringement Cases, 296 F.R.D. 80, 89-90 (E.D.N.Y. 2012). Those tools can empower copyright-owners to enforce their rights, but they are also capable of being used as instruments of abuse. Where abuse is likely, as it is here, courts should not make those tools available without careful scrutiny.

CONCLUSION

In light of Malibu’s history of abuse of court process and its failure to show “good cause,” I decline to give it the benefit of an exception to the normal rules of discovery. Plaintiff’s motion for leave to serve a subpoena on Time Warner Cable is denied. The case will proceed in normal fashion.

The Clerk shall mark the motion (Doc. No. 5) terminated.

SO ORDERED

Dated: July 6, 2015
New York, New York

ALVIN K. HELLESTEIN
United States District Judge
UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

INGENUITY 13 LLC,

Plaintiff,

v.

JOHN DOE,

Defendant.

Case No. 2:12-cv-8333-ODW(JCx)

ORDER ISSUING SANCTIONS

"The needs of the many outweigh the needs of the few."

I. INTRODUCTION

Plaintiffs\(^1\) have outmaneuvered the legal system.\(^2\) They’ve discovered the nexus of antiquated copyright laws, paralyzing social stigma, and unaffordable defense costs. And they exploit this anomaly by accusing individuals of illegally downloading a single pornographic video. Then they offer to settle—for a sum

\(1\) The term “Plaintiffs” used in this order refers to AF Holdings LLC, Ingenuity 13 LLC, as well as related entities, individuals, and attorneys that collaborated in the underlying scheme fronted by AF Holdings and Ingenuity 13.

calculated to be just below the cost of a bare-bones defense. For these individuals, resistance is futile; most reluctantly pay rather than have their names associated with illegally downloading porn. So now, copyright laws originally designed to compensate starving artists allow, starving attorneys in this electronic-media era to plunder the citizenry.

Plaintiffs do have a right to assert their intellectual-property rights, so long as they do it right. But Plaintiffs’ filing of cases using the same boilerplate complaint against dozens of defendants raised the Court’s alert. It was when the Court realized Plaintiffs engaged their cloak of shell companies and fraud that the Court went to battlestations.

II. PROCEDURAL HISTORY

The Court issued its February 7, 2013 Order to Show Cause re Sanctions to allow counsel, Brett Gibbs, to explain why he ignored the Court’s discovery-stay Order, filed complaints without reasonable investigation, and defrauded the Court by asserting a copyright assignment secured with a stolen identity. (ECF No. 48.) As evidence materialized, it turned out that Gibbs was just a redshirt.

Gibbs’s behavior in the porno-trolling collective was controlled by several attorneys, under whom other individuals also took their orders. Because it was conceivable that these attorneys (and others) were culpable for Gibbs’s conduct, the Court ordered these parties to appear.

The following additional parties were ordered to appear: (a) John Steele, of Steele Hansmeier PLLC, Prenda Law, Inc., and/or Livewire Holdings LLC; (b) Paul Hansmeier, of Steele Hansmeier PLLC and/or Livewire Holdings LLC; (c) Paul Duffy, of Prenda Law, Inc.; (d) Angela Van Den Hemel, of Prenda Law, Inc.; (e) Mark Lutz, of Prenda Law, Inc., AF Holdings LLC, and/or Ingenuity 13 LLC; (f) Alan Cooper, of AF Holdings LLC; (g) Peter Hansmeier, of 6881 Forensics, LLC; (h) Prenda Law, Inc.; (i) Livewire Holdings LLC; (j) Steele Hansmeier PLLC; (k) AF Holdings LLC; (l) Ingenuity 13 LLC; (m) 6881 Forensics, LLC; and (n) Alan Cooper,
of 2170 Highway 47 North, Isle, MN 56342. (ECF Nos. 66, 86.) These parties were ordered to show cause why they should not be sanctioned for their behind-the-scenes role in the conduct facially perpetrated by Gibbs. These parties were also ordered to explain the nature of their operations, relationships, and financial interests.

III. LEGAL STANDARD

The Court has a duty to supervise the conduct of attorneys appearing before it. *Erickson v. Newmar Corp.*, 87 F.3d 298, 301 (9th Cir. 1996). The power to punish contempt and to coerce compliance with issued orders is based on statutes and the Court’s inherent authority. *Int’l Union, United Mine Workers of Am. v. Bagwell*, 512 U.S. 821, 831 (1994). Though this power must be exercised with restraint, the Court has wide latitude in fashioning appropriate sanctions to fit the conduct. See *Roadway Express, Inc. v. Piper*, 447 U.S. 752, 764–65 (1980).

Under the Court’s inherent authority, parties and their lawyers may be sanctioned for improper conduct. *Fink v. Gomez*, 239 F.3d 989, 991 (9th Cir. 2001). This inherent power extends to a full range of litigation abuses, the litigant must have engaged in bad faith or willful disobedience of a court’s order. *Id.* at 992. Sanctions under the Court’s inherent authority are particularly appropriate for fraud perpetrated on the court. *See Chambers v. NASCO, Inc.*, 501 U.S. 32, 54 (1991).

IV. DISCUSSION

A. Findings of fact

Based on the evidence presented on the papers and through sworn testimony, the Court finds the following facts, including those based on adverse inferences drawn from Steele, Hansmeier, Duffy, and Van Den Hemel’s blanket refusal to testify.3

1. Steele, Hansmeier, and Duffy (“Principals”) are attorneys with shattered law practices. Seeking easy money, they conspired to operate this enterprise and

3 Even if their refusal was based on the Fifth Amendment privilege against self-incrimination, the Court still may draw adverse inferences against them in this civil proceeding. *Baxter v. Palmigiano*, 425 U.S. 308, 318 (1976).
formed the AF Holdings and Ingenuity 13 entities (among other fungible entities) for
the sole purpose of litigating copyright-infringement lawsuits. They created these
entities to shield the Principals from potential liability and to give an appearance of
legitimacy.

2. AF Holdings and Ingenuity 13 have no assets other than several
copyrights to pornographic movies. There are no official owners or officers for these
two offshore entities, but the Principals are the de facto owners and officers.

3. The Principals started their copyright-enforcement crusade in about 2010,
through Prenda Law, which was also owned and controlled by the Principals. Their
litigation strategy consisted of monitoring BitTorrent download activity of their
copyrighted pornographic movies, recording IP addresses of the computers
downloading the movies, filing suit in federal court to subpoena Internet Service
Providers (“ISPs”) for the identity of the subscribers to these IP addresses, and
sending cease-and-desist letters to the subscribers, offering to settle each copyright-
infringement claim for about $4,000.

4. This nationwide strategy was highly successful because of statutory-
copyright damages, the pornographic subject matter, and the high cost of litigation.
Most defendants settled with the Principals, resulting in proceeds of millions of
dollars due to the numerosity of defendants. These settlement funds resided in the
Principals’ accounts and not in accounts belonging to AF Holdings or Ingenuity 13.
No taxes have been paid on this income.

5. For defendants that refused to settle, the Principals engaged in vexatious
litigation designed to coerce settlement. These lawsuits were filed using boilerplate
complaints based on a modicum of evidence, calculated to maximize settlement
profits by minimizing costs and effort.

6. The Principals have shown little desire to proceed in these lawsuits when
faced with a determined defendant. Instead of litigating, they dismiss the case. When
pressed for discovery, the Principals offer only disinformation—even to the Court.
7. The Principals have hired willing attorneys, like Gibbs, to prosecute these cases. Though Gibbs is culpable for his own conduct before the Court, the Principals directed his actions. In some instances, Gibbs operated within narrow parameters given to him by the Principals, whom he called “senior attorneys.”

8. The Principals maintained full control over the entire copyright-litigation operation. The Principals dictated the strategy to employ in each case, ordered their hired lawyers and witnesses to provide disinformation about the cases and the nature of their operation, and possessed all financial interests in the outcome of each case.

9. The Principals stole the identity of Alan Cooper (of 2170 Highway 47 North, Isle, MN 56342). The Principals fraudulently signed the copyright assignment for “Popular Demand” using Alan Cooper’s signature without his authorization, holding him out to be an officer of AF Holdings. Alan Cooper is not an officer of AF Holdings and has no affiliation with Plaintiffs other than his employment as a groundskeeper for Steele. There is no other person named Alan Cooper related to AF Holdings or Ingenuity 13.

10. The Principals ordered Gibbs to commit the following acts before this Court: file copyright-infringement complaints based on a single snapshot of Internet activity; name individuals as defendants based on a statistical guess; and assert a copyright assignment with a fraudulent signature. The Principals also instructed Gibbs to prosecute these lawsuits only if they remained profitable; and to dismiss them otherwise.

11. Plaintiffs have demonstrated their willingness to deceive not just this Court, but other courts where they have appeared. Plaintiffs’ representations about their operations, relationships, and financial interests have varied from feigned ignorance to misstatements to outright lies. But this deception was calculated so that the Court would grant Plaintiffs’ early-discovery requests, thereby allowing Plaintiffs to identify defendants and exact settlement proceeds from them. With these granted requests, Plaintiffs borrow the authority of the Court to pressure settlement.
B. Sanctions

Although the Court originally notified the parties that sanctions would be imposed under Federal Rule of Civil Procedure 11(b)(3) and Local Rule 83-3, the Court finds it more appropriate to sanction the parties under its inherent authority. See In re DeVille, 361 F.3d 539, 550 (9th Cir. 2004) (“[T]he bankruptcy court’s failure to specify, in advance of the disciplinary proceedings, that its inherent power was a basis for those proceedings, did not serve to undercut its sanctioning authority.”). The sanctions for Plaintiffs’ misconduct are as follows.

1. Rule 11 sanctions

The Court maintains that its prior analysis of Plaintiffs’ Rule 11 violations is accurate. (ECF No. 48.) Plaintiffs can only show that someone, using an IP address belonging to the subscriber, was seen online in a torrent swarm. But Plaintiffs did not conduct a sufficient investigation to determine whether that person actually downloaded enough data (or even anything at all) to produce a viewable video. Further, Plaintiffs cannot conclude whether that person spoofed the IP address, is the subscriber of that IP address, or is someone else using that subscriber’s Internet access. Without better technology, prosecuting illegal BitTorrent activity requires substantial effort in order to make a case. It is simply not economically viable to properly prosecute the illegal download of a single copyrighted video.

Enter Plaintiffs and their cottage-industry lawsuits. Even so, the Court is not as troubled by their lack of reasonable investigation as by their cover-up. Gibbs argued that a deep inquiry was performed prior to filing. Yet these arguments are not credible and do not support Gibbs’s conclusions. Instead, Gibbs’s arguments suggest a hasty after-the-fact investigation, and a shoddy one at that.

For instance, Gibbs characterized Marvin Denton’s property as “a very large estate consisting of a gate for entry and multiple separate houses/structures on the property.” (ECF No. 49, at 19.) He stated this to demonstrate the improbability that Denton’s Wi-Fi signal could be received by someone outside the residence. But
Denton’s property is not a large estate; it is a small house in a closely packed residential neighborhood. There are also no gates visible.

Gibbs’s statement is a blatant lie. His statement resembles other statements given by Plaintiffs in this and their other cases: statements that sound reasonable but lack truth. Thus, the Court concludes that Gibbs, even in the face of sanctions, continued to make factual misrepresentations to the Court.

Nevertheless, Rule 11 sanctions are inappropriate here because it is the wrong sanctions vehicle at this stage of litigation. The cases have already been dismissed and monetary sanctions are not available. Fed. R. Civ. P 11(c)(5)(B) (a court cannot impose a monetary sanction on its own unless it issued the show-cause order before voluntary dismissal). The more appropriate sanction for these Rule 11 violations is
what the Court had already imposed: denial of requests for early discovery. (ECF No. 28.)

2. Sanctions under the Court’s inherent authority

In addition to Gibbs’s misrepresentations, there is the matter of the ignored Court Order vacating early discovery. (ECF No. 28.) The evidence does not show that the Order was ignored because of miscommunication among Plaintiffs. The Order was purposely ignored—hoping that the ISPs were unaware of the vacatur and would turn over the requested subscriber information.

Then there is the Alan Cooper forgery. Although a recipient of a copyright assignment need not sign the document, a forgery is still a forgery. And trying to pass that forged document by the Court smacks of fraud. Unfortunately, other than these specific instances of fraud, the Court cannot make more detailed findings of fraud.

Nevertheless, it is clear that the Principals’ enterprise relies on deception. Part of that ploy requires cooperation from the courts, which could only be achieved through deception. In other words, if the Principals assigned the copyright to themselves, brought suit in their own names, and disclosed that they had the sole financial interest in the suit, a court would scrutinize their conduct from the outset. But by being less than forthcoming, they defrauded the Court. They anticipated that the Court would blindly approve their early-discovery requests, thereby opening the door to more settlement proceeds.

The Principals also obfuscate other facts, especially those concerning their operations, relationships, and financial interests. The Principals’ web of disinformation is so vast that the Principals cannot keep track—their explanations of their operations, relationships, and financial interests constantly vary. This makes it difficult for the Court to make a concrete determination.

Still, the Court adopts as its finding the following chart detailing Plaintiffs’ relationships. Though incomplete, this chart is about as accurate as possible given Plaintiffs’ obfuscation.
As for Van Den Hemel, Lutz, and Hansemeier, they are not without fault even though they acted under orders from the Principals. They were not merely assimilated; they knowingly participated in this scheme, reaping the benefits when the going was good. Even so, their status as non-attorneys and non-parties severely limits the sanctions that could be levied against them.

Despite these findings, the Court deems these findings insufficient to support a large monetary sanction—a seven-digit sanction adequate to deter Plaintiffs from continuing their profitable enterprise. Even if the Court enters such a sanction, it is certain that Plaintiffs will transfer out their settlement proceeds and plead paucity. Yet Plaintiffs’ bad-faith conduct supports other more fitting sanctions.

///
First, an award of attorney’s fees to Defendants is appropriate. This award compensates them for expenses incurred in this vexatious lawsuit, especially for their efforts in countering and revealing the fraud perpetrated by Plaintiffs.

So far, only Morgan Pietz and Nicholas Ranallo have appeared. Upon review, the Court finds Pietz’s expenditure of 120.5 hours at an hourly rate of $300 reasonable based on his experience, work quality, and quantity of necessary papers filed with the Court. (ECF No. 102.) Although many of these hours were spent after the case was dismissed, these hours were spent in connection with the sanction hearings—time well spent. Similarly, the attorney’s fees and costs incurred by Ranallo also appear reasonable.

Therefore, the Court awards attorney’s fees and costs in the sum of $40,659.86 to Doe: $36,150.00 for Pietz’s attorney’s fees; $1,950.00 for Ranallo’s attorney’s fees; $2,226.26 for Pietz’s costs; and $333.60 for Ranallo’s costs. As a punitive measure, the Court doubles this award, yielding $81,319.72. This punitive multiplier is justified by Plaintiffs’ brazen misconduct and relentless fraud. The Principals, AF Holdings, Ingenuity 13, Prenda Law, and Gibbs are liable for this sum jointly and severally, and shall pay this sum within 14 days of this order.

Second, there is little doubt that that Steele, Hansmeier, Duffy, Gibbs suffer from a form of moral turpitude unbecoming of an officer of the court. To this end, the Court will refer them to their respective state and federal bars.

Third, though Plaintiffs boldly probe the outskirts of law, the only enterprise they resemble is RICO. The federal agency eleven decks up is familiar with their prime directive and will gladly refit them for their next voyage. The Court will refer this matter to the United States Attorney for the Central District of California. The will also refer this matter to the Criminal Investigation Division of the Internal

---


5 This punitive portion is calculated to be just below the cost of an effective appeal.
Revenue Service and will notify all judges before whom these attorneys have pending cases. For the sake of completeness, the Court requests Pietz to assist by filing a report, within 14 days, containing contact information for: (1) every bar (state and federal) where these attorneys are admitted to practice; and (2) every judge before whom these attorneys have pending cases.

4. Local Rule 83-3 sanctions

For the same reasons stated above, the Court will refer Duffy and Gibbs to the Standing Committee on Discipline (for this District) under Local Rule 83-3.

V. CONCLUSION

Steele, Hansmeier, Duffy, Gibbs, Prenda Law, AF Holdings, and Ingenuity 13 shall pay, within 14 days of this order, attorney’s fees and costs totaling $81,319.72 to Doe. The Court enters additional nonmonetary sanctions in accordance with the discussion above.

IT IS SO ORDERED.

May 6, 2013

OTIS D. WRIGHT, II
UNITED STATES DISTRICT JUDGE
INGENUITY13 LLC,

Plaintiff,

And

PAUL HANSMEIER, Esquire,

Movant - Appellant,

v.

JOHN DOE,

Defendant - Appellee.

No. 13-55859
D.C. No. 2:12-cv-08333-ODW-JC

MEMORANDUM*

INGENUITY13 LLC,

Plaintiff - Appellant,

v.

JOHN DOE,

Defendant - Appellee.

No. 13-55880
D.C. No. 2:12-cv-08333-ODW-JC

* This disposition is not appropriate for publication and is not precedent except as provided by 9th Cir. R. 36-3.
INGENUITY13 LLC,

Plaintiff,

And

PRENDA LAW, INC.,

Movant - Appellant,

v.

JOHN DOE,

Defendant - Appellee.

No. 13-55881
D.C. No. 2:12-cv-08333-ODW-JC

INGENUITY13 LLC,

Plaintiff,

And

AF HOLDINGS, LLC,

Movant - Appellant,

v.

JOHN DOE,

Defendant - Appellee.

No. 13-55882
D.C. No. 2:12-cv-08333-ODW-JC

INGENUITY13 LLC,

No. 13-55883
Plaintiff,

And

PAUL DUFFY,

Movant - Appellant,

v.

JOHN DOE,

Defendant - Appellee.

INGENUITY13 LLC,

Plaintiff,

And

JOHN STEELE,

Movant - Appellant,

v.

JOHN DOE,

Defendant - Appellee.

INGENUITY13 LLC,

Plaintiff,

And
Paul Duffy, Paul Hansmeier, and John Steele (collectively, “the Prenda Principals”) appeal the district court’s award of attorney’s fees, including a punitive multiplier, and a second supersedeas bond order. We have jurisdiction pursuant to 28 U.S.C. § 1291, and we affirm.

These consolidated cases began as minor copyright infringement suits, until courts nationwide started catching on to the plaintiffs’ real business of copyright
trolling. The scheme went essentially like this: The Prenda Principals, through their law firm, Prenda Law, Inc. (“Prenda Law”), set up a number of shell companies, including Ingenuity 13, LLC (“Ingenuity 13”) and AF Holdings, LLC (“AF Holdings”), that purchased copyrights to pornographic movies. When one of those movies was illegally downloaded, the shell company (via Prenda Law or a local attorney hired by Prenda Law) filed a complaint against “John Doe” in federal or state court for copyright infringement and used early discovery mechanisms to determine the identities of the persons it alleged illegally downloaded the film.

The shell company would then mail the purported “John Doe” a letter threatening to sue unless the individual paid roughly $4,000 to “settle” the case. Out of embarrassment and for economic reasons, many “John Does” settled, regardless of whether they, or another family member, friend, or guest, infringed the copyright. When the “John Does” settled, Prenda Law would voluntarily dismiss the case; Prenda Law never litigated a single copyright infringement case through to a merits judgment. By misusing the subpoena power of the court, the Prenda Principals made millions of dollars from suing hundreds to thousands of “John Does” across the country.
Concerned that Ingenuity 13 was engaging in a “legal shakedown” and “fishing-expedition discovery,” the district court ordered it to show cause (“OSC”) why early discovery was warranted and to demonstrate “how it would proceed to uncover the identity of the actual infringer once it has obtained subscriber information.”

Ingenuity 13 then moved to disqualify Judge Wright for “pervasive bias.” The motion was assigned to district court Judge Michael W. Fitzgerald, who denied it. Ingenuity 13 then voluntarily dismissed the case against Doe.

By the time of the dismissal, however, the Prenda Principals’ nationwide scheme had started to unravel, and Judge Wright ordered the Prenda Principals, who until then were not part of the lawsuit, to appear before the court. Judge Wright determined that Ingenuity 13 was a dummy LLC set up by Prenda Law, and that Duffy, Hansmeier, and Steele, were the controlling attorneys at Prenda Law. After a hearing, the district court judge sanctioned the Prenda Principals, Brett Gibbs (the Prenda Law attorney for Ingenuity 13 and AF Holdings), Prenda Law, Ingenuity 13, and AF Holdings, and awarded Doe attorney’s fees, including a “punitive multiplier.” After the Prenda Principals posted a supersedeas bond of 125% of the value of the monetary sanction, the district court judge ordered them to post a second supersedeas bond of $135,333.06 (equaling the amount of Doe’s
projected costs and attorney’s fees to defend the sanctions on appeal). The Prenda Principals appealed the sanctions.

We review for abuse of discretion the district court’s imposition of sanctions pursuant to its inherent power. *F.J. Hanshaw Enters, Inc. v. Emerald River Dev., Inc.*, 244 F.3d 1128, 1135 (9th Cir. 2001). “With respect to sanctions, a district court’s factual findings are given great deference.” *Id.* The district court’s broad discretion will not be found to be an abuse unless we have been left with “a definite and firm conviction that the [district] court committed a clear error of judgment in the conclusion it reached.” *United States v. Sumitomo Marine & Fire Ins. Co. Ltd.*, 617 F.2d 1365, 1369 (9th Cir. 1980) (quoting *In re Josephson*, 218 F.2d 174, 182 (1st Cir. 1954)).

The district court did not abuse its discretion in finding bad faith and sanctioning the Prenda Principals under its inherent power. *See Chambers v. NASCO, Inc.*, 501 U.S. 32, 44–45 (1991) (federal courts have inherent power to impose sanctions against both attorneys and parties for “bad faith” conduct in litigation or for “willful disobedience” of a court order); *Hanshaw*, 244 F.3d at 1136 (a federal court’s inherent power allows the court to “punish conduct both within their confines and beyond, regardless of whether that conduct interfered with trial”).
Based on the myriad of information before it—including depositions and

court documents from other cases around the country where the Prenda Principals

were found contradicting themselves, evading questioning, and possibly

committing identity theft and fraud on the courts—it was not an abuse of discretion

for Judge Wright to find that Steele, Hansmeier, and Duffy were principals and the

parties actually responsible for the abusive litigation.\(^1\) Similarly, it was not an

abuse of discretion for Judge Wright to find that the Prenda Principals were indeed

the leaders and decision-makers behind Prenda Law’s national trolling scheme.

The district court did not abuse its discretion in awarding $40,659.86 in

attorneys fees and costs to Doe to “compensate [attorneys] . . . for expenses

incurred in this vexatious lawsuit, especially for their efforts in countering and

revealing the fraud perpetrated by Plaintiffs.” As this sanction was intended to

compensate Doe, and not the court, it is civil in nature. *Lasar v. Ford Motor Co.*, 399 F.3d 1101, 1110–11 (9th Cir. 2005) (monetary sanctions imposed were

compensatory where they were, in part, “designed to compensate” the plaintiff);


\(^1\) See also *Lightspeed Media Corp. v. Smith*, 761 F.3d 699, 710 (7th Cir. 2014) (Seventh Circuit affirming district court’s finding that Steele, Hansmeier, and Duffy were “in cahoots” to “use the judicial system for a legally meritless

claim”).
(If the sanction is “remedial[] and for the benefit of the complainant,” it is considered civil.) (quoting *Gompers v. Buck’s Stove & Range Co.*, 221 U.S. 418, 441 (1911)).

Due process for civil sanctions requires notice, an opportunity to be heard, and a finding of bad faith. *See Hanshaw*, 244 F.3d at 1143. The Prenda Principals received sufficient notice from Judge Wright’s March 6, 2013 OSC ordering the Prenda Principals and others to appear at the already-scheduled March 11, 2013 sanctions hearing. Before the March 6 OSC, Judge Wright issued an OSC on February 7, ordering Gibbs, Prenda Law’s Of Counsel, to show cause why he should not be sanctioned for several violations, including fraud on the court. And on February 27, Judge Wright ordered Gibbs to provide the names of the senior members of Prenda Law, the names of the persons making strategic decisions for Prenda Law, the names of the owners of the copyrights, and the names of the principals of AF Holdings and Ingenuity 13.

Appellants were also afforded an opportunity to be heard at both the first and second hearings and were allowed to submit responsive briefs. Finally, the district court made a finding of bad faith. Judge Wright found, *inter alia*, that the Prenda Principals “demonstrated their willingness to deceive not just this [c]ourt, but other
courts where they have appeared,” and “borrow[ed] the authority of the [c]ourt to pressure settlement.”

Because the Prenda Principals received the due process protections to which they were entitled—notice, the opportunity to be heard, and a finding of bad faith—the district court did not abuse its discretion in awarding $40,659.86 in compensatory attorney’s fees and costs.

The doubling of the attorney’s fees award was also appropriate. Though labeled a “punitive multiplier,” this sanction was “remedial[] and for the benefit of the complainant.” Bagwell, 512 U.S. at 827–28 (quoting Gompers, 221 U.S. at 441). The doubling of the attorney’s fees award did not vindicate the authority of the court but instead “compensate[d] [Doe and Pietz] for losses sustained.” Bagwell, 512 U.S. at 829 (quoting Gompers, 221 U.S. at 441). Rather than being paid to the court, this additional sanction was paid to Doe, and “the Supreme Court has tended to classify . . . fines payable to another party [as] remedial.” Lasar, 399 F.3d at 1111 (noting that, while not determinative, “the party who receives the fine is an important indicator” of whether it is remedial). Given that the doubling of the attorney’s fees was compensatory, it does not trigger heightened due process protections. The Prenda Principals received notice, an opportunity to be heard, and
a finding of bad faith, which collectively satisfy the due process standards for civil sanctions.

The district court did not abuse its discretion in ordering the Prenda Principals to post additional bond to cover Doe’s attorney’s fees on appeal. The district court had ample reason to do so. The Prenda Principals have engaged in abusive litigation, fraud on courts across the country, and willful violation of court orders. They have lied to other courts about their ability to pay sanctions. See Lightspeed Media, 761 F.3d at 71. They also failed to pay their own attorney’s fees in this case. Considering the Prenda Principals’ tactics throughout this case, it was not an abuse of discretion to increase the bond amount to cover the projected cost of attorney’s fees on appeal.

The bankruptcy case relied on by the Prenda Principals, In re Southern California Sunbelt Developers, Inc., 608 F.3d 456, 467 n.6 (9th Cir. 2010), does not address litigants who engaged in bad-faith conduct from the start of the litigation and throughout the sanctions’ proceedings. The district court had the inherent authority to sanction litigants in the form of a bond for projected appellate attorney’s fees and costs for bad-faith conduct. See Chambers, 501 U.S. at 50. Considering the magnitude of the Prenda Principals’ misdeeds, and the covert nature of their businesses, the district court did not abuse its discretion by
increasing the bond amount. Without hope of receiving attorney’s fees for defending sanctions on appeal, Doe and other victims of abusive litigation would be left with no remedy. Doe would likely not defend the sanctions in appellate court, and thus would lose the only compensation—attorney’s fees at the district court level—that he was awarded.

Because we do not remand for further proceedings, we need not reach the Prenda Principals’ request to transfer the case to a different district court judge.

AFFIRMED.
INTRODUCTION

1 Judges Promote the Bar’s Core Value of Access to Justice
The ABA president elect considers the calling of the legal profession and dedicates his presidential year to the issue of access to justice for all.
By H. Thomas Wells Jr.

FEATURES

5 “And Justice For All”: When Will the Pledge Be Fulfilled?
A veteran of California’s Court of Appeal describes the daunting task judges face when litigants lack counsel. Justice, he says, should not be a matter of charity or good luck. Ethics, history, and laws here and abroad mandate the right to counsel.
By Justice Earl Johnson Jr.

10 The Reality of Poverty: Reflections on Access to Justice
A former California Supreme Court justice and lifelong advocate for the poor detects a new vigor “to seek after justice.” But still: the most serious impediment to justice is poverty. Public policy must be reinvigorated by the ideals of an earlier time.
By Justice Cruz Reynoso

14 Access to Justice in New York City
Twenty percent of New Yorkers—two million people—live in poverty. Few have access to the legal system. Legal Services NYC reports from the trenches.
By Edwina F. Martin

20 Large Recording Companies v. The Defenseless: Some Common Sense Solutions to the Challenges of the RIAA Litigations
The age of the Internet heralds new access to justice challenges. Thousands of poor and working-class people are sued by the RIAA for allegedly improper downloading. Most appear pro se.
By Ray Beckerman

30 Self-Represented Litigants: Challenges and Opportunities for Access to Justice
Judges can provide innovative leadership in the courtroom and in the community on the issues raised by the ever-increasing numbers of litigants without lawyers.
By Bonnie Rose Hough and Justice Laurie D. Zelon
Large Recording Companies v. The Defenseless
Some Common Sense Solutions to the Challenges of the RIAA Litigations

By Ray Beckerman

The concern of this court is that in these lawsuits, potentially meritori-
ous legal and factual defenses are not being litigated, and instead, the
federal judiciary is being used as a hammer by a small group of plaintiffs
to pound settlements out of unrepresent-
dants.

—Judge S. James Otero,
Elektra Entertainment

As every federal judge must be painfully aware by now, an es-
imated 30,000 ordinary people have been sued during the past four
years in U.S. district courts by the world’s four largest record companies,
EMI, SONY BMG, Warner Brothers Records, and Vivendi/Universal, or their
affiliates. The suits have been brought for alleged infringement of sound recording
copyrights. Although these companies are represented by a trade association,
the Recording Industry Association of America (RIAA), none of the hundreds
of other members of this association has participated in the litigation cam-
paign. The large majority of the defendants have defaulted, and the default
judgments against them have been in amounts that represent more than 2,000
times the actual damages sustained by the plaintiffs.

Of those remaining, most have paid settlement amounts that exceed 1,000
times the plaintiffs’ actual damages, and a great number of the settling
defendants—perhaps most of them—are people who did not actually engage
in file sharing, let alone copyright infringement through file sharing, and
against whom no legally cognizable claim for secondary infringement could
be mounted. However, they are settling because the alternative—protracted,
costly federal litigation—is not possible for them.

As to the handful of defendants who have neither defaulted nor settled, most
are pro se. Only a very few have had any form of legal representation. And
in those instances where there has been representation, the attorneys are usually
working pro bono, or on a basis closely resembling it, sometimes as a favor and
sometimes even involuntarily.

The courts of other countries—notably the Netherlands and Canada—are
not clogged with these cases for the simple reason that they were quick to recog-
nize the paucity of the RIAA’s evidence and refused to permit the identities of
Internet subscribers to be disclosed to the record compa-
nies. The courts of the United States have not been so discriminat-
ing and have allowed a veritable flood of one-sided litigation to
crowd their dockets.

This article will attempt to remove some of the mythology re-
arding these cases, to make observations regarding some of the
points at which the process is breaking down, and at each of those
junctures, to offer one or more practical, constructive suggestions as to what the
courts need to do to make the process more fair and balanced.

The Origin of a Case
There is a common misconception, active-
ly fostered by the RIAA’s public relations
spokespeople, that these are “download-
ing” cases. Nothing could be further from the truth. The cases are brought without
any proof of downloading whatsoever.

The way in which these cases come about is that an unlicensed “investiga-
tor” (through a method the RIAA has
termed “automated,” “proprietary,” and
“confidential” and that it refuses to disclose), engages in a pretexting opera-
tion in which the investigator pretends
to be an ordinary user of one of the peer-
to-peer file-sharing networks. When the
investigator locates a group of “shared
files” on his computer screen, he makes
a screen shot, downloads a small num-
ber of files, and, from the data packet
he retrieves, supplies the RIAA with the
Internet protocol (IP) address contained in the packet, together with the date and time of the screenshot.\(^7\)

One investigative company, SafeNet (formerly known as MediaSentry), conducts all of these automated-process investigations for the RIAA. In each case, a single investigator gathers the information. According to the RIAA’s court papers, it appears that a total of three investigators, not a one of whom is a licensed investigator, have collected the information upon which all 30,000 cases have been based over the past four years.

The RIAA’s expert witnesses have been deposed only once so far in these cases. In that testimony,\(^8\) the expert witness conceded that neither his own testimony and methods, nor the investigators’ work product upon which he relied, met any of the Daubert reliability standards. And yet, the investigator’s testimony and that work product have formed the basis for the 30,000—and counting—federal court litigations to date.

The expert’s testimony similarly conceded that the investigators could not detect any “individual.” Rather, they merely identified a computing device. And yet the RIAA lawyers have continued to sign and to file complaints and other documents stating that their investigators “detected an individual.”

Since almost all of the cases are ex parte cases, default cases, pro se cases, or barely defended cases, there is rarely an attorney, and almost never a defendant’s expert, to call these oversights to the court’s attention.

Armed only with an Internet Protocol (IP) address, the files the RIAA investigator himself downloaded, and a date and time of the screenshot, the plaintiffs then proceed to court to sue the person who paid for the Internet access account linked by an Internet service provider (ISP) to the IP address. The result is the filing of a lot of cases that probably would never have been brought had they been thoroughly reviewed by competent plaintiffs’ counsel, or had plaintiffs’ counsel asked their clients a few tough questions.

The same adversary system of justice
that works brilliantly when there are equally weighted adversaries can sometimes produce disastrous consequences, as here, plaintiffs' attorneys have been less than mindful of their duties as officers of the court. In such an instance, it is the duty of the court to see to it that the court system is not used in an improper manner. These cases, where four multinational, multibillion-dollar corporations have joined forces to team up against ordinary individuals, represent just such an instance, and courts must pay special attention and be vigilant if they are to ensure a level playing field.

I maintain that the exact opposite has occurred. Many judges, perhaps caught off guard by this onslaught, have been lulled into a pattern of inadvertently waiving, for the plaintiffs' benefit, the normal requirements for federal litigation. As a consequence, the courts have increased, rather than decreased, the imbalances, in some cases presiding over infernos of ex parte communications with judicial personnel, ex parte orders, default judgments, and forced settlements, where defendants see no alternative—because there is no alternative—between accepting the risk of financial ruin and paying thousands of dollars in "settlement" of something they have not done.

The Two Phases of a Case: "John Doe" and "Named Defendant"

There are two distinct phases of the RIAA litigations, the "John Doe" or ex parte discovery phase and the "named defendant" phase.

John Doe. Although the IP address and the date and time of its procurement could at best yield no more than the identity of the owner of an Internet access account and could not show that any particular individual had engaged in the file sharing complained of, the RIAA proceeds on the assumption that the person who paid for the Internet access account is liable and must pay or be sued.

To compensate for this shotgun approach, the RIAA's lawyers are fond of suggesting that the person who paid for an Internet access account is responsible for any copyright infringement with which that Internet access has been associated. The only problem with this viewpoint is that the U.S. Supreme Court disagrees with it. In *MGM v. Grokster*, the Court adopted an "inducement rule," holding that secondary copyright infringement liability requires "clear expression or other affirmative steps taken to foster infringement."

Going into the discovery or John Doe phase, the RIAA has an IP address, a date, and a time. Although it could discern, through publicly available Web sites and from the IP address alone, the state and particular region of a state for each John Doe, it disregards that information in selecting the venue of its John Doe suit. Instead, it concerns itself with neither venue nor personal jurisdiction because it has no intention of actually pursuing its copyright infringement claim in that proceeding. The "John Doe copyright infringement" case, in other words, is a sham proceeding. In reality, it is an action for pre-action discovery, which is an action that is not provided for in the Federal Rules of Civil Procedure. So the RIAA improvised a method of its own, one that involves misleading the court.

A long line of unbroken authority makes it quite clear that the Federal Rules do not permit joinder in these cases because the claims are merely \"parallel\" and do not arise from common acts or transactions. This authority includes a specific joint directive from the District Court in Austin, Texas, to the RIAA plaintiffs to cease and desist from the practice. The RIAA nevertheless commences suit against a number of unrelated John Does in the venue where the ISP is located to pursue its ex parte discovery motion. After it learns the identities of the John Does, it typically dismisses the John Doe cases and brings individual suits against the named defendants (thus, incidentally, denying those defendants the potential economies of scale that the plaintiffs might seek to invoke for themselves by misjoinder in the "discovery" phase).

The John Does are never served with anything, except that after the action has been commenced, after the ex parte motion has been made, and after the ex parte motion has been granted, they receive a few items by mail from the ISP: a copy of a subpoena directed to the ISP and a copy of an ex parte order. They receive no summons, no complaint, no copies of the court rules, no copy of the motion papers, usually little or no time to react, and no meaningful opportunity to be heard in opposition to the motion.

The proceeding is usually hundreds or thousands of miles from the defendant's home and is over before it has begun.

Named Defendant. After getting names and addresses from the ISPs, the RIAA's next litigation step is not
to investigate but to file suit against the person identified as having paid for Internet access. Not surprisingly, many, perhaps even most, of the people sued are not the individuals who engaged in file sharing. As noted earlier, the large majority of these cases have resulted in default judgments, a plurality of them have settled, and a handful are contested, almost none meaningfully. Because of the ex parte applications, the large number of default judgments, and the proliferation of pro se cases in which the defendants show up in court at some scheduled appearances and not at others, there is a huge volume of ex parte communication between the RIAA lawyer handling the cases and the judicial personnel. The ex parte communication problem is further exacerbated by consolidation of the cases (e.g., District of Massachusetts) or “related case” treatment (e.g., Eastern District of New York), where all of the RIAA’s cases are turned over to a single district judge, thus giving the single law firm representing the plaintiffs virtually unchallenged ex parte access to a single set of judicial personnel and providing huge economies of scale to plaintiffs that are unavailable to the defendants.

The defendants in these cases invariably experience a sense of hopelessness. They feel that they have no chance at all for a fair hearing. And they are, unfortunately, right.

In the contested cases, the defendants are without the resources needed to challenge the plaintiffs’ pleadings or to conduct discovery, and they are barraged with discovery requests by the plaintiff, especially for hard-drive examinations and for unending streams of depositions bearing upon the identities of possible infringers other than the defendant. The RIAA widens its net as far as it is permitted to go, unless and until a court shuts it down. It will first depose close family members, then distant family members, then neighbors, friends, and classmates if the court allows it.

Similarly, in the rare event that the defendants seek discovery of their own, the RIAA will stonewall each and every request except for materials it plans to present as part of its prima facie case. If the defendant asserts one or more counterclaims, the RIAA will move to dismiss all of the counterclaims, thus generating still more expense in pointless motion practice.

If the hard drive does not suggest liability, the RIAA will not dismiss the case, but will instead try to claim that the defendant erased something from the hard drive, in one case persuading the judge that an automatic defragmentation scheduler was somehow a basis for claiming spoliation of evidence. If it cannot claim erasure, it will claim that the defendant switched hard drives. It will never concede that the absence of corroborating evidence on the hard drive means what most reasonable people would conclude it means, which is that the defendant “didn’t do it.” And the RIAA has paid investigators and expert witnesses on call, which the defendants are without resources to match.

Only a single case in four years, Capitol v. Thomas,11 has ever gone to trial, and that one only because the judge denied the defendant’s attorney’s motion for leave to withdraw. The defendant’s involuntary lawyer never even called a single witness on his client’s behalf and failed to object to the RIAA’s “expert” testifying, even though the expert had conceded meeting none of the Daubert reliability standards.

**Suggestions for the John Doe Phase**

Plaintiffs are ordered to file any future cases of this nature against one defendant at a time, and may not join defendants for their convenience.


([It is difficult to ignore the kind of gamesmanship that is going on here. . . . These plaintiffs have devised a clever scheme . . . , but it troubles me that they do so with impunity and at the expense of the requirements of Rule 11(b)(3) because they have no good faith evidentiary basis to believe the cases should be joined.]


**Joinder.** The key words from the above two quotations are “2004” and “2008.” In November 2004, the RIAA was ordered “to file future cases of this nature against one defendant at a time.” And yet in 2008 it continues the practice of deliberate misjoinder, seemingly disregarding the joint order from Austin, Texas. District of Maine Magistrate Judge Kravchuk was so troubled by the false statements the plaintiffs had made in order to justify joinder that she recommended to the district judge that he order plaintiffs to show cause why they should not be subject to Rule 11 sanctions.

Even after that, in LaFace v. Does 1–38,14 Judge Britt was required to remind the RIAA yet again, as so many judges have done before, of the contents of Rule 20. As recently as April 3, 2008, Magistrate Judge Lenihan, did so again.15 In view of the RIAA’s lengthy history of ignoring judicial precedents in this area, a court should consider Rule 11 sanctions, as Magistrate Kravchuk recommended, and contempt. Since most “John Does” never get anywhere near one of the “John Doe” proceedings,16 courts need to step in and create an effective deterrent to the plaintiffs’ persistent rule violation.

**Suggestion 1: Be alert to misjoinder in “John Doe” cases.** If a court is presented with a “John Doe” case that joins more than one defendant, under well-settled principles the case should be dismissed as to all John Does except John Doe number one. Plaintiffs should be ordered to show cause why they should not be held in contempt of the November 17, 2004, order of the district court in Fonovisa v. Does17 and subject to Rule 11 sanctions. And because there will likely be no defendant’s counsel present, the court should read the plaintiffs’ response with a critical eye.

**Jurisdiction and Venue.** As noted above, most of the John Doe defendants are being sued in a jurisdiction hundreds
or thousands of miles from their homes although it is readily ascertainable to the plaintiffs, through several publicly accessible Web sites, as to which state and which region of that state each IP address is assigned.

Suggestion 2: Require in personam jurisdiction and venue. If a court is presented with a John Doe case that fails to set forth detailed factual allegations of the basis for venue and for in personam jurisdiction in that district, the action should be dismissed.

Ex Parte Nature of Proceeding

Plaintiffs contend that unless the Court allows ex parte immediate discovery, they will be irreparably harmed. While the Court does not dispute that infringement of a copyright results in harm, it requires a Coleridan “suspension of disbelief” to accept that the harm is irreparable, especially when monetary damages can cure any alleged violation. On the other hand, the harm related to disclosure of confidential information in a student or faculty member’s Internet files can be equally harmful. . . . Moreover, ex parte proceedings should be the exception, not the rule.

—Judge Lorenzo F. Garcia,
Capitol Records, Inc. v. Does, 2007.18

It is fundamental to practice under the Federal Rules that ex parte motion practice is a last, rather than a first, resort. Not so in the world of RIAA litigation.

In support of a request for an ex parte order, the RIAA generally makes a conclusory allegation that, if the motion is made any other way, the commercial ISP or the college or university ISP will destroy the evidence. First, it is difficult to imagine that any college or university in the United States, or any of the commercial Internet service providers, which are mostly large public utilities, cable companies, and other large corporations, would destroy the evidence if asked not to.19 Second, even were such an averment to be credited, it could be resolved judicially in a much less onerous fashion by simply issuing a temporary restraining order to retain such records.20

In the third place, papers submitted by the recording industry’s lawyers in an ex parte environment should not be accepted as gospel. In Arista v. Does 1–17, for instance, the attorney general of the State of Oregon pointed out to the court that the RIAA’s ex parte motion papers, which had sought to create the aura of an emergency and the need for immediate ex parte action, had concealed a highly material fact: that the University of Oregon had informed the RIAA prior to the institution of the proceeding that the requested information had been gathered and would be preserved.21 And, as noted earlier, RIAA attorneys routinely allege that RIAA

America Votes! A Guide to Modern Election Law and Voting Rights

Benjamin E. Griffith

March 2008
7 x 10, Paper, 379 pages
Product Code: 8330200
$55.95 Regular Price
$44.95 Section of Administrative Law and Regulatory Practice, Government and Public Sector Lawyers Division, and Section of State and Local Government Law Member Price

America Votes! provides a snapshot of America’s voting and electoral practices, problems, and most current issues. The book was edited and written by widely knowledegable practitioners who explore a variety of fundamental areas concerning election law from a federal perspective such as:

• Lessons learned from the 2000 and 2004 presidential elections
• The Help America Vote Act of 2002
• Meeting the demand of a growing language-minority voting populace
• How the government, poll workers, political parties, and nonpartisan advocates can work together to ensure smooth election administration
• Felon disenfranchisement
• Section 5 and the Voting Rights Act Reauthorization and Amendments Act of 2006
• Assessing the constitutionality of the recently renewed Section 5 preclearance provision of the Voting Rights Act
• Voting technology and the law
• Government-issued photo identification and proof of citizenship requirements for voters
• The growth of early and nonprecinct place balloting
• Election challenges involving candidates for federal office
• Demographic and statistical experts in election litigation

The book is an invaluable resource for lawyers as well as law school professors, election officials, state and local government personnel involved in election administration, election workers, and poll workers.

Government agencies and nonprofit organizations may purchase this book for $39.95. Please contact hickeyh@staff.abanet.org / 312.988.6116 for more information and to order.
investigators have “detected an individual,” only to have investigators admit under oath that they have not.

Suggestion 3: No ex parte motion practice. Nothing should be granted ex parte unless it involves an order providing for meaningful notice of the motion for discovery to be afforded to the John Doe and to the ISP. The order should state that the ISP is to be provided with a full set of papers for transmission to the John Doe, and should provide ample time from the Doe’s receipt of such papers, consistent with the court’s usual practices for motions on notice, to respond. These should include everything a defendant is normally entitled to receive under the court’s usual rules and practices, including the summons and complaint, all of the motion papers, and the court rules, notice, and other materials supplied to defendants.

Merits of Statutory Basis for Discovery Application

The Court is unaware of any other authority that authorizes the ex parte subpoena requested by plaintiffs.

—District Court Judge Walter D. Kelley, Jr., Interscope v. Does, 2007.23

We must accept the fact that digital copyright law, Internet law, information technology law, and the panoply of laws being developed to protect privacy in the Internet age are new and evolving areas and that there are many unsettled questions to be resolved. There is a vacuum of appellate authority on the procedural questions that need to be raised, and in view of the RIAA’s preference for ex parte practice and the courts’ quiescence in that practice, it is an unfortunate reality that the questions that need to be asked and the issues that need to be raised are not generally being heard at all, even at the district court level. It is not at all clear that the RIAA even has a legal basis for the pre-action discovery it is seeking.

There are complex statutes on the books protecting the privacy rights of ISP subscribers and college and university students that are being ignored on virtually a daily basis by the courts, in large part because (a) the RIAA has not raised them, and (b) due to the ex parte nature of the proceedings, there is no one in the courtroom to bring them to the court’s attention. In such cases, it is up to the courts to protect the privacy rights of the RIAA’s targets, both by requiring that defendants be provided ample notice and an opportunity to retain knowledgeable counsel and by

The RIAA nevertheless commences suit against a number of unrelated John Does in the venue where the ISP is located to pursue its ex parte discovery motion.

Suggestion 4: Make explicit the legal authority upon which discovery applications are permitted or rejected. Justice will be well served if a court is able to take the time to scrutinize the statutory basis invoked for each discovery application, cite the authority supporting its rulings, and deny discovery applications on their merits if they are not warranted by existing statutes or case law.

Preliminary Determination of the Validity of Plaintiffs’ Copyright Infringement Claim

[Without actual distribution of copies... there is no violation of the distribution right.]

—William F. Patry, Patry on Copyright, 2007.23

Plaintiff... must present at least some facts to show the plausibility of their allegations of copyright infringement. However,... Plaintiffs have presented no facts that would indicate that this allegation is anything more than speculation.


The courts in various jurisdictions are generally in agreement, both as a matter of constitutional law and common law, that pre-action discovery of an anonymous person’s identity should not be permitted, regardless of whether there is a valid legal underpinning for the discovery process invoked, absent a concrete showing that the party seeking discovery (1) has pled a valid claim for relief against the anonymous party and (2) has submitted a concrete and competent evidentiary showing of each element of that claim. I am of the view that the RIAA’s boilerplate complaint clearly fails to state a claim for relief, even under Twombly standards,27 but I cannot ask the reader to necessarily agree in the absence of appellate authority on the subject. I do, however, ask that courts scrutinize the
pleading and the evidence carefully at the John Doe stage.

Suggestion 5: Scrutinize John Doe pleadings and evidence without being intimidated by technology jargon. The complaint, of course, affords the opportunity to ensure that plaintiffs have validly pleaded a copyright infringement claim and that the evidence is admissible and covers all elements of the claim. It is easy to be overwhelmed by impressive-sounding technical and pseudo-technical jargon. Allow me to observe that if the court and the court's law clerks and law secretaries (many of whom are "digital natives") do not understand the case, that may be a sign that the plaintiff has none.

Suggestions for the "Named Defendant" Phase

The Sufficiency of the Complaint. Once the RIAA has obtained the information it subpoenaed from the ISP, it then knows the identity and address of the person who paid for an Internet access account. While most of us would think that a place to begin an investigation, the RIAA treats it as the end of its investigation. If that account holder will not pay the RIAA's settlement demand, the RIAA sues it. It uses a standard boilerplate complaint.

At this juncture the courts should be especially mindful of the admonition of the Supreme Court in Bell Atlantic v. Twombly that sustaining a complaint and allowing a federal case to proceed to the discovery phase imposes enormous financial consequences upon the defendant and is not a step to be taken lightly. This principle is more, not less, important, in cases like the RIAA cases, because the defendants are not businesses or corporations, but individuals, often poor and working-class individuals, whose family budgets do not include the hundreds of thousands of dollars needed to withstand the hundreds of thousands of dollars the RIAA is willing to spend in any given case.

Some courts have made pronouncements to the effect that the court does not "understand the technology" well enough to make the dismissal determina-

It is simply not consistent with the law to provide consolidation or related-case treatment to one nongovernmental party because it is a high-volume litigant.

of the dismissal motion sentences the defendant to one of two hells: payment of an extortionate settlement for something he did not do or a nightmare of vexatious litigation.

And the dismissal question is especially critical at the district court level at this time because there is no appellate authority at all on the subject. If a court, after due consideration, should sustain a RIAA complaint, it should certify the order for an interlocutory appeal and stay all proceedings during the pendency of the appeal. Thousands of people's lives are being affected by these cases; they are worthy of, and are crying out for, some appellate guidance.

Suggestion 6: Carefully evaluate motions to dismiss under Rule 12(b) (6) of the Federal Rules of Civil Procedure. Careful evaluation of a complaint's sufficiency on a motion to dismiss may ultimately spare defendants significant and unwarranted hardship. A court, therefore, should stay all discovery while the motion is pending, and, if it denies the motion, certify the order denying the dismissal motion for an interlocutory appeal.

Relatedness and Consolidation. As noted above, consolidating cases or treating cases as "related" when the only relationship among them is that the plaintiffs are the same, is unfair to the defendants in that it creates a huge economy of scale available only to the plaintiffs and accentuates the problem of ex parte communication, thus heightening, rather than lessening, the already disproportionate imbalance between plaintiff and defendant. Consolidation essentially vests these private, for-profit, corporations with the trappings of a government agency and creates a sense of hopelessness among all defendants who enter the courthouse door. It is simply not consistent with the law to provide consolidation or related-case treatment to one nongovernmental party because it is a high-volume litigant.

What is more, in the absence of appellate guidance on any of the important legal questions, it would be much healthier for each district court to get a diversity of viewpoints from all of its judges, rather than let one judge hearing consolidated cases compound errors that he or she may be making. See, e.g., Fonovisa v. Does, supra, which, after severing all of the John Does and ordering the record companies to commence separate actions with separate filing fees as to each, specifically admonished plaintiffs not to file the cases as "related."

Suggestion 7: No routine consolidation or “related case” treatment. A court need only follow tradition-
al principles for consolidation and "related case" treatment. There is no need to create a special exception for these plaintiffs. Where the defendants are unrelated to each other, their cases are unrelated to each other and should be treated as such.

The Discovery Phase. The greatest potential for abuse in these cases lies in the discovery phase, where most defendants simply have no means to fight back. The RIAA lawyers characteristically try to keep a case alive as long as possible, despite the likelihood that the defendant did not commit copyright infringement, because of the subpoena power that the pendency of a federal litigation affords them. However, their subpoena power is invariably directed at targets other than the defendant. Put simply, the subpoena power was not given to attorneys to enable them to conduct investigations of other cases they might have brought had they conducted a proper investigation in the first place.

The "expert" report, "expert" testimony, and investigator's materials may be dispensed with, under a suitable preclusion order, since the investigator and plaintiffs will likely refuse to disclose the investigator’s methods, rendering them unusable at trial, and since the RIAA’s "expert" has admitted that neither his methods, nor the methods of the investigators upon whose work he relies, meet Daubert reliability standards.

Suggestion 8: Keep discovery short and sweet. If, and only if, the plaintiffs can muster an evidentiary showing that their case has merit and that the defendant committed copyright infringement, then the court may allow (1) a deposition of the plaintiffs; (2) a deposition of the defendant; and (3) an examination of the hard drive by a mutually agreeable independent neutral forensics expert whose fees will be advanced by the plaintiffs and will be treated as a taxable disbursement to abide the event. The plaintiffs would not properly be permitted to use the pendency of the action as a platform for conducting an investigation to find out who, other than the defendant, they should have sued.

Suggestion 9: Expert witness fees should be advanced by plaintiffs. Plaintiffs should be required to pay their own expert witness fees and to advance the defendant's expert witness fees with the expenditure to be a taxable cost to abide the event. Without this, the trier of fact will be unable to obtain a true picture of the technological questions that need to be resolved.

Attorney Fees. In view of the virtual impossibility of defendants finding counsel willing and able to represent them in these proceedings, and in view of the novelty of the legal issues that the RIAA is presenting, the award of attorney fees to those few defendants who somehow manage to fight back and win is crucial. Otherwise, it will continue to be virtually impossible for the courts to hear the "other side of the story." Each defendant who fights back is fighting on behalf of hundreds of thousands of other people, and each attorney who represents such a defendant, at the risk of being unpaid or of being very poorly paid, is doing an important service to the development of copyright law.

Suggestion 10: The court should award attorney fees, in most cases with a multiplier. In every instance in which a defendant wins on the merits, the plaintiffs voluntarily dismiss with prejudice, or the plaintiffs dismiss without prejudice but have forced the defendant to incur significant attorney fees, the court should deem the defendant a "prevailing party" under the Copyright Act and award attorney fees. In most cases, there should be a multiplier due to the financial risk taken by the attorney.

Confidentiality. The world changes, and litigation in 2008 is different than it was five years ago. One of the major differences has been the advent of electronic filing in the federal courts and the proliferation of digital versions of litigation documents. This shift has enabled Web sites to make actual legal documents available online and to report much more closely on the details of important litigation. See, e.g., Web sites such as http://growklaw.net; blogs such as the author's blog, "Recording Industry vs. The People," http://recordingindustryvsthepeople.blogspot.com; and online legal publications such as Pike & Fisher's "Internet Law & Regulation," http://ilrweb.com.

At present, the primary way of thoroughly researching the RIAA cases is on the Internet. Prior to the advent of the coverage of these cases by these sites, one of the RIAA's many strategic advantages was that plaintiffs' one national law firm was fully aware of everything going on in all the cases, while the defendants and their lawyers did not know about anything going on in any other case, or indeed if anyone was fighting back anywhere, at all. The Internet coverage of the cases has diminished that particular strategic advantage somewhat, and empowered defendants and defendants’ lawyers by making available to them court decisions and orders, pleadings, motion papers, discovery documents, transcripts of oral arguments and depositions, expert witness reports, stipulations, and other filings, thus reducing the costs of litigation to defendants. In response, the RIAA, whose litigation strategies appear to include driving up the costs of defense, has embarked on a policy of seeking confidentiality wherever possible.

Courts should not succumb. It is in the interest of our society to reduce, not to enhance, the cost of access to legal representation. The RIAA's confidentiality mantra is not in the public interest and should not be countenanced.

Additionally, there is widespread public interest in these cases among people from all walks of life and from all across the world. The courts should take into account the First Amendment and the public's right to know in deciding upon the RIAA's confidentiality requests.

Suggestion 11: Scrutinize the plaintiffs' confidentiality requests carefully. In analyzing the RIAA's confidentiality requests, the court should take into account the public's right to know under the First Amendment, and should not allow the RIAA to use "confidentiality requests" as a means of depriving current and future defendants, who are
already at a significant economic disadvantage, from obtaining the tools they need to defend themselves.

**Summary Judgment.** In cases where a dismissal motion has not been made, a defendant’s early-stage summary judgment motion is the best way for a court to purge cases that should not have been brought in the first place, as summary judgment searches the record. Such motions should be encouraged and evaluated open-mindedly, and discovery should be stayed during their pendency to avoid undue expense.

The summary judgment motion should be meaningfully available before, rather than after, protracted litigation has occurred. If the defendant swears under oath that he or she did not do what plaintiffs claim he or she did, that should search the record and the plaintiffs should be put to their proof. If they cannot then make out a case against the defendant, the motion should be granted, and should not await the defendant’s having to spend a fortune in legal fees to get to the close of discovery, based on plaintiffs’ surmise that discovery might possibly turn up something.

The plaintiffs routinely oppose any summary judgment motion with mounds of inconclusive paper, larded with fake techno-speak but saying nothing about any copyright infringement by the defendant.

The court in this context should be mindful of the admonition of **Grokster** that, in cases of secondary copyright infringement liability can be mounted absent proof that the defendant engaged in affirmative acts to induce or encourage copyright infringement. If plaintiffs cannot muster enough evidence of (a) direct copyright infringement by the defendant or (b) affirmative acts to induce or encourage copyright infringement by another to create a triable issue of fact, a defendant’s summary judgment motion should be granted.

**Suggestion 12:** In accordance with standard summary judgment practice, grant defendants’ summary judgment motions in the absence of proof of infringement or induce-ment. If, in opposition to the motion, plaintiffs cannot prove that the defendant (1) personally committed a copyright infringement or (2) by affirmative acts induced or encouraged someone else to commit copyright infringement, the motion should be granted, regardless of the stage at which the motion is made. It should not have to await the close of discovery.

**Default Judgments.** These are unliquidated tort cases, not cases brought on liquidated contract claims, and plaintiffs should not be awarded the privilege of obtaining default judgments based on written papers and scripted submissions. They should be required to produce live witnesses at an inquest, and the witnesses should be subject to cross-examination by the court. What is more, the constitutionality of the plaintiffs’ statutory damages theory should be tested at the inquest: the plaintiffs should be required to prove the actual damages proximately flowing from the defendant’s alleged infringement, for without such proof a court is unable to determine the all-important question of whether the statutory damages sought are unconstitutionally disproportionate.

**Suggestion 13:** Require inquests in cases of default. Default judgments are never to be granted only on the basis of written papers and scripted submissions. The plaintiffs must (1) produce live witnesses who can be cross-examined by the court and (2) prove actual damages proximately flowing from defendant’s infringement, so that the court can determine whether the statutory damages being sought are unconstitutionally excessive.

**Helpless Defendants.** The rumors of the RIAA pursuing defendants from among the most vulnerable segments of our society are, unfortunately, not exaggerated. It will not drop cases against defendants based on hardship, helplessness, injury, or any other factor. It has sued, and relentlessly prosecuted, children, people with multiple sclerosis, stroke victims, grandparents, people on welfare, people living on Social Security disability, people displaced by hurricanes, people who have never used a computer... the list goes on and on. In **Priority Records v. Chan** where the RIAA planned to sue a fourteen-year-old based upon an alleged copyright infringement she committed at the age of thirteen, the court ruled that a guardian ad litem had to be appointed and that the funding had to come from the plaintiffs. In **Electra v. Schwartz**, a guardian ad litem was appointed to protect a defendant suffering from multiple sclerosis and related conditions. Similar solutions should be invoked by the courts to protect helpless litigants.

**Suggestion 14:** Justice will be served by the appointment of guardians ad litem or the use of other procedures to ensure that the rights of helpless people are protected. The court should appoint guardians ad litem where authorized by law and seek assistance from pro bono panels, bar associations, legal aid organizations, and other possible sources to ensure that the rights of helpless people are protected.

**Need for Published Decisions.** It is a small, but important matter: plaintiffs’ counsel have access to all of the unpublished decisions, and the defendants do not.

**Suggestion 15:** Send decisions for publication. Please send all decisions, other than grants of uncontested applications, out for publication so that the defendants’ bar will have access to them.

**Conclusion**

While there is much more that could be written on the subject, I believe that implementing the above suggestions will help to make the federal courts a fairer forum for the determination of these actions. These proposed measures will advance the correct determination of important and evolving legal question, reduce the number of forced settlements being paid by completely blameless defendants, and reduce the number of cases on the federal court dockets that do not belong there.

**Endnotes**


20. The attorneys for a John Doe at the University of Maine made this observation in Atlantic v. Does 1–14: “This is at least the third case brought by these plaintiffs against various Does; the first of which the undersigned is aware of was filed on May 3, 2007. It was Atlantic et al v. Does 1–22, Dkt No. 07-000057. It has terminated. The second is 07-162, which is presently before Judge Woodcock. 07-162 has been hotly contested and there was ample opportunity for plaintiffs to do something to protect their interests as respects the records they seek from the University System. However, as far as one can tell from the Linares Declaration, plaintiffs have never inquired of the University System as to the nature of its retention policy. That means they have never sought an agreement that the University System would retain records long enough for the plaintiffs to obtain the information without ex parte discovery. That means they have never learned, even though they had almost a year, what the actual policy might be. Also, if there was such a need for speed, why did the plaintiffs wait over ninety days to sue these defendants who were identified as targets beginning on September 9 and ending on October 31? They waited because they knew there was no urgency. They probably knew the University System would not destroy records they were seeking once it was notified of the pendency of this action. They most likely knew the records would be there if and when this court said they could have them.” See “Motion to vacate and quash” at 5–6. In a new John Doe case directed at University of Maine, John Doe #10 moves to strike Linares declaration for illegality, and to vacate ex parte order.” Recording Industry vs. The People, Apr. 15, 2008.


23. Id.


25. 4 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 13.9 (2007); see also MGM v. Grokster, 545 U.S. 913 (2005); Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1146, 1162 (9th Cir. 2007) (affirming the district court’s finding “that dis-
many either do work or have recently lost jobs. Many of the people served by Legal Services NYC belong to that ever-expanding class of people: the working poor. We also know that those who are not currently working are not “undeserving.” Most do not at all fit the mold from the movies of a happy-go-lucky Alfred P. Doolittle. Most are caught up in desperate circumstances, struggling to stabilize their lives and those of their families, or they are disabled and unable to work. Our challenge going forward is to educate lawyers, judges, and the general public about what we can, and must, do to help.

Endnotes
2. Id.

RIAA Litigations
Continued from page 29

After the Interscope v. Rodriguez ruling referred to earlier, it began using a modified version of the complaint, which omitted the tuberbing “making available” language, continued to offer no details as to the defendant’s “distribution” or “reproduction,” and added a few “factual”-sounding allegations about its own investigators’ activities that are irrelevant but, more importantly, directly contradicted by the RIAA’s witnesses’ own sworn testimony, and fail the “plausibility” test on that ground.
29. In these cases the consequences are even more ruinous and oppressive than in the average case. The defendants are people without resources, and most have not engaged in the supposed file-sharing activity of which they are suspected. And of those, many have not actually committed copyright infringement. But the cost of defending one’s good name from the RIAA onslaught is staggering. In Atlantic v. Andersen, documents collected at http://recordingindustryvspeople.blogspot.com/2007/01/index-of-litigation-documents.html, where the RIAA pursued an obvious innocent woman for three years before finally admitting its mistake, the defendant’s attorney’s incomplete time records showed $150,000 in time charges.
34. 06-CV-3533 (E.D.N.Y. April 12, 2007), www.lirweb.com/viewLTRPDF.asp?filenam...elektra_schwartz_070412OrderGrantMettGAL.
IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF CALIFORNIA

MALIBU MEDIA, LLC,

Plaintiff,

v.

JOHN DOE SUBSCRIBER ASSIGNED IP ADDRESS 76.126.99.126,

Defendant.

No. C 15-04441 WHA

ORDER DENYING PLAINTIFF’S MOTION TO DISMISS COUNTERCLAIM

INTRODUCTION

In this copyright infringement action, the copyright owner moves to dismiss the accused infringer’s counterclaim for declaratory judgment of non-infringement. For the reasons stated below, the copyright owner’s motion is DENIED.

STATEMENT

Plaintiff Malibu Media, LLC, made and distributed pornographic videos on a subscription-based website. It has filed 178 copyright infringement actions in our district in the past year. In the interest of judicial economy, all of Malibu Media’s actions in this district were assigned to the undersigned judge.

In each of its complaints, Malibu Media named an individual identified only by his or her Internet Protocol address, which is an identifier assigned to each Internet subscriber by the subscriber’s Internet service provider. Here, defendant is named as John Doe Subscriber Assigned IP Address 76.126.99.126. As with all of its other cases, Malibu Media contends that
defendant used his Internet connection to download and distribute numerous of its copyrighted
works using a file-sharing protocol called BitTorrent. Here, Malibu Media accuses defendant
of infringing 23 works.

The BitTorrent protocol called for splitting large files, such as Malibu Media’s videos,
into many smaller pieces. Once a file was broken down into those pieces, users of the protocol
could then copy and share the pieces of the larger file with each other, and once a user received
all of the pieces of a given file, each of which may have come from a different user, software
(called a BitTorrent “client”) on the user’s computer reassembled the pieces into a complete
file. This scheme facilitated an efficient and decentralized distribution scheme as compared to
sharing a single large file from a single host site.

Malibu Media hired IPP International UG, which utilized the BitTorrent protocol to
download several of Malibu Media’s own files from the Internet. IPP monitored the IP
addresses of the distributors of each piece of each file it received. Malibu Media alleges that
IPP received at least one piece of each of 23 individual videos from the above-captioned IP
address.1

Malibu Media seeks statutory damages of at least $17,250 for defendant’s alleged
infringement of twenty-three videos ($750 per work), with a potential for much greater liability
if infringement is found to be willful or if the jury finds Malibu Media is entitled to damages on
the higher end of the range provided by statute.

In his answer, defendant, who is represented by Attorney Joseph C. Edmonson, filed a
counterclaim for declaratory judgment of non-infringement, which mirrors his denial of liability
for Malibu Media’s affirmative claim of infringement. Malibu Media now moves to dismiss
defendant’s counterclaim. This order follows full briefing and a properly-noticed hearing at
which neither side appeared, although the case was called and held over until the end of the
calendar in case counsel arrived late.

1 In the more recent wave of cases filed in this district, Malibu Media hired Excipio GmbH to conduct the investigation.
ANALYSIS

Malibu Media argues that defendant’s counterclaim merely repackages his denial of infringement and thus should be dismissed. It cites various decisions noting that the Court has no duty to declare the rights and legal relations of interested parties and that the Court discretion to dismiss counterclaims that are mirror images of the claims. See, e.g., Leadsinger, Inc. v. BMG Music Pub., 512 F.3d 522, 533 (9th Cir. 2008).

Malibu Media is correct that defendant’s counterclaim is duplicative of his denial of liability (indeed, defendant’s answer to Malibu Media’s affirmative claim incorporates-by-reference the allegations of defendant’s counterclaim and otherwise denies all allegations). Malibu Media is also correct that the district court has discretion to dismiss defendant’s counterclaim. Nevertheless, Malibu Media’s practical arguments for why the undersigned should exercise that discretion here are unpersuasive.

Malibu Media argues that permitting defendant’s counterclaim to proceed would require it to file an answer in which it would deny all the allegations and refer back to the complaint. This will, however, impose a negligible burden. Malibu Media also contends the declaratory judgment counterclaim would confuse a jury. Not really, however, a jury would never need to know that the case involves an affirmative claim of infringement and a declaratory judgment counterclaim of non-infringement. The jury could render one verdict resolving both claims. Malibu Media will suffer no prejudice.

Malibu Media’s motion seems more like a gimmick designed to allow it an easy exit if discovery reveals its claims are meritless. Section 505 of Title 17 of the United States Code provides that a “prevailing party” may be awarded attorney’s fees in a copyright infringement action; however, when a copyright plaintiff voluntarily dismisses a claim without prejudice, the defendant is not a prevailing party. Cadkin v. Loose, 569 F.3d 1142, 1150 (9th Cir. 2009).

Absent defendant’s counterclaim, if events reveal that this case is meritless, Malibu Media could voluntarily dismiss its affirmative claims without prejudice under Rule 41(a)(2), seeking to avoid an award of attorney’s fees. If, however, defendant’s counterclaim remains alive, he will be able to press his counterclaim.
A motion to voluntarily dismiss at this stage would only be granted “on terms the court considers proper,” of course, but a defendant can be rightly concerned over the possibility that a plaintiff might dodge an attorney’s fee award in a meritless case. A defendant might thus put its own counterclaim in play.


The Court is familiar with lawsuits like this one. These lawsuits run a common theme: plaintiff owns a copyright to a pornographic movie; plaintiff sues numerous John Does in a single action for using BitTorrent to pirate the movie; plaintiff subpoenas the ISPs to obtain the identities of these Does; if successful, plaintiff will send out demand letters to the Does; because of embarrassment, many Does will send back a nuisance-value check to the plaintiff. The cost to the plaintiff: a single filing fee, a bit of discovery, and stamps. The rewards: potentially hundreds of thousands of dollars. Rarely do these cases reach the merits.

The federal courts are not cogs in a plaintiff’s copyright-enforcement business model. The Court will not idly watch what is essentially an extortion scheme, for a case that plaintiff has no intention of bringing to trial. By requiring Malibu to file separate lawsuits for each of the Doe Defendants, Malibu will have to expend additional resources to obtain a nuisance-value settlement — making this type of litigation less profitable. If Malibu desires to vindicate its copyright rights, it must do it the old-fashioned way and earn it.


Although Malibu Media has mitigated many of the defects identified by Judge Wright, including by proceeding “the old fashioned way” by suing each defendant in a separate action
and paying a separate filing fee each time, the vast majority of Malibu Media’s cases have settled before or very shortly after the initial case management conference.

The damages exposure in this case, as with Malibu Media’s many other cases, is significant, so a defendant may feel pressure to settle even a meritless case. Coupled with the taboo nature of the subject matter, there remains potential for abuse. The availability of attorney’s fees should any defendant facing a lawsuit against Malibu Media prevail protects those, such as our defendant herein, who elect to challenge Malibu Media’s case on the merits instead of accepting a nuisance-value settlement. Indeed, that may be the only factor motivating such defendants. C.f. Ingenuity 13 LLC v. Doe, Nos. 13-55859, 13-55880, slip op. at 13 (9th Cir. June 10, 2016) (“Without hope of receiving attorney’s fees for defending sanctions on appeal, Doe and other victims of abusive litigation would be left with no remedy.”).

Dismissing defendant’s counterclaim would eliminate one avenue for a fee award, and, as stated, maintaining the counterclaim would cause no prejudice to Malibu Media. Accordingly, Malibu Media’s motion is DENIED.

CONCLUSION

For the reasons stated above, Malibu Media’s motion to dismiss John Doe’s counterclaim for declaratory judgment of non-infringement is DENIED.

IT IS SO ORDERED.

Dated: June 20, 2016.

WILLIAM ALSUP
UNITED STATES DISTRICT JUDGE
Technology: Can you learn to love a troll?

A grim view of patent litigation

By Matthew W. Siegal

It is hard to love a troll, and some feel the same way about patent trolls, the pejorative term for a nonpracticing entity (NPE) that sues a company for infringing its patent. Some feel that NPEs, which do not practice the invention covered by their patent, are like mythical trolls, who lived under bridges and collected tolls, even though they did not themselves build the bridge. Harry Potter taught us to love witches, Shrek taught us to love ogres, but notwithstanding Russ Betrie, trolls tend to get a bad rap. Companies like Apple, Microsoft and Canon have all been sued by NPEs, which often obtain jury verdicts in the hundreds of millions of dollars.

The entity most commonly referred to as a patent troll is a company that scour the market for patents, buys them, and then sues a host of companies for infringing those patents. The victims of these NPEs are often giants in the electronics, computer and Internet fields, with hosts of lobbyists looking out for their interests. Much of the anti-patent legislation in recent years has been a reaction to such NPEs.

By analogy, there has been a lot of backlash against companies that deal in stock options and derivatives. Some argue that companies would have had their IPOs funded without the existence of stock options and that banks would have given home mortgages even if credit default swaps had never been created. Some on Wall Street will explain that although these instruments don’t actually raise money to start a business or buy a home, they provide liquidity to the market and indirectly help homebuyers and entrepreneurs. Similarly, one could argue that this class of NPE provides liquidity to the field of patents, and some might argue that these entities indirectly spur innovation. Of course, the companies on the receiving end of the patent infringement complaint will emphasize other effects of these NPEs.
A second group of NPEs are companies that do invent and make things, but also have licensing divisions. These companies often have huge research and development (R&D) budgets, obtain hundreds of patents and produce many of the items we use every day. However, most companies do not bring every one of their innovations to market. Therefore, rather than let their patents collect dust like Rembrandts in the attic, many companies have opened up licensing divisions. These divisions often market their innovations and license some of their unused know-how and patents to others. These companies sometimes bring patent infringement suits, even in areas where they have no licensees. They often prefer to bring patent infringement suits against companies that are not their typical competitors, so that there is little chance of a retaliatory patent infringement suit. One could argue that the ability to profit from a company’s under-used innovations helps fund R&D budgets, and therefore helps spur innovation—a primary purpose of the patent system.

A final category of NPEs is comprised of investors who fund patent litigation, looking for huge returns on their investments. Many inventors and small businesses have invented new and useful technologies, tried to license them to larger entities, but were not successful. After negotiations with those larger entities break down, the would-be licensors sometimes feel as if the potential licensee stole their inventions. However, a lack the funds to pursue patent infringement litigation can act as a strong deterrent to pursuing a lawsuit. In the past, large companies were sometimes tempted to simply use these companies’ or inventors’ innovations, secure in the knowledge that these entities could not afford to sue them for patent infringement in Federal Court.

This funded patent litigation can take many different forms, and a full explanation is beyond the scope of this article. However, the threat of funded patent litigation can provide the means for smaller entities to license their inventions at a fair price. If the larger entity decides to simply use the patented technology, there is a growing group of entities willing to fund the litigation for a piece of the potential patent infringement damage recovery. Not only does funded patent litigation help reward the inventor for their innovations, it arguably encourages smaller entities to develop inventions with less fear that a larger company will not negotiate a license in good faith.

Thus, as or our children (or we) have seen with Shrek’s explanation that ogres are like onions, NPE patent “trolls” also can have many different layers, many of which serve admirable purposes and which do help spur innovation. Of course, some NPEs do not litigate in good faith and some hope to settle early on questionable claims because the cost of defending against a patent infringement litigation is so high. However, just because an entity does not practice the technology disclosed in its patent, does not confirm that they are up to no good. Therefore, before Congress enacts legislation in this area, it is to be hoped that it acquires a full understanding of the non-practicing entity in all of its forms and likenesses.

Matthew W. Siegal a partner in Stroock’s Intellectual Property Group, concentrates his practice on extensive patent litigation, prosecution, opinion, licensing and due diligence activities for both large multi-national corporations and smaller start-ups.

For More Information

Matthew W. Siegal
212.806.6046
msiegel@stroock.com
Technology: The patent as a sword? No kidding?

A patent is nothing more than a right to exclude others from practicing an invention

By Matthew W. Siegal

A recent spate of news articles and opinion pieces suggests that the patent system is broken. These publications contend that it is not well-suited for evaluating software patents and/or that the patent litigation surrounding the “cell phone patent wars” is a new development that should be addressed by fundamentally changing our patent laws.

For example, an article by Charles Duhigg and Steve Lohr, which appeared on Oct. 7 in The New York Times, criticizes patent owners for starting to use their patents as swords. These articles mistakenly contend that patents should be used defensively as shields, evidencing a fundamental misunderstanding of how patents are supposed to promote innovation and reward innovators, not only in our country, but in virtually every industrialized nation in the world.

A parent grants its owner one thing and one thing only: a right to sue others. A patent owner can ask a court to order an accused infringer to stop practicing the precise invention (and substantial equivalents) covered by the patent and to pay damages for the infringement—nothing else. A patent does not give its owner the right to do anything except threaten or pursue such litigation. If I own a patent covering a cell phone that can record a video and transmit that video to a recipient, I have absolutely no right to make or sell that phone if it infringes someone else’s patent. For example, assume someone else has an earlier patent covering a cell phone that can record a video. My patent is for an improved cell phone that can both record and transmit a video. However, my patent does not give me a right to make, use or sell a product that infringes someone else’s patent, such as someone else’s patent on a cell phone that can record a video, even if their patent has nothing to do with video transmission. My patent gives me one right only: to sue infringers.

This concept confuses many because of their mistaken belief that a patent is an affirmative right to practice an invention. In reality, a patent is nothing more than a right to exclude others from practicing an invention. Thus, I can use my video transmission patent to request a court to order my competitors to
stop enabling their cell phones with my patented video transmission capability. However, my patent gives me absolutely no right to make, use, sell or do anything, but file a patent infringement lawsuit.

Therefore, using a patent “defensively” as a “shield” is really a misnomer. The only way to use a patent defensively is by threatening to use it as a sword—the same way that nuclear weapons were used defensively at the end of the 20th century by both the United States and the Soviet Union: Each side knew the other side possessed the means for ending the world as we know it. They maintained an uneasy peace through their mutually-assured destruction capabilities. Each side maintained that it possessed its nuclear arsenal for defensive purposes. However, such “defensive” use was the threat of using those weapons as swords, not as shields.

Likewise, the only way to use a patent “defensively” is with the threat of a countersuit: “You want to sue me? I’ve got patents, I’ll sue you right back.” It is this stalemate that causes many large companies to settle their differences, rather than attack each other with their patent “swords.” However, from time to time, patent wars have erupted that are at least as epic as the current cell phone patent conflicts. Patent wars such as those regarding the drug tetracycline, seamless pantyhose and disposable diapers raged for years. The patent litigation system has evolved over the years and is adaptable to handle an extremely broad range of technologies and case sizes. There is no reason to scrap or upset the system based on anecdotal stories from disgruntled parties.

The ability of a patent to stop a competitor from copying a patent owner’s invention has always been at the heart of the Constitutional mandate “To promote the Progress of Science and useful Arts,” and to secure for inventors a reward for their inventions. Since the time of Thomas Jefferson, patent systems around the world have operated under the theory that if I can stop you from copying my invention, I ultimately force you to innovate a way around my patent. If I stop you from copying my pendulum clock, I may force you to innovate a coil spring clock. If you stop me from copying your coil spring clock, you may force me to innovate an electric clock. Forced innovation is how the patent system is supposed to work.

Although forced innovation may not bring down the price of copycat iPhones, the current cell phone patent wars may force tech companies to develop the next generation of telecommunications technology, rather than copy existing designs. That is how patent systems are supposed to work. Patents prevent copying and thereby force innovation. They are swords. Like swords, they can be used “defensively,” but it should be understood that their intended use is to threaten or bring patent infringement lawsuits.

Matthew W. Siegal, a partner in Stroock's Intellectual Property Group, concentrates his practice on extensive patent litigation, prosecution, opinion, licensing and due diligence activities for both large multi-national corporations and smaller start-ups.

For More Information

Matthew W. Siegal
212.806.6046
msiegel@stroock.com
April 25, 2013

Via Electronic Mail: ip.policy@uspto.gov

The Honorable Teresa 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, Virginia 22313-1450

Attn: Ms. Elizabeth Shaw


Dear Acting Under Secretary Rea:

I am writing on behalf of the American Bar Association’s Section of Intellectual Property Law (“ABA-IP Section”) to provide comments for your consideration in response to a request by the United States Patent and Trademark Office (“the USPTO”) as to “whether the United States should develop a small claims proceeding for patent enforcement.” 77 Fed. Reg. 243 (Dec. 18, 2012). These comments have not been approved by the American Bar Association’s House of Delegates or the Board of Governors and should not be considered to represent the views of the American Bar Association.

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.

The compelling need for a federal judicial forum where “small” patent infringement claims can be adjudicated in a cost-effective and expeditious manner is best expressed in historical evidence and the annual statistics collected and maintained by the Administrative Office of the United States Courts (“AO”).
a. Historical Evidence.

The need for a federal forum to adjudicate “small” patent infringement claims has been discussed by the inventor and small business communities and in academic and bar association circles for the past two decades.

On March 23, 1989, the Franklin Pierce Law Center, in cooperation with the Kenneth J. Germeshausen Center for the Law of Innovation and Entrepreneurship at the University of New Hampshire and the PTC Research Foundation, hosted a conference of leading patent litigators, corporate counsel from Fortune 500 companies, academics, and federal judges including Chief Judge Howard T. Markey and Circuit Judge Pauline Newman of the United States Court of Appeals for the Federal Circuit, and Judge William C. Conner of the United States Southern District of New York. See Homer O. Blair, Introduction: Franklin Pierce Law Center, Second Patent System Major Problems Conference, March 23, 1989, 30 IDEA 107 (1989); see also id. at 107-08 (listing attendees). The Conference examined how to streamline patent litigation and utilize nascent alternative dispute resolution techniques to better resolve “small” patent infringement claims. The potential claim threshold considered was between $25,000 and $1 million (in 1989 dollars), because, as one participant observed, “[y]ou can hardly litigate a case [for] much less than half a million dollars these days. And a million dollars is more like it for many cases.” Id. at 219. The most striking development of the Conference was the confluence of Fortune 500 corporations and small patent-holders that expressed a need for a forum to adjudicate “small” patent infringement claims and render a decision in a more efficient and less expensive manner than litigating before a federal district court. Id. at 217, 219-20 (remarks of Homer O. Blair, Donald R. Dunner, Joseph M. Fitzpatrick, Robert T. Orner, and Chief Judge Howard T. Markey).


In 1990, the predecessor to the ABA-IP Section recognized that “litigants with small claims based upon exclusive federal jurisdiction, such as patents[,] . . . are effectively shut out from the federal courts” and a “litigant having the economic staying power can out-litigate the opponent by simply refusing to go along with . . . alternative forms of dispute resolution.” Id. at 194. The ABA-IP Section, therefore, endorsed the authorization of a “small” patent claims court by adopting Resolution 401.4.

Resolution 401.4 states:

RESOLVED, that the Section of Patent, Trademark and Copyright Law favors, in principle, legislation for the establishment of an expedited, low-cost small claims procedure within the federal judiciary for the resolution of civil patent and copyright disputes subject to exclusive federal jurisdiction, having an amount in controversy less than an appropriate stated sum.
This Resolution was accompanied by a recommendation that infringement be capped at $100,000, although a minority of members supported the higher $1 million threshold recommended by the AIPLA. Id. at 195-96. Resolution 401.4 also included several other substantive recommendations:

- A magistrate would preside over all cases of “small” patent infringement claims. Id. at 195.
- The “small” patent infringement forum would not have supplemental or ancillary jurisdiction over related non-patent claims. Counterclaims would be allowed, but only if the counterclaim was under the $100,000 threshold. Id.
- Discovery and/or trial would be subject to streamlined procedures to ensure the speedy and cost-effective resolution of “small” patent infringement claims. Id.
- There would be no right to a jury trial. To avoid Seventh Amendment concerns, a losing party would be able to appeal to a federal district court for a de novo trial. If the plaintiff did not prevail, however, it would be required to pay the prevailing party’s attorneys’ fees and court costs for the district court proceeding. Id.
- A “small” patent claim could be removed to a federal district court by motion of either the defendant or the defendant to a counterclaim. Id.
- The “small” patent claims court would not have injunctive authority, but an injunction could be requested in any de novo federal district court proceeding. Id.
- No willful damages or attorneys’ fees could be awarded. Id.

In 1990, the Secretary of the United States Department of Commerce formed an Advisory Commission on Patent Law Reform (the “Commerce Advisory Commission”). See ADVISORY COMM’N ON PATENT LAW REFORM, A REPORT TO THE SECRETARY OF COMMERCE (1992). In 1992, the Commerce Advisory Commission issued a Report that suggested further study of the following topics: “other means of resolving patent disputes,” “designating specialized patent courts,” “intra-circuit sharing of judges with experience in patent litigation,” and the “adoption of a ‘small claims’ procedure for patent cases in Federal courts.” Id. at 13-14.

An important recent law review article identified several reasons why Resolution 401.4 did not advance after 1992. See 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). First, the proposal to afford a losing party before a “small” patent claims court a de novo trial in federal district court was viewed as not being able to “pass the necessary test of constitutionality.” Id. at 556. Second, Resolution 401.4 was to be implemented nationwide, rather than in an experimental pilot program. Id. Third, Resolution 401.4 would have imposed a substantial amount of work on magistrate judges across the country. Id. at 557. Finally, allowing the defendant to remove a “small” patent claim case to a federal district court, effectively gave the defendant a veto over
the process. *Id.* Mr. Greenspoon’s proposed solution was to set a $1 million cap on potential infringement damages; require expedited discovery; utilize interested senior judges to adjudicate these cases instead of magistrates; permit jury trials, but with strict time limitations; and roll out a pilot program in only a few jurisdictions before undertaking systemic reform. *Id.* at 561-66.

In September 2011, Congress enacted the Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (the “AIA”) to create “a patent system that is clearer, fairer, more transparent, and more objective. It is a system that will ultimately reduce litigation costs . . . [and] make it simpler and easier to obtain valid patents and to enforce those patents[.]” 157 CONG. REC. S5319 (daily ed. Sept. 6, 2011) (statement of Sen. Kyl). It also revises and expands *inter partes* reexamination, now known as an *inter partes* review (“IPR”), as “an inexpensive substitute for district court litigation[.]” *Id.* The IPR is intended to be a limited proceeding wherein a petitioner may request the USPTO to cancel one or more claims based on invalidity over published patents or printed publications. See AIA, 35 U.S.C.A. § 311(b). Under the AIA, an IPR issues if the USPTO Director determines “there is a reasonable likelihood that a petitioner would prevail with respect to at least 1 of the claims challenged in the petition.” AIA, § 314(a). In addition, a post-grant review program ("PGR") was authorized to allow a petitioner to request that the USPTO cancel patent claims for invalidity. § 321(b). A PGR petition, however, must be initiated within 9 months after the patent is issued. § 321(c). Both IPR and PGR proceedings provide an inexpensive means to resolve challenges to a patent’s validity. Neither an IPR nor a PGR, however, was designed to adjudicate patent infringement claims, award damages, or afford injunctive relief. Although the AIA is anticipated to reduce the cost of some patent litigation, an efficient, low-cost forum to resolve “small” patent infringement claims was not addressed by the AIA.

In early 2012, the Under Secretary of Commerce for Intellectual Property and Director of the USPTO, recognizing that the AIA is not the end of patent reform, endorsed the concept of a federal “small” patent claims forum that “could settle patent disputes quickly and cheaply.” See *U.S. Patent Director, An Alum, Says New Approach Needed For Tech Transfer*, UC DAVIS NEWS AND INFORMATION (Jan. 30, 2012), available at http://www.dateline.ucdavis.edu/dl_detail.lasso?id=12714 (last viewed Feb. 1, 2013). In February 2012, the ABA-IP Section decided to examine anew the viability of requesting Congress to authorize a federal forum with jurisdiction to adjudicate “small” patent infringement claims in a cost-efficient manner and appointed a Task Force to identify decisional issues and prepare a presentation to the Council.1

---

1 Judge Susan G. Braden, Washington D.C., was appointed to serve as Chair of the Task Force. The following members of the ABA-IP Section were appointed to serve on the Task Force: Erica H. Arner, Finnegan Henderson, Farabow, Garrett & Dunner, LLP, Washington, D.C.; Steven P. Caltrider, Deputy General Counsel, Eli Lilly & Co., Indianapolis, Indiana; Samson Helfgott, Katten Muchin Rosenman LLP, New York, New York; Pamela Banner Krupka, The Krupka Law Group, P.C., Los Angeles, California; Don Martens, Knobbe Martens Olson & Bear LLP, Irvine, California; Scott F. Partridge, Baker Botts, L.L.P., Houston, Texas; Stephanie L. Roberts, Steptoe & Johnson, Washington, D.C.; and Harrie Samaras, ADR and Law Office of Harrie Samaras, West Chester, Pennsylvania.

The assistance of the AO staff in providing statistical data and the research of the Librarian of the United States Court of Appeals for the Federal Circuit was particularly helpful in preparing this comment. Judge Braden’s Law Clerks Mike Knobler and Alex Larro also provided research assistance. Her Judicial Assistant, Karen Glanden was responsible for editorial and production assistance.
To support the work of the ABA-IP Section Task Force, the USPTO requested that the George Washington Law School convene an Intellectual Property Small Claims Roundtable (“GWL Roundtable”) that took place on May 10, 2012 to bring together: practicing lawyers; academics; representatives from the small invention community; USPTO senior staff officials; ABA-IP Task Force members; and former and current federal judges. The GWL Roundtable began with a presentation by Mr. Paul Stoer, Copyright and Intellectual Property Enforcement Policy Officer at the United Kingdom’s Intellectual Property Office in London, who described the recent experience of the Patents County Court in England and Wales (the “UK-PCC”), and Professor Richard Pierce’s observations on constitutional issues.

Subsequently, the ABA-IP Task Force prepared a written presentation to the ABA-IP Section Council on August 1, 2012, participated in a Forum held at the USPTO on October 1, 2012, and hosted several Inns of Court and related intellectual bar association roundtable discussions in Washington, D.C., Philadelphia, Pennsylvania, and Dallas, Texas, to ascertain the current views of the small inventor community, practitioners, intellectual property owners, and academics.


The statistics collected and maintained by the AO also demonstrate the need for an alternative federal forum to adjudicate “small” patent claims.

During the 12-month periods, beginning September 30, 2008 through 2012, statistics collected and maintained by the AO indicate that the number of patent cases filed in the United States District Courts increased by 78.4%.

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2 In 1990, the UK-PCC was established in to handle patent, registered design, and trademark cases, under less expensive and more streamlined procedures than those used in the Patent Court of the High Court. Cases can be transferred from the Patent Court of the High Court to the UK-PCC and vice versa. At the UK-PCC, cases are heard by a single judge or an appointed deputy and may be argued by a patent agent or solicitor, instead of a barrister. Generally, the damages at issue in UK-PCC cases are no more than £500,000, excluding interest other than that payable under an agreement and costs. An appeal of a patent case from the UK-PCC is heard by the Court of Appeal, provided that leave is granted. The Court of Appeal focuses primarily on the correctness of the decision on points of law, not on issues of fact. A further appeal on a point of law is possible to the Supreme Court, although permission must be sought and is rarely granted. The legal costs of an appeal, however, are awarded to the winning party on a “loser pays” basis, whether in the Court of Appeal or the Supreme Court.

3 On February 28, 2013, the University of Illinois Law School and the AIPLA hosted a day-long conference to discuss how to implement a “small” patent claims forum. On May 1, 2013, the AIPLA also will convene a panel discussion to discuss the merits of a “small” patent claims forum in Seattle.

No. of Patent Cases Filed | 2,909 | 2,792 | 3,301 | 4,015 | 5,189
--- | --- | --- | --- | --- | ---

The AO does not collect or maintain statistics on the size of the damages claimed. Of the 1,032 AIPLA members who responded to the association’s most recent, 2011 Economic Survey, approximately a third reported that they handled a case with $1 million damages or less at stake. An unpublished October 21, 2012 draft article examining 340 patent infringement cases decided between 1995 and 2008, indicates that 40% of those involved patent cases where $2 million or less was awarded. See http://ssrn.com/abstract=2164787 at 14 (Figure 4). These estimates, however, do not separately account for patent suits filed by non-practicing entities, a matter discussed in response to Request 2(s). Therefore, it may be assumed that at least 30% of the patent cases filed each year constitute “small” patent claims.

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. In doing so, please comment on any of the following issues:

   (a) What the possible venues for a small claims proceeding should be, including whether patent small claims should be heard by Federal District Court judges or magistrates, whether patent small claims should be handled by an Article I court, such as the U.S. Court of Federal Claims, or whether patent small claims should be heard in another venue not specifically listed here.

   i. United States District Court and Magistrate Judges.

The United States District Courts and magistrate judges have demonstrated the substantive ability to adjudicate patent cases that involve complex technology and have an immediate impact on the economy. In addition, fourteen federal district courts recently volunteered to participate in a ten year pilot program to enhance expertise in patent cases. See Pub. L. No. 111-349. These federal district courts were selected because they had the “largest number of patent and plant variety protection cases in 2010” or intended to adopt special local rules to handle such matters in an attempt “to enhance expertise in patent cases [and] . . . to analyze and report certain statistics (e.g., time to disposition and reversal rate”). Robert Gunther

---

5 In January 2013, 530 new patent cases were filed, a 46% increase over the same period one year ago, i.e., two and a half times the number of patent cases filed in January 2012 (or an increase of 147%). See available at http://trac.5yr.edu/tracereport (“Three-Year Rise in Patent Lawsuits.”) (last viewed Feb. 20, 2013).


7 The initial federal pilot patent courts include the: Eastern District of New York; Southern District of New York; Western District of Pennsylvania; District of New Jersey; District of Maryland; Northern District of Illinois; Southern District of Florida; District of Nevada; Eastern District of Texas; Northern District of Texas; Western District of Tennessee; Central District of California; Northern District of California; and Southern District of California. See Exhibit A.

The purpose of a federal “small” patent claims forum, however, is to adjudicate these disputes in an expedited and less expensive manner than is typically the case. It would appear that imposing a “fast track” adjudication of claims on the federal district courts and their magistrates may not always be feasible, given the current caseload, as demonstrated in the following charts. Moreover, some of the Patent Pilot Program courts may not want to incorporate a “fast track” procedure that would advance adjudication of “small” patent claims ahead of more complex patent cases.

During the 12-month periods, September 30, 2008 through September 30, 2012, statistics collected and maintained by the AO, however, indicate that the number of patent cases that actually proceed to trial, either by a judge, jury, or magistrate are fewer than four percent.

<table>
<thead>
<tr>
<th>Year</th>
<th>% of cases that proceed to trial</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>3.8%</td>
</tr>
<tr>
<td>2009</td>
<td>4.0%</td>
</tr>
<tr>
<td>2010</td>
<td>3.9%</td>
</tr>
<tr>
<td>2011</td>
<td>2.9%</td>
</tr>
<tr>
<td>2012</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

What happens to the rest of the patent cases filed? The AO collects and maintains statistics on how many patent cases are terminated in a fiscal year, at what juncture they are terminated, and the months from the date a complaint is filed to any case termination, but the AO does not collect or maintain statistics on how many patent cases are settled or how many cases are dismissed on summary judgment by the trial court or by a plaintiff who elects not to proceed.  

Nor does the AO collect or maintain statistics that reflect how many plaintiffs run out of funds to proceed or simply abandon lawsuits that are not moving toward adjudication.

---

8 In the Patent Pilot Program, “patent cases filed in participating district courts are initially randomly assigned to all district judges, regardless of whether they have been designated to hear such cases. A judge who is randomly assigned a patent case and is not among the designated judges may decline to accept the case. That case is then randomly assigned to one of the district judges designated to hear patent cases.

The Judicial Conference Committee on Court Administration and Case Management will help implement the pilot. [That] Committee is encouraging the pilot courts in the project to use their case assignment system to ensure fairness in the distribution of the court's workload and provide for the assignments of additional civil cases to those judges who decline patent cases.” See http://www.uscourts.gov/News/NewsView/11-06-07/District_Courts_Selected_for_Patent_Pilot_Program.aspx (last visited Jan. 28, 2013).

9 See Table C-4 U.S. District Courts – Civil Cases Terminated, by Nature of Suit and Action Taken, During the 12 Month Period Ending September 30, 2012.

10 For example, for the 12-month period ending September 30, 2012, statistics collected and maintained by the AO report that of 4,042 patent cases that were terminated—1,129 cases were terminated, on average, with no court action after 4.3 months; 2,181 other cases were terminated on average with some pre-trial court action after 7.3 months; 593 other cases were terminated during or after an average of pretrial court action, after 13.8 months; and another 139 cases were terminated during trial, after 31.1 months. See Table C-5A.
ii. United States Court of Federal Claims.

In light of the small percentage of patent cases that actually are adjudicated by the United States District Courts or their magistrates, the United States Court of Federal Claims may be a viable alternative federal forum for a pilot program to adjudicate “small” patent claims. A brief description of the history and jurisdiction of the court follows.

In 1887, Congress authorized the Court of Claims to adjudicate suits against the United States for breach of contract and issue binding judgments. In 1982, the Federal Courts Improvement Act of 1982 abolished the existing Court of Claims and Court of Customs and Patent Appeals and created two new federal courts: the United States Claims Court, renamed in 1992 as the United States Court of Federal Claims, and the United States Court of Appeals for the Federal Circuit. The Tucker Act is the core jurisdictional statute of the United States Court of Federal Claims, but the money-mandating authority must be derived from a different source. See United States v. Testan, 424 U.S. 392, 398 (1976). Under the Fifth Amendment Takings Clause and a wide variety of money-mandating statutes, the court has exclusive jurisdiction over claims against the federal government in excess of $10,000, including suits involving: government contracts; bid protests; federal tax refunds; Indian claims; civilian and military pay claims; and vaccine injury claims.

More importantly, Congress has authorized the United States Court of Federal Claims with jurisdiction to adjudicate claims for patent infringement:

if the Government uses or manufactures a patented invention without a license or
if the use or manufacture of a patented invention is by a contractor, subcontractor,
or any person, firm, or corporation for the government, with the authorization or
consent of the government.

28 U.S.C. § 1498(a); see also Hughes Aircraft Co. v. United States, 534 F.2d 889, 897 (Ct. Cl. 1976).13 These patent cases, like a significant portion of the court’s other substantive docket,


12 The Tucker Act provides:

The United States Claim Court shall have jurisdiction to render judgment upon any claim against the United States founded upon either the Constitution, or any Act of Congress or any regulation of an executive department, or upon any express or implied contract with the United States, or for liquidated or unliquidated damages in cases not sounding in tort.


13 The United States Court of Federal Claims also has jurisdiction to adjudicate claims by a patent applicant or owner to recover compensation for damages caused by the imposition of a Secrecy Order on a patent application by one of the military or intelligence departments, where there has been subsequent use by the Government resulting from the disclosure of the invention covered by the Secrecy Order. See
entail: the review of extensive records; require findings of fact; and resolution of complex issues of law. Trials often involve expert witnesses and electronic evidence. Although the United States Court of Federal Claims is housed in Washington, D.C., in the same physical building as the United States Court of Appeals for the Federal Circuit, the United States Court of Federal Claims has **nationwide** jurisdiction and its judges regularly conduct proceedings in other federal district courts around the country for the convenience of the parties. Appeals of final judgments of the United States Court of Federal Claims are reviewed by the United States Court of Appeals for the Federal Circuit.

The court has authority to award money damages, but is also authorized to issue declaratory judgments or injunctions in bid protest cases. See 28 U.S.C. § 1491(b)(2); see also 28 U.S.C. § 1651 (“The Supreme Court and all courts established by Act of Congress may issue all writs necessary or appropriate in aid of their respective jurisdictions and agreeable to the usages and principles of law.”).

The judges of the United States Court of Federal Claims, like judges on the United States District Courts, are appointed by the President, subject to confirmation of the Senate and afforded the same salary and benefits. The judges of the United States Court of Federal Claims, however, are Article I judges who serve for a fifteen year term, but are eligible at the end of their term to: 1) retire, if they satisfy the Rule of 80, *i.e.*, are sixty-five years old with fifteen years of judicial service; 2) request reappointment from the President for an additional fifteen year term; or 3) request the Chief Judge to appoint them to serve as a senior judge, based on the requirements of the court.¹⁵

On February 28, 2013, one of the sixteen active judges retired. On March 31, 2013, another active judge also retired. On October 22, 2013, the term of five other judges also will end: one intends to retire and three are eligible to retire, be reappointed, or assume senior status. This presents an opportunity for the President to nominate three or more judges to this court with “hands on” patent law experience to complement the United States Court of Federal Claims’ existing expertise in patent claim construction and adjudicating patent infringement claims.

---

³⁵ U.S.C. § 183; *see also* Hornback *v.* United States, 301 F.3d 1382 (Fed. Cir. 2010). In addition, the court has jurisdiction over patent issues arising under the Foreign Assistance Act, 22 U.S.C. § 2356.

¹⁴ Typically, the patent infringement cases adjudicated by the United States Court of Federal Claims concern claims arising out of significant government military contracts, entail highly technical and cutting edge technology, *Fortune* 500 government contractors, and multi-million dollar damage claims. At present, there are thirty-one patent infringement cases pending in the United States Court of Federal Claims. This is comparable to the number of patent claims currently pending in the United States District Court for the District of Columbia.

¹⁵ The United States Court of Federal Claims is an Article I court, because it has jurisdiction to adjudicate congressional references regarding compensation of individual claims. See 28 U.S.C. § 1492. In the past 20 years only two congressional references have been sent to the court. Therefore, if Congress no longer ascertains a need for reference cases, the issue arises as to why the United States Court of Federal Claims should not be afforded Article III status, since no cost would be imposed on the taxpayer for that transition.
The following chart summarizes factors relevant to considering the United States Court of Federal Claims as a forum to adjudicate “small” patent claims:

<table>
<thead>
<tr>
<th>Experience In Patent Claim Construction and Adjudicating Infringement Claims</th>
<th>234 published patent cases to date by the United States Court of Federal Claims, of which 49 have been reviewed in a published opinion of the United States Court of Appeals for the Federal Circuit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Docket Capacity</td>
<td>✓16</td>
</tr>
<tr>
<td>Accessibility to Parties</td>
<td>✓ National Jurisdiction</td>
</tr>
<tr>
<td>Knowledge of Governing Appellate Jurisprudence</td>
<td>✓ (reversal rate 12%)17</td>
</tr>
<tr>
<td>Injunctive Authority</td>
<td>Limited</td>
</tr>
<tr>
<td>Alternative Dispute Program</td>
<td>ADR Automatic Referral Program</td>
</tr>
</tbody>
</table>

There is a hybrid option worth discussion with the AO, Federal Judicial Center, and judges participating in the Patent Pilot Program. For plaintiffs that satisfy the venue requirements of one of the fourteen federal district courts participating in the Patent Pilot Program, “small” patent claims would be filed there. In the event that a Patent Pilot Program court would be unable to accommodate a fast track adjudication of “small” patent claim, that case could be transferred to the United States Court of Federal Claims for adjudication. For plaintiffs that cannot satisfy the venue requirements of one of the Patent Pilot Program courts, the United States Court of Federal Claims would serve as the default federal forum for adjudicating a “small” patent claim case.

16 It is estimated that the docket would consist of approximately 975 “small” patent claims cases per year, excluding non-practicing entity cases from the 5,189 patent cases filed in 2012. Those cases would be assigned on a wheel among the sixteen judges authorized to serve on the United States Court of Federal Claims. Therefore, each judge would be assigned approximately sixty new cases over the course of a year. If the court recalled six of the current senior judges who will be retired on October 1, 2013, each judge would be assigned approximately forty-four new cases over the course of a year. The potential availability of willing retired senior judges to be recalled would be a significant cost-savings factor to be considered, since they receive full compensation, whether they are retired or serve as a Senior Judge. If the court also retained three of the active judges currently expected to request senior status in 2013 and the eight current Senior Judges, each judge would be assigned thirty-nine new cases over the course of a year.

In addition, since some of the judges of the United States Court of Federal Claims currently utilize the LMM Program students from the George Washington School of Law as interns, these students potentially could serve as specialized patent law clerks for a semester and receive academic credit, instead of a salary.


Another potential alternative forum not discussed in the Federal Register notice is the USPTO administrative law judges in the new field offices in Detroit, Dallas, Denver, and San Jose. In light of the current patent application backlog and the existing docket of the Patent and Trademark Appeal Board judges with the new AIA proceedings, this may not be a feasible option. In addition, the lack of familiarity with managing adjudication and discovery infringement and damage issues are other factors that militate against using the USPTO as a forum to handle “small” patent claims proceedings. The USPTO may wish to weigh the merits of this option, however, in making its recommendations to Congress.

(b) What the preferred subject matter jurisdiction of the patent small claims proceeding should be, including which if any claims, counterclaims, and defenses should be permitted in a patent small claims proceeding.

i. Patent Subject Matter.


Accordingly, the federal “small” patent claims forum should have subject matter jurisdiction over only patent infringement claims.

ii. Supplemental Jurisdiction.

As a general matter, it has been considered desirable for a federal court to have “supplemental” jurisdiction, i.e., “ancillary” jurisdiction and “pendant” jurisdiction, to adjudicate claims that do not otherwise meet the requirements of federal subject matter. See CHEMERINSKY § 5.4 at 312; see also 28 U.S.C. §1367.18 “Supplemental” jurisdiction affords litigants an

---

18 The Judicial Improvements Act of 1990 provides:

[1]In any civil action of which the district courts have original jurisdiction, the district courts shall have supplemental jurisdiction over all other claims that are so related to claims in the action within such original jurisdiction that they form part of the same case or controversy under Article III of the United States Constitution. Such supplemental
opportunity to resolve all related claims in one forum, nominally decreasing the time and cost of resolution. Likewise, permitting counterclaims, cross claims, or third party claims authorized by FED. R. CIV. P. 18(a) could provide an opportunity to resolve all issues in one forum. And, as in federal district court cases, permitting “supplemental” and compulsory counterclaims could effectuate an even playing field and likelihood of settlement, but inevitably increase the complexity of the case and exceed the maximum monetary exposure of a defendant.

Accordingly, the federal “small” patent claims forum should not have supplemental jurisdiction over any substantive claim other than patent infringement and a validity counterclaim. If a “small” patent claim is challenged within eighteen months after patent is issued, the court may stay the case to afford the plaintiff the ability to utilize existing USPTO procedures under the AIA, as was suggested by the USPTO. See Letter from Bernard J. Knight Jr., USPTO General Counsel to Judge Susan G. Braden, Chair, ABA-IP Task Force (Aug. 15, 2012).

(c) Whether parties should agree to waive their right to a jury trial as a condition of participating in a small claims proceeding.

Under the Seventh Amendment to the United States Constitution, either party may seek an adjudication by jury trial, when monetary damages are requested. See U.S. CONST. amend. VII; see also Markman v. Westview Instruments, Inc., 517 U.S. 370, 377 (1996) (holding “there is no dispute that [patent] infringement cases today must be tried to a jury, as their predecessors were more than two centuries ago.”). Therefore, both parties must waive their right to a jury trial, which should be a jurisdictional prerequisite to seeking an adjudication in the federal “small” patent claims forum.

(d) Whether there should be certain required pleadings or evidence to initiate a small claims proceeding.

At the time a complaint is filed, the following supporting exhibits should be submitted: the patent; filing history; a statement of prior art; and statement summarizing evidence of the product, machine, or process alleged to have been infringed. See Judge William C. Conner, United States District Judge for the Southern District of New York, “A Proposal For Quick and Inexpensive Resolution of Patent Controversies,” 30 IDEA at 111 (1989). In addition, a sworn affidavit of the plaintiff or a corporate officer must be filed with the complaint, attesting that an estimate of the amount of damages requested is made in good faith and based on information and belief.

jurisdiction shall include claims that involve the joinder or intervention of additional parties.

(e) Whether a filing fee should be required to initiate a small claims proceeding and what the nature of that fee should be.

The parties should be required to pay filing fees authorized under 28 U.S.C. § 1914, 28 U.S.C. § 1926(a), and 2012 US ORDER 0015 (C.O. 0015) (Miscellaneous Fee Schedules District Court Miscellaneous Fee Schedule; United States Court of Federal Claims Fee Schedule).

(f) Whether multiple parties should be able to file claims in a small claims proceeding and whether multiple defendants may be sued together.

The issue of multiple party actions can be problematic in managing any case in an expedited and cost effective manner. For this reason, the federal “small” patent claims forum should adhere to the new joinder rules set forth in 35 U.S.C. § 299 (amended by Pub. L. No. 112-274, 126 Stat. 2456 (Jan. 14, 2013)). In addition, no party should be able to remove the case to any other judicial forum more than ten days after an answer is filed.

(g) What role attorneys should have in a small claims proceeding including whether corporations should be able to represent themselves.

Attorneys, whether in the private bar or corporate counsel, should be able to appear before the “small” patent claims forum, so long as they are admitted to practice in that forum.

(h) What the preferred case management characteristics that would help to control the length and expense of a small claims proceeding should be.

The federal “small” patent claims forum must provide litigants with the cost effective disposition of cases by management directives, procedural rules, and model pleadings to facilitate settlement or adjudication. In particular, the rules implemented must ensure: early initial disclosure of relevant documents and potential witness names, including experts; limited discovery, including use of a tailored CAFC E-Discovery Model Order;19 “rocket docket” procedures to limit pre-trial practice;20 and expedited claim construction and invalidity rulings.

---


20 See e.g., Exhibit C. The UK-PCC has implemented a procedure where both parties are required to submit a detailed statement of the case very early, setting forth the facts and law supporting their positions. The statement of the case can be limited in size and can include supporting documents, claim charts, etc. After the statements are exchanged, a case management conference is held to determine the schedule for disclosure of documents, witness evidence, and expert evidence. After reviewing the statements of the case, the judge and parties may determine that only written factual and expert evidence will be permitted or that no additional document exchange will be needed. The UK-PCC rules give the judge broad latitude to set the schedule and procedures in order to accomplish the goal of an efficient and economical resolution. According to Practice Direction 63 ¶ 31.2, the UK-PCC should “endeavor to
The following timeline suggests a proposed schedule for proceedings before a federal “small” patent claims forum:

<table>
<thead>
<tr>
<th>Action</th>
<th>“Small” Patent Claims Forum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complaint filed</td>
<td>Filing and serving complaint, with supporting exhibits, damage affidavit, and any TRO (Day 1).</td>
</tr>
<tr>
<td>Answer Due</td>
<td>21 days after complaint filed, with supporting exhibits if affirmative defenses are raised.</td>
</tr>
<tr>
<td>Initial Exchange of Documents</td>
<td>ASAP after Answer, but no later than 30 days thereafter.</td>
</tr>
<tr>
<td>Initial Scheduling Conference</td>
<td>Trial date set with issuance of a Pre-Trial Order (Day 45).</td>
</tr>
<tr>
<td>Claim Construction Hearing</td>
<td>Claim construction hearing (Day 90). 21 Preliminary Claims Construction Decision, issued orally or in writing (Day 120).</td>
</tr>
<tr>
<td>Fact Discovery Conducted and Completed</td>
<td>Maximum of 60 days, following Claim Construction Decision (Day 120-180).</td>
</tr>
<tr>
<td>Expert Reports Exchanged</td>
<td>Maximum of 60 days, following Claim Construction Decision (Day 120-180).</td>
</tr>
<tr>
<td>Summary Judgment Motions and Resolution</td>
<td>Filing (by 180 days); Resolution (by Day 280).</td>
</tr>
<tr>
<td>Pre-Trial Conference and Filings</td>
<td>(Day 283, <em>i.e.</em>, 2 weeks before trial).</td>
</tr>
<tr>
<td>Trial</td>
<td>Trial commences and concludes (Day 297-300)</td>
</tr>
<tr>
<td>Post Trial Briefing</td>
<td>Post Trial Briefs and Final Findings of Fact and Law Filed (Day 360).</td>
</tr>
<tr>
<td>Final Decision</td>
<td>Memorandum Opinion and Final Order issued (Day 480).</td>
</tr>
</tbody>
</table>

(i) What the preferred remedies in a small claims proceeding should be, including whether or not an injunction should be an available remedy, and any minimum threshold or maximum cap on damages that should be imposed.

a. Injunctions.

The United States District Courts have jurisdiction to issue temporary and permanent injunctions. See 15 U.S.C. § 1116; see also Fed. R. Civ. P. 65. The United States Court of

ensure” that the trial does not last more than two days. The judge issues a written “draft” judgment to the parties for comment and a final decision within one to four months after trial.

21 Limiting the number of patent claims to be construed and the number of prior art references also will simplify the proceedings.
Federal Claims has jurisdiction to issue injunctions, but only in bid protests and under the Anti-Injunction Act. See 28 U.S.C. § 1491(b)(2); 28 U.S.C. § 2283. To obtain a permanent injunction in a federal court, “[a] plaintiff must demonstrate: (1) that it has suffered irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance the hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by issuing a permanent injunction.” eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 391 (2006); see also Abbott Labs. v. Sandoz, Inc., 544 F.3d 1341, 1345 (Fed. Cir. 2008). Therefore, authorizing the “small” patent claims forum to issue injunctions would be consistent with practice in other federal courts.

The USPTO, however, has indicated that “the threat of an injunction may prove a significant disincentive to a defendant who might otherwise consider participating in a small claims proceeding.” Letter from Bernard J. Knight, Jr., USPTO General Counsel to Judge Susan G. Braden, Chair, ABA-IP Task Force (Aug. 15, 2012). For example, the financial impact of an injunction on a defendant could well exceed the $3 million maximum amount for damages. In addition, a preliminary injunction hearing necessarily will increase the litigants’ expenses and could significantly delay a final resolution on the merits. Therefore, the federal “small” patent claims forum should not have the authority to issue injunctive relief, except to enforce a final judgment. See 28 U.S.C. § 1651.

b. Damages.

i. Minimum Amount.

In determining subject matter jurisdiction in terms of monetary damages, several factors must be considered. First, establishing a minimum threshold or “floor” for monetary damages undoubtedly would avoid vexatious actions to harass defendants with the potential to overburden a federal “small” patent claims forum at the onset with legally insignificant or frivolous claims. Although diversity jurisdiction in the federal courts requires a $75,000 damage threshold, jurisdiction to adjudicate a patent infringement case is not tied to any specific amount of monetary damages. Therefore, it could be considered inequitable to require a minimum monetary damage threshold to file a case in a federal “small” patent claims forum, when one is not required to file a case in a United States District Court.

Accordingly, no minimum threshold of monetary damages should be required to file a complaint in the federal “small” patent claims court.
ii. Maximum Amount.

The more important issue to be addressed is the maximum amount of monetary damages that a federal “small” patent claims court is authorized to award. Although there is no automatic correlation between the amount of a patent infringement claim and the complexity of the case, litigants have reported that more complex cases entail a greater commitment of resources, because of discovery requirements, the number of experts, and the time required to proceed with dispositive motions and/or trial.

For example, the most recent AIPLA REPORT OF THE ECONOMIC SURVEY (2011) indicates that the median costs to litigate a patent infringement case during the years 2005, 2007, 2009, and 2011 were:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LESS THAN $1 MILLION AT RISK</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>End of discovery</td>
<td>$350,000</td>
<td>$350,000</td>
<td>$350,000</td>
<td>$350,000</td>
</tr>
<tr>
<td>Inclusive, all costs</td>
<td>650,000</td>
<td>600,000</td>
<td>650,000</td>
<td>650,000</td>
</tr>
<tr>
<td>$1-$25 MILLION AT RISK</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>End of discovery</td>
<td>$1,250,000</td>
<td>$1,250,000</td>
<td>$1,500,000</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Inclusive, all costs</td>
<td>2,000,000</td>
<td>2,500,000</td>
<td>2,500,000</td>
<td>2,500,000</td>
</tr>
<tr>
<td>MORE THAN $25 MILLION AT RISK</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>End of discovery</td>
<td>$3,000,000</td>
<td>$3,000,000</td>
<td>$3,000,000</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Inclusive, all costs</td>
<td>4,500,000</td>
<td>5,000,000</td>
<td>5,500,000</td>
<td>5,000,000</td>
</tr>
</tbody>
</table>

Id. at 35.

Using the proposed $1 million damage ceiling that the AIPLA recommended in 1990 as a “starting point” and assuming that amount at least should be doubled, given the passage of two decades, a $2.5 million damage “plus” amount reasonably identifies the value of a federal “small” patent infringement claim, without considering litigation costs that were estimated in 2011 at $650,000. Therefore, a maximum of $3 million damage ceiling appears to be the total financial exposure a defendant should face, if it elects to defend an infringement claim in the federal “small” patent claims forum, instead of litigating before a jury.22

(j) Whether a small claims proceeding should include attorney’s fees or some form of a “loser pays” system.

An award of attorneys fees to a successful party in an adjudication of a federal “small” patent infringement claim is problematic. The owner of a valid patent should not be dissuaded from seeking an adjudication of alleged infringement of that patent if infringement is not found.

Conversely, the defendant should not have to assume any additional liability for the patent owner’s attorney fees, in the event infringement is found. The federal “small” patent claims forum should be viewed as a no-fault system, where each party assumes the cost of counsel and required expenses.

(k) Whether a small claims proceeding should include mediation and whether mediation should be mandatory or permissive.

At the GWL Roundtable several representatives of the small inventor community expressed an interest in having the federal “small” patent claims forum afford two mandatory ADR sessions prior to trial. Based on other comments made at the October 1, 2012 USPTO Forum, it was suggested that if a plaintiff received a favorable claim construction the alternative of negotiating a license may be a more attractive alternative to the parties rather than proceeding to trial.

In 2007, the United States Court of Federal Claims established the ADR Automatic Referral Program by the issuance of General Order 44; see also RCFC Appendix H (“Procedure For Alternative Dispute Resolution”). The court’s ADR Program includes mediation, mini-trials, early neutral evaluation, and non-binding arbitration via a settlement judge or a third-party neutral. A unique aspect of the Automatic Referral Program is that an ADR judge is assigned to a case at the same time as the trial judge, so the ADR judge is fully informed of the issues and status of a case, if and when ADR is requested by the parties.

(l) What type of record should be created during a small claims proceeding including whether hearings should be transcribed and whether a written decision should be issued.

A record should be maintained of all proceedings before the federal “small” patent claims forum. An alternative to traditional court reporting services that is one regularly used by the judges of the United States Court of Federal Claims i.e., an Electronic Digital Recording system. This system creates a digital record that can be transcribed by a reporter, either by the parties or the court, if necessary. A written decision should be issued.

(m) What weight should be given to a decision rendered in a small claims proceeding in terms of precedent, res judicata, and estoppel.

A final decision and judgment of the small patent claims court should have preclusive effect as to the issues decided and amount of any damages awarded for a specified period of time in any future action involving the same parties before the small patent claims court.

A final decision and judgment of the small patent claims court, however, should not have preclusive effect in any subsequent case involving the same parties before a federal district court and specifically may not be considered prima facie evidence, as to any of the four elements, required to obtain an injunction. See eBay, Inc. v. Maer Exchange, L.L.C., 547 U.S. 388 (2006).
A final decision and judgment of the small patent claims court may be considered by a federal district court, pursuant to Fed. R. Ev. 201. The weight, if any, accorded will depend, as in determining the deference afforded an administrative agency decision, “on the thoroughness evident in its consideration, the validity of its reasoning, its consistency with earlier and later pronouncements, and all these factors which give it the power to persuade, if lacking power to control.” U.S. v. Mead Corp., 533 U.S. 218, 228 (2011) (quoting Skidmore v. Swift Co., 323 U.S. 134, 140 (1944)).

(n) How should a decision in a small claims proceeding be enforced.

All federal courts have the authority under 28 U.S.C. § 1651 to enforce their judgments.

(o) 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.

Intermediate appellate review is contrary to the goal of obtaining an inexpensive and expeditious final adjudication of “small” patent claims. Likewise, appellate review of “small” patent claims is not an effective use of resources given the nature of the controversies. In addition, appellate review for “small” patent claims should be evaluated in light of the burden on the United States Court of Appeals for the Federal Circuit and amount of time such review would take. That court currently decides all appeals arising from a final judgment of patent infringement issued by the federal district courts and the United States Court of Federal Claims. In fiscal year 2012, it handled 471 such patent cases. The median disposition time for patent cases originating in the United States District Courts was 11.3 months. Therefore, appellate review should be waived, so that a judgment of the federal “small” claims forum ends the dispute between the parties with finality and certainty.

(p) What, if any, constitutional issues would be raised by the creation of Federal small claims proceedings including separation of powers, the right to a jury trial, and/or due process.

The parties’ voluntary assent for their case to be adjudicated in a federal “small” patent claims forum addresses constitutional concerns. See Commodity Futures Trading

---

23 In 1990, Resolution 401.4 recommended that “small” patent infringement cases be tried and adjudicated by a magistrate, but to ameliorate Seventh Amendment concerns, the parties could seek a de novo jury trial before a United States District Court after a decision was issued in the “small” patent claims court. 1990 ABA Comm. Rep. at 194. As Professor Pierce observed at the GWL Roundtable, however, it is not clear that a de novo trial necessarily resolves Seventh Amendment issues, because of the potential collateral estoppel effect of a “small” patent claims court proceeding.

24 See UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT, FILINGS OF PATENT INFRINGEMENT APPEALS FROM THE U.S. DISTRICT COURT (“Exhibit D”).

25 See UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT, MEDIAN TIME TO DISPOSITION IN CASES TERMINATED AFTER HEARING OR SUBMISSION (2012) (“Exhibit E”).
Comm’n v. Schor, 478 U.S. 833, 848-51 (1986) (upholding jurisdiction of an Article I judge, in part, because of the plaintiff’s voluntary waiver, but stating that, as with Article III courts, the consent of the parties is not dispositive of an Article I court’s jurisdiction). “Among the factors upon which [the United States Supreme Court has] focused are the extent to which the ‘essential attributes of judicial power’ are reserved to Article III courts, and, conversely, the extent to which the non-Article III forum exercises the range of jurisdiction and powers normally vested only in Article III courts, the origins and importance of the right to be adjudicated, and the concerns that drove Congress to depart from the requirements of Article III.” Id. The United States Court of Federal Claims already has jurisdiction to adjudicate patent claims against the Government. Concurrent jurisdiction, affording the parties the ability to elect either the federal “small” patent claims forum or to file a claim in a United States District Court would be consistent with current practice in tax law, where the United States Court of Federal Claims has concurrent jurisdiction with United States District Courts to adjudicate cases brought under 28 U.S.C. §§ 6226, 7428(a). Cf. N. Pipeline Const. Co. v. Marathon Pipe Line Co., 458 U.S. 50 (1982) (holding that a law giving Article I judges exclusive jurisdiction over bankruptcy proceedings was unconstitutional). Other constitutional issues appear comparatively straightforward. The right to a jury trial is waivable. See, e.g., Langenkamp v. Culp, 498 U.S. 42, 45 (1990) (holding that creditors who file claims against a bankruptcy estate subject to the equitable jurisdiction of the Bankruptcy Court and thus waive their right to a jury trial). In addition, Article I courts currently satisfy the elements of due process, such as an impartial factfinder; the opportunity to adduce evidence; access to legal counsel; a timely hearing; and the availability of judicial review by an Article III court. See Yakus v. United States, 321 U.S. 414, 444 (1949) (stating that there must be “an opportunity to be heard and for judicial review” to satisfy “the demands of due process.”). In any event, electing to adjudicate in an Article I court waives the due process right. See Arecibo Cmty. Health Care, Inc. v. Puerto Rico, 270 F.3d 17, 26 (1st Cir. 2001) (“[T]he filing of a proof of claim waives an individual’s due process right to insist on minimum contacts within the forum state before being subject to the court’s jurisdiction[.]”)

(q) Whether the patent small claim proceedings should be self-supporting financially, including whether the winning and/or losing parties should be required to defray any administrative costs, and if so, how would this be accomplished.

Although the resources of the federal judiciary, like those of all other federal governmental entities, are and will be under continued stress, “small” patent claims proceedings should be able to be adjudicated within existing appropriations. Should the need for supplemental appropriations arise, that issue can be brought to the attention of Congress.

(r) Whether and how to evaluate patent small claims proceedings, including whether evaluations should be periodic and whether the patent small claims proceeding should be launched initially as a pilot program.

The federal “small” patent claims forum should be authorized by Congress as a pilot program, in the same manner as the Patent Pilot Project. See Pub. L. No. 11-349. A report should be issued by the Chief Judge to the Senate and House Judiciary Committees on a biannual basis, similar to that being submitted by the Federal Judicial Center regarding the Patent Pilot Program.
Any other additional pertinent issues not identified above that the USPTO should consider.

The number of patent cases filed by non-practicing entities has significantly increased as the following chart depicts.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Patent Cases Filed</th>
<th>No. of Patent Cases Filed By NPE’s</th>
<th>No. of Patent Cases Not Filed By NPE’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>2,909</td>
<td>559</td>
<td>2,290</td>
</tr>
<tr>
<td>2009</td>
<td>2,792</td>
<td>546</td>
<td>2,175</td>
</tr>
<tr>
<td>2010</td>
<td>3,301</td>
<td>623</td>
<td>2,588</td>
</tr>
<tr>
<td>2011</td>
<td>4,015</td>
<td>1,121</td>
<td>2,703</td>
</tr>
<tr>
<td>2012</td>
<td>5,189</td>
<td>2,923</td>
<td>3,173</td>
</tr>
</tbody>
</table>

The substantial costs entailed by these suits and burden on the federal district courts are a matter of public record. With a maximum cap on damages, limitation on joinder, and removal options, the federal “small” patent claims proceeding, described herein, should not be an attractive forum for opportunistic suits, but rather provide an option for small inventors and established corporations to resolve “small” patent claims in a constructive, low-cost, and expedited manner. See http://www.patentlyo.com/patent/2012/08/analyzing-the-role-of-npes-in-the-patent-system.html (last visited Feb. 4, 2013).

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.

Finally, some have suggested that the federal “small” patent claims forum will not provide any benefit beyond existing alternative dispute resolution vehicles and that consideration of such a forum should be deferred, pending experience to be gained from the new AIA proceedings at the USPTO and the Patent Pilot Program. A few clarifying points may be helpful. First, the AO does not collect or maintain statistics that evidence how many plaintiffs with patent claims, much less “small” patent claims, utilize existing ADR vehicles in the federal district courts. On June 21, 2011, the Northern District of California, however, issued General Order No. 64 “Expedited Trial Procedure” setting forth a procedure by which civil cases may be resolved by a negotiated ADR, but no litigants have opted to utilize this procedure to date, likely because the amount of potential damages is left to the parties to negotiate, rather than setting a maximum cap. In any event, no empirical data exist to support an assumption that the status quo has provided an expedited and cost-efficient procedure to resolve patent claims in practice. Second,  


given the budget constraints facing the federal judiciary, there has been no suggestion of creating a federal “small” patent claims court, but instead to incorporate a procedure tailored to achieve the adjudication of “small” patent claims in a manner that is more expeditious and inexpensive than the status quo within the existing federal trial court structure, imposing no new costs on the litigants or the taxpayer. Third, utilizing the federal “small” patent claims forum would be voluntary and not affect any litigant’s current right to seek adjudication by a federal district court. Finally, neither the new USPTO procedures established by the AIA nor the Patent Pilot Program are directed to the issues discussed herein.

The ABA-IP Section appreciates the USPTO’s inquiry regarding a federal “small” claims patent forum and supports congressional authorization of a model program, as discussed herein, to function in tandem with the ongoing Patent Pilot Program, utilizing existing judicial resources.

Respectfully submitted,

Joseph M. Potenza
Section Chair
ABA Section of Intellectual Property Law
EXHIBIT A

Patent Cases Filed, Terminated and Pending In The United States District Courts For the 12-Month Period Ending September 30, 2012*

<table>
<thead>
<tr>
<th></th>
<th>Filed</th>
<th>Terminated</th>
<th>Pending</th>
</tr>
</thead>
<tbody>
<tr>
<td>District of Columbia</td>
<td>18</td>
<td>41</td>
<td>35</td>
</tr>
<tr>
<td>FIRST CIRCUIT TOTAL</td>
<td>121</td>
<td>108</td>
<td>137</td>
</tr>
<tr>
<td>Maine</td>
<td>5</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>100</td>
<td>92</td>
<td>115</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>7</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>2</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>7</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>SECOND CIRCUIT TOTAL</td>
<td>244</td>
<td>257</td>
<td>321</td>
</tr>
<tr>
<td>Connecticut</td>
<td>18</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>New York Northern</td>
<td>10</td>
<td>9</td>
<td>14</td>
</tr>
<tr>
<td>New York Eastern</td>
<td>31</td>
<td>34</td>
<td>36</td>
</tr>
<tr>
<td>New York Southern</td>
<td>161</td>
<td>167</td>
<td>206</td>
</tr>
<tr>
<td>New York Western</td>
<td>16</td>
<td>13</td>
<td>30</td>
</tr>
<tr>
<td>Vermont</td>
<td>8</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>THIRD CIRCUIT TOTAL</td>
<td>1,089</td>
<td>749</td>
<td>1,199</td>
</tr>
<tr>
<td>Delaware</td>
<td>809</td>
<td>490</td>
<td>889</td>
</tr>
<tr>
<td>New Jersey</td>
<td>192</td>
<td>192</td>
<td>227</td>
</tr>
<tr>
<td>Pennsylvania Eastern</td>
<td>49</td>
<td>43</td>
<td>42</td>
</tr>
<tr>
<td>Pennsylvania Middle</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Pennsylvania Western</td>
<td>32</td>
<td>17</td>
<td>34</td>
</tr>
<tr>
<td>Virgin Islands</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>FOURTH CIRCUIT TOTAL</td>
<td>232</td>
<td>214</td>
<td>213</td>
</tr>
<tr>
<td>Maryland</td>
<td>49</td>
<td>42</td>
<td>44</td>
</tr>
<tr>
<td>North Carolina Eastern</td>
<td>19</td>
<td>11</td>
<td>22</td>
</tr>
<tr>
<td>North Carolina Middle</td>
<td>18</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>North Carolina Western</td>
<td>21</td>
<td>20</td>
<td>22</td>
</tr>
<tr>
<td>South Carolina</td>
<td>11</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Virginia Eastern</td>
<td>95</td>
<td>94</td>
<td>71</td>
</tr>
<tr>
<td>Virginia Western</td>
<td>7</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>West Virginia Northern</td>
<td>9</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>West Virginia Southern</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

* The patent pilot courts are designated by shading.
<table>
<thead>
<tr>
<th>Circuit</th>
<th>Filed</th>
<th>Terminated</th>
<th>Pending</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FIFTH CIRCUIT TOTAL</strong></td>
<td>1,251</td>
<td>728</td>
<td>1,287</td>
</tr>
<tr>
<td>Louisiana Eastern</td>
<td>2</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Louisiana Middle</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Louisiana Western</td>
<td>4</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Mississippi Northern</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Mississippi Southern</td>
<td>4</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Texas Northern</td>
<td>69</td>
<td>59</td>
<td>63</td>
</tr>
<tr>
<td>Texas Eastern</td>
<td>1,061</td>
<td>579</td>
<td>1,084</td>
</tr>
<tr>
<td>Texas Southern</td>
<td>47</td>
<td>39</td>
<td>58</td>
</tr>
<tr>
<td>Texas Western</td>
<td>62</td>
<td>35</td>
<td>65</td>
</tr>
<tr>
<td><strong>SIXTH CIRCUIT TOTAL</strong></td>
<td>199</td>
<td>197</td>
<td>201</td>
</tr>
<tr>
<td>Kentucky Eastern</td>
<td>4</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Kentucky Western</td>
<td>7</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Michigan Eastern</td>
<td>55</td>
<td>71</td>
<td>59</td>
</tr>
<tr>
<td>Michigan Western</td>
<td>8</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Ohio Northern</td>
<td>47</td>
<td>49</td>
<td>38</td>
</tr>
<tr>
<td>Ohio Southern</td>
<td>38</td>
<td>29</td>
<td>37</td>
</tr>
<tr>
<td>Tennessee Eastern</td>
<td>6</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Tennessee Middle</td>
<td>5</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Tennessee Western</td>
<td>29</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td><strong>SEVENTH CIRCUIT TOTAL</strong></td>
<td>394</td>
<td>336</td>
<td>427</td>
</tr>
<tr>
<td>Illinois Northern</td>
<td>275</td>
<td>205</td>
<td>299</td>
</tr>
<tr>
<td>Illinois Central</td>
<td>5</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Illinois Southern</td>
<td>1</td>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td>Indiana Northern</td>
<td>7</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Indiana Southern</td>
<td>21</td>
<td>27</td>
<td>38</td>
</tr>
<tr>
<td>Wisconsin Eastern</td>
<td>35</td>
<td>28</td>
<td>39</td>
</tr>
<tr>
<td>Wisconsin Western</td>
<td>50</td>
<td>50</td>
<td>33</td>
</tr>
<tr>
<td><strong>EIGHTH CIRCUIT TOTAL</strong></td>
<td>141</td>
<td>141</td>
<td>156</td>
</tr>
<tr>
<td>Arkansas Eastern</td>
<td>5</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Arkansas Western</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Iowa Northern</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Iowa Southern</td>
<td>4</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>Minnesota</td>
<td>67</td>
<td>64</td>
<td>87</td>
</tr>
<tr>
<td>Missouri Eastern</td>
<td>31</td>
<td>30</td>
<td>23</td>
</tr>
<tr>
<td>Missouri Western</td>
<td>15</td>
<td>22</td>
<td>14</td>
</tr>
<tr>
<td>Nebraska</td>
<td>14</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>North Dakota</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>South Dakota</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Filed</td>
<td>Terminated</td>
<td>Pending</td>
</tr>
<tr>
<td>----------------------</td>
<td>-------</td>
<td>------------</td>
<td>---------</td>
</tr>
<tr>
<td><strong>NINTH CIRCUIT TOTAL</strong></td>
<td>1,059</td>
<td>857</td>
<td>1,066</td>
</tr>
<tr>
<td>Alaska</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Arizona</td>
<td>42</td>
<td>37</td>
<td>39</td>
</tr>
<tr>
<td>California Northern</td>
<td>265</td>
<td>224</td>
<td>302</td>
</tr>
<tr>
<td>California Eastern</td>
<td>21</td>
<td>11</td>
<td>27</td>
</tr>
<tr>
<td>California Central</td>
<td>453</td>
<td>345</td>
<td>390</td>
</tr>
<tr>
<td>California Southern</td>
<td>137</td>
<td>85</td>
<td>157</td>
</tr>
<tr>
<td>Hawaii</td>
<td>15</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>Idaho</td>
<td>6</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Montana</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Nevada</td>
<td>33</td>
<td>28</td>
<td>41</td>
</tr>
<tr>
<td>Oregon</td>
<td>36</td>
<td>34</td>
<td>31</td>
</tr>
<tr>
<td>Washington Eastern</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Washington Western</td>
<td>47</td>
<td>71</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TENTH CIRCUIT TOTAL</strong></td>
<td>158</td>
<td>161</td>
<td>155</td>
</tr>
<tr>
<td>Colorado</td>
<td>60</td>
<td>68</td>
<td>45</td>
</tr>
<tr>
<td>Kansas</td>
<td>13</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>New Mexico</td>
<td>2</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Oklahoma Northern</td>
<td>7</td>
<td>13</td>
<td>7</td>
</tr>
<tr>
<td>Oklahoma Eastern</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Oklahoma Western</td>
<td>14</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td>Utah</td>
<td>61</td>
<td>50</td>
<td>75</td>
</tr>
<tr>
<td>Wyoming</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ELEVENTH CIRCUIT TOTAL</strong></td>
<td>283</td>
<td>280</td>
<td>202</td>
</tr>
<tr>
<td>Alabama Northern</td>
<td>9</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Alabama Middle</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Alabama Southern</td>
<td>1</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Florida Northern</td>
<td>16</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Florida Middle</td>
<td>88</td>
<td>96</td>
<td>77</td>
</tr>
<tr>
<td>Florida Southern</td>
<td>99</td>
<td>108</td>
<td>38</td>
</tr>
<tr>
<td>Georgia Northern</td>
<td>67</td>
<td>52</td>
<td>69</td>
</tr>
<tr>
<td>Georgia Middle</td>
<td>1</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Georgia Southern</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Exhibit B
Table B-8.
U.S. Court of Appeals for the Federal Circuit--Appeals Filed, Terminated, and Pending
During the Twelve-Month Period Ended September 30, 2012

<table>
<thead>
<tr>
<th>Source of Appeals</th>
<th>Pending 1-Oct-11</th>
<th>Filed</th>
<th>Total</th>
<th>Terminations</th>
<th>Other</th>
<th>Percent Reversed</th>
<th>Pending 30-Sep-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,012</td>
<td>1,381</td>
<td>1,369</td>
<td>995</td>
<td>374</td>
<td>10</td>
<td>1,024</td>
</tr>
<tr>
<td>Board of Contract Appeals</td>
<td>17</td>
<td>17</td>
<td>18</td>
<td>12</td>
<td>6</td>
<td>9</td>
<td>16</td>
</tr>
<tr>
<td>U.S. Court of International Trade</td>
<td>40</td>
<td>46</td>
<td>43</td>
<td>34</td>
<td>9</td>
<td>15</td>
<td>43</td>
</tr>
<tr>
<td>U.S. Court of Federal Claims</td>
<td>113</td>
<td>166</td>
<td>163</td>
<td>127</td>
<td>36</td>
<td>12</td>
<td>116</td>
</tr>
<tr>
<td>U.S. Court of Appeals for Veterans Claims</td>
<td>128</td>
<td>189</td>
<td>193</td>
<td>143</td>
<td>50</td>
<td>5</td>
<td>124</td>
</tr>
<tr>
<td>U.S. District Courts</td>
<td>406</td>
<td>511</td>
<td>451</td>
<td>330</td>
<td>121</td>
<td>12</td>
<td>466</td>
</tr>
<tr>
<td>Department of Justice</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Department of Veterans Affairs</td>
<td>5</td>
<td>0</td>
<td>4</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>International Trade Commission</td>
<td>17</td>
<td>26</td>
<td>19</td>
<td>13</td>
<td>6</td>
<td>18</td>
<td>24</td>
</tr>
<tr>
<td>Merit Systems Protection Board</td>
<td>154</td>
<td>254</td>
<td>287</td>
<td>190</td>
<td>97</td>
<td>7</td>
<td>121</td>
</tr>
<tr>
<td>Office of Compliance</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Patent &amp; Trademark Office</td>
<td>120</td>
<td>132</td>
<td>152</td>
<td>107</td>
<td>45</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Writs*</td>
<td>11</td>
<td>38</td>
<td>38</td>
<td>34</td>
<td>4</td>
<td>0</td>
<td>11</td>
</tr>
</tbody>
</table>

*THIS CATEGORY INCLUDES WRITS OF MANDAMUS, OTHER EXTRAORDINARY WRITS, PETITIONS FOR PERMISSION TO APPEAL, AND DISCRETIONARY PETITIONS FOR REVIEW.

Revised: 12/10/12
EXHIBIT C

The following agreements are illustrative of those that could be implemented in the procedural rules of a “small” patent claims forum to simplify and reduce the cost of proceedings.*

1. Discovery disputes will be resolved by lead counsel by phone, not letters or e-mails.

2. Before depositions begin, the court will set a trial date.

3. Depositions will be taken by agreement, with both sides alternating. The dates for depositions will be agreed on before the deponents are identified. Each side gets three hours per deponent. No more than five fact witnesses can be deposed. This does not include the deposition of a 30(b)6 representative that may not exceed one hour.

4. At depositions, all objections to relevance, lack of foundation, non-responsiveness, speculation or to the form of the question will be reserved until trial, other than to advise the client to assert a privilege or to adjourn the deposition, because the questioner is improperly harassing the witness.

5. All papers will be served on the opposing party by e-mail. For purposes of calculating the deadline to respond, email service will be treated the same as hand-delivery.

6. Documents will be produced on a rolling basis as soon as they have been located and numbered; if copies are produced, the originals will be made available for inspection upon request.

7. The parties will seek an order from the court, under Fed. R. Evid. 502(d), providing that: each side initially must produce electronically stored information from the files of no more than three custodians selected by the other side during an agreed period of time.

   The parties will produce ESI in the native format kept by the producing party, or in a common interchange format, such as Outlook/PST, Concordance or Summation, so it can be searched by the other side. If any special software is required to conduct a search in native format and is regularly used by the producing party, it must be made available to the other side. The parties will produce a Bates numbered file listing of the file names

and directory structure of what is on any CDs or DVDs exchanged. Either side may use an e-mail or an attachment to an e-mail that came from one of these previously produced disks by printing out the entire e-mail (and the attachment if they are using a file that came with an e-mail) and marking it at the deposition or trial, and either side may use application data (which is not an attachment to e-mail, but stand-alone on a CD or DVD) as long as the footer on the pages or a cover sheet indicates (1) the CD or DVD from whence it came, (2) the directory or subdirectory where the file was located on the CD or DVD, and (3) the name of the file itself including the file extension.

8. If agreement cannot be reached on the form of a protective order within forty-eight hours of the time they are exchanged, both sides will write a letter to the court including each side’s preferred version and, without argument, request that the court promptly enter one.

9. All deposition exhibits will be numbered sequentially X-1, X-2, etc., regardless of the identity of the deponent or the side introducing the exhibit and the same numbers will be used in any pretrial motions and at trial.

10. The parties will share any expense of imaging all deposition exhibits.

11. The parties will exchange expert witness reports that provide the disclosures required by the Federal Rules of Civil Procedure. Neither side will be entitled to discovery of communications between counsel and expert witnesses or to drafts of experts’ reports. There will be no depositions of experts, unless an expert’s report is incomprehensible or incomplete, in which case the party seeking clarification is required to establish the same by a motion filed with the court.

12. Only documents that have a lawyer’s name on them can be withheld from production and only if they are in fact privileged. Production does not waive any privilege and documents must be returned whenever the producing party recognizes they are privileged. For any additional production, good cause must be demonstrated to the court.

13. The production of a privileged document does not waive the privilege as to other privileged documents. Documents that the other side claims are privileged must be returned as it is discovered that they were produced without any need to show the production was inadvertent.

14. Each side has the right to select twenty documents off the other’s privilege list for submission to the court for in camera inspection.

15. Witness lists will be exchanged two weeks before trial. Any witness who appears on a party’s list whom the other side has not deposed, can be deposed before trial.

16. The length of the trial (including openings and closings) will be three days, and that time will be split equally between the parties.

17. Deposition designations will be made at trial, but will not be read at trial.
18. A final trial exhibit list (with each exhibit entitled simply “Trial Exhibit” and numbered sequentially as in the deposition transcripts) will be exchanged three weeks prior to trial.

19. All un-objected-to trial exhibits listed on the exhibit lists at the time the trial begins are deemed admitted when mentioned by any party during trial.

20. All exhibits produced by a party will be deemed authentic.

21. An agreed-on notebook containing a glossary, cast of characters, chronology, and any key documents will be provided to the court prior to trial.
Exhibit D
United States Court of Appeals for the Federal Circuit

Filings of Patent Infringement Appeals from the U.S. District Courts

Note: Includes reinstated, cross- and consolidated appeals.
Exhibit E
United States Court of Appeals for the Federal Circuit

Median Time to Disposition in Cases Terminated After Hearing or Submission\(^1\)
Docketing Date\(^2\) to Disposition Date, in Months

<table>
<thead>
<tr>
<th></th>
<th>FY 03</th>
<th>FY 04</th>
<th>FY 05</th>
<th>FY 06</th>
<th>FY 07</th>
<th>FY 08</th>
<th>FY 09</th>
<th>FY 10</th>
<th>FY 11</th>
<th>FY 12</th>
<th>Overall Median per Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Court</td>
<td>11.3</td>
<td>11.7</td>
<td>11.6</td>
<td>11.5</td>
<td>11.6</td>
<td>11.0</td>
<td>11.0</td>
<td>11.0</td>
<td>11.2</td>
<td>11.8</td>
<td>11.3</td>
</tr>
<tr>
<td>Court of Federal Claims</td>
<td>9.8</td>
<td>11.0</td>
<td>11.2</td>
<td>10.0</td>
<td>10.0</td>
<td>9.2</td>
<td>10.3</td>
<td>10.0</td>
<td>10.6</td>
<td>9.9</td>
<td>10.2</td>
</tr>
<tr>
<td>Court of International Trade</td>
<td>11.2</td>
<td>12.0</td>
<td>11.5</td>
<td>11.7</td>
<td>11.9</td>
<td>12.4</td>
<td>11.5</td>
<td>11.0</td>
<td>12.2</td>
<td>12.6</td>
<td>11.7</td>
</tr>
<tr>
<td>Court of Appeals Veterans Claims</td>
<td>10.6</td>
<td>10.0</td>
<td>9.9</td>
<td>8.4</td>
<td>8.4</td>
<td>8.0</td>
<td>9.3</td>
<td>9.3</td>
<td>6.0</td>
<td>8.6</td>
<td>8.8</td>
</tr>
<tr>
<td>Board of Contract Appeals</td>
<td>12.6</td>
<td>9.7</td>
<td>10.5</td>
<td>11.7</td>
<td>10.4</td>
<td>9.6</td>
<td>11.9</td>
<td>8.8</td>
<td>10.0</td>
<td>11.5</td>
<td>10.9</td>
</tr>
<tr>
<td>Department of Veterans Affairs</td>
<td>13.8</td>
<td>n/a</td>
<td>14.4</td>
<td>13.7</td>
<td>11.3</td>
<td>4.8</td>
<td>18.9</td>
<td>n/a</td>
<td>19.4</td>
<td>15.7</td>
<td>14.0</td>
</tr>
<tr>
<td>Department of Justice</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>8.9</td>
<td>8.9</td>
<td>n/a</td>
<td>n/a</td>
<td>8.9</td>
<td>8.9</td>
</tr>
<tr>
<td>International Trade Commission</td>
<td>17.1</td>
<td>16.0</td>
<td>16.4</td>
<td>15.6</td>
<td>13.6</td>
<td>14.4</td>
<td>14.4</td>
<td>14.8</td>
<td>14.6</td>
<td>16.1</td>
<td>15.0</td>
</tr>
<tr>
<td>Merit Systems Protection Board</td>
<td>7.6</td>
<td>6.9</td>
<td>7.5</td>
<td>6.5</td>
<td>6.4</td>
<td>5.8</td>
<td>6.5</td>
<td>6.1</td>
<td>6.1</td>
<td>6.4</td>
<td>6.6</td>
</tr>
<tr>
<td>Office of Compliance</td>
<td>19.6</td>
<td>10.1</td>
<td>13.3</td>
<td>14.0</td>
<td>n/a</td>
<td>19.0</td>
<td>n/a</td>
<td>13.0</td>
<td>15.0</td>
<td>n/a</td>
<td>13.6</td>
</tr>
<tr>
<td>Patent and Trademark Office</td>
<td>9.5</td>
<td>9.6</td>
<td>10.3</td>
<td>10.0</td>
<td>9.6</td>
<td>8.9</td>
<td>9.3</td>
<td>8.2</td>
<td>11.2</td>
<td>11.7</td>
<td>9.8</td>
</tr>
</tbody>
</table>

Overall Median per Fiscal Year

\(^1\) Excludes cross and consolidated appeals, writs, and OPM petitions
\(^2\) Calculated from Date of Docketing or Date of Reinstatement, whichever is later
Patent Small Claims: The Next Big Idea

The Illini Center, Chicago, Illinois
200 S. Wacker, Illinois Room
Chicago, IL
February 28, 2013

Lawrence Cruz, Chief Patent Counsel, Conair Corporation, Stamford, CT

INDUSTRY PERSPECTIVE

I. Circumstances in which Small Claims Patent process needed by patent owners

   a) Bird’s eye perspective: patent system only for the wealthy
   b) Current economy – if ever a time was “ripe” – small business, foreign entities, startup businesses
   c) Many “small” infringers when, taken together, sum of the parts is significant
   d) Single infringing entity with multiple suppliers and/or vendors; multiple parties required to infringe method claim
   e) Vendors – US and Foreign – some with multiple customers
   f) Suppliers
   g) “outsourcing” litigation to foreign countries

II. Frequent Reasons Management Declines to Enforce

   a) Costs outweigh recoveries
   b) Percentage of bottom-line
   c) Unpredictable costs – finality, appeal
   d) Timing excessive or unpredictable – finality, appeal
   e) Recovery and damages unpredictable - upper and lower limits
   f) More attractive alternatives – foreign litigation, business solution

III. Potential Defendant – Business perspective

   a) Costs/ uncertain risks and timing
   b) Un-capped damages
   c) Patent troll leverage – NPE - PE
d) Prohibitive costs and uncertainty regarding pre-emptive actions, DJ, post-grant under AIA, use of stays

IV. Business community acceptance - issues that should be addressed

a) Costs – caps
b) Speed – timing
c) Remedies – injunction, monetary cap(?)
d) Finality
e) Appeal
f) Removal
g) Estoppel, res judicata
h) Initiating party pays if non-prevailing
i) Curbing/discouraging patent trolls abuse of new system