

July 5, 2022

Kazia Nowacki
Attorney Advisor
Administrative Conference of the United States
1120 20th Street NW, Suite 706 South,
Washington, District of Columbia 20036

RE: Comments of ACT | The App Association on the Administrative Conference of United States (ACUS) Small Claims Patent Court Study

Dear Ms. Nowacki:

ACT | The App Association provides comments in response to an invitation of the Administrative Conference of United States (ACUS) for its independent study of associated issues and options for designing a small claims patent court.

The App Association represents thousands of small business innovators located throughout the United States and around the world. These companies drive competition and innovation across consumer and enterprise use cases. App Association members both hold and license patented technologies, rely on a fair and consistent patent ecosystem, and are directly affected by the approach to patent rights and litigation by the United States Patent and Trade Office (USPTO) and federal court systems. The app industry serves as the driving force in the rise of smartphones, tablets, and other internet-connected devices and markets.¹ Today, the app economy is a \$1.7 trillion ecosystem led by U.S. companies, of which over 80 percent are startups or small businesses, employing over 5.9 million Americans.² The growth of this vital ecosystem is expected to continue; worldwide consumer spending in mobile apps is projected to reach \$171 billion by 2024, more than double the \$85 billion from 2019.³

The app ecosystem's success, reliant on continued innovation and investment in connected devices and interfaces, hinges on the sufficiency of key legal frameworks that underlie them. Patents allow small business innovators to protect their investments in innovation, attract venture capital, and establish and maintain a competitive position in the marketplace. As more devices throughout the consumer and enterprise spheres become connected to the internet— often referred to as the internet of things (IoT)— App Association members' innovations will remain the interface for communicating with

¹ The App Association, *State of the App Economy 2018* (Apr. 2018), <https://actonline.org/2018/04/16/state-of-theapp-economy-report-highlights-american-leadership-in-the-950-billion-app-economy/>.

² *Id.*

³ Sarah Perez, *Mobile app spending to double by 2024, despite economic impacts of COVID-19*, TechCrunch (Apr. 1, 2020), <https://techcrunch.com/2020/04/01/mobile-app-spending-to-double-by-2024-despite-economic-impactsof-covid-19/>.

these devices.⁴ Small business viability directly correlates to fairness and predictability in the patent system.

I. The Creation of a Small Claims Patent Court Must be Predicated on a Strong Evidence Base Demonstrating the Need for One

The Patent Act allows patents to be granted for any new and useful process, machine, article of manufacture, or composition of matter, as well as for any improvement to such inventions, and a robust body of case law now clarifies the limits on patent eligibility and establishing important protections to promote free access to abstract ideas, laws of nature, and natural phenomenon. Current Supreme Court case law prescribing the subject matter that is eligible for patent protection strikes the correct balance between rewarding innovation and protecting competition and further advancement. Notably, the software industry also has continued to thrive in the years following the Supreme Court's decisions clarifying patent subject matter eligibility limitations, suggesting that the current restrictions do not harm software developers or businesses. Investment in research and development for the software industry doubled in 2018,⁵ four years after *Alice* "clarif[ied] that the addition of a generic computer was not enough" for subject matter eligibility,⁶ and venture capital funding for software startups was the highest it had ever been.⁷

Section 101 also has a critical role to play in weeding out low-quality patents, especially the types of low-quality patents that are routinely asserted against startups and small businesses. Indeed, broad, preemptive patents directed to abstract ideas—those appropriately deemed ineligible under current law—are especially concerning because they can be, and are, asserted against numerous accused infringers based on routine business activities or use of generic technology. Section 101 is valuable, and needed especially now, to focus the U.S. patent system on technological advances, improvements, and solutions, as well as to curb the amount of and expense associated with litigation over low-quality patents.

⁴ Morgan Reed, Comments of ACT | The App Association to the National Telecommunications and Information Administration regarding The Benefits, Challenges, and Potential Roles for the Government in Fostering the Advancement of the Internet of Things, ACT | The App Association (June 2, 2016), <http://actonline.org/wpcontent/uploads/NTIAComments-on-IoT-Regulations.pdf>.

⁵ *The State of Patent Eligibility in America: Part II Before the S. Subcomm. on Intellectual Property*, 116th Cong. (2019) (statement of David W. Jones, Exec. Dir., High Tech Innovators All.), <https://www.judiciary.senate.gov/imo/media/doc/Jones%20Testimony1.pdf>; strategy&, *PWC 2018 Global Innovation 1000 & What the Top Innovators Get Right* (Oct. 2018), slide 28, <https://www.strategyand.pwc.com/gx/en/insights/innovation1000/2018-global-innovation-1000-fact-pack.pdf>.

⁶ *Netflix Inc. v. Rovi Corp.*, 114 F. Supp. 3d 927, 934 (N.D. Cal. 2015).

⁷ Jones, *supra* note 21; National Venture Capital Association, *Venture Monitor*, 4Q 2018 at 19, https://files.pitchbook.com/website/files/pdf/4Q_2018_PitchBook_NVCA_Venture_Monitor.pdf.

When enacting the America Invents Act (AIA) in 2011, Congress sought “to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.”⁸ Congress also recognized “a growing sense that questionable patents [were] too easily obtained and are too difficult to challenge.”⁹ Small businesses, the main drivers of the U.S. economy, were at the core of Congress’ decision to enact the AIA, especially the *inter partes* review (IPR) process. IPR provides a more affordable and efficient recourse for businesses of all sizes to exercise their rights – whether defending the validity of their granted patent or challenging a granted patent. Since its creation, IPR, administered by the Patent Trial and Appeal Board (PTAB), has largely worked as intended and has reduced unnecessary litigation, saving \$2.3 billion over just five years.¹⁰ The IPR process allows App Association members to have a fair and dispassionate tribunal to first assess whether the patent used against them was properly reviewed and issued. Our members have limited resources for litigation, and the IPR process successfully provides a much-needed alternative for these small businesses that do not have the ability to withstand years of expensive federal court patent litigation that can easily cost millions of dollars. Patent litigants often rely on the fact that many of these small businesses do not have the capital to fight a case and use that to their advantage to force them into licensing arrangements accompanied with terms greatly benefiting the litigant. IPRs protect our members from some of the financial and temporal burdens associated with proceedings in front of Article III tribunals. This system is a work in progress – recently, USPTO Director Vidal has issued new clarifications for the IPR process that will reduce gamesmanship that results in the overissuance of discretionary denials.¹¹

While there are many ways for the patent system to improve, both through case law and through agency-level policy changes, the App Association believes that a strong evidence base supporting the creation of a small claims patent court must be established before any such court system is fashioned, and that it be clarified that such a system will not contradict, duplicate, or otherwise devalue the existing processes in Article III courts and the PTAB. While the motivation in examining a small patent claims court is to help smaller entities protect their intellectual property and avoid high-cost federal litigation,¹² without careful and deliberate scoping, the creation of a small claims patent court can instead amplify existing harassment practices often employed against small entities, such as those predominantly initiated by non-practicing entities (NPEs),

⁸ H. R. Rep. No. 112-98, pt. 1, p. 40 (2011).

⁹ *Id.* at p. 39 (2011).

¹⁰ See, e.g., Josh Landau, *Inter Partes Review: Five Years, Over \$2 Billion Saved*, PATENT PROGRESS (Sept. 14, 2017).

¹¹ Press Release, U.S. Patent and Trademark Office, Director Vidal Provides Clarity to Patent Trial and Appeal Board Practice on Discretionary Denials of Patent Challenges Based on Parallel Litigation, (June 22, 2022) (on file with the U.S. Patent and Trademark Office), <https://www.uspto.gov/about-us/news-updates/director-vidal-provides-clarity-patent-trial-and-appeal-board-practice>.

¹² Jasmin Jackson, *Federal Study Explores Prospect of Small Claims Patent Court*, Law360, (May 3, 2022), <https://www.law360.com/articles/1489652/federal-study-explores-prospect-of-small-claims-patent-court>.

creating a new channel for such abuses. We also urge ACUS to recognize that smaller damages do not necessarily ensure low-cost litigation: a study conducted by the American Intellectual Property Law Association (AIPLA) found that when less than \$1,000,000 is at stake, the average cost of litigation through discovery could be up to \$600,000 including all costs,¹³ showing that the cost of Article III court litigation on average is more than half the value at risk. With the AIA-created IPR process at the USPTO already in place to reduce the costs of patent litigation, the App Association does not believe that a strong case has been established demonstrating that a new and separate system for small patent claims is necessary. We strongly encourage ACUS to recognize this fact moving forward.

There may be some advocates for a small claims patent court based on the creation of a small claims copyright court per the Copyright Alternative in Small-Claims Enforcement Act of 2020.¹⁴ We strongly urge ACUS to recognize the many differences between the copyright and patent systems in the United States, and to thoroughly examine these differences. Ultimately, such an analysis should conclude that there are few, if any, analogs that would enable replicating the new small claims copyright court for the patent system.

II. Policy and Practical Considerations in Establishing a Small Claims Patent Court

The App Association represents the interests of both small entity patent holders and those who may find themselves accused of patent infringement. Despite the efforts to reform the patent system noted above, the current landscape of the U.S. patent system appears to disfavor small businesses accused of patent infringement. For example, today's patent system has enabled NPEs that focus solely on monetizing patents through litigation: in 2019, NPE assertions accounted for 55 percent of all patent litigation,¹⁵ and patent litigation enforcement initiated by NPEs has increased by 9.5 percent from 2020 to 2021.¹⁶ A small claims patent court could allow NPEs to apply their aggressive and abusive tactics against small businesses that have already incurred significant start-up costs in addition to any litigation fees. While the high costs of federal district court litigation are often prohibitive for small entities, low damages provide NPEs with the ability to assert weak claims against multiple small entities at a faster rate, counting on accused infringers to settle, effectively incenting an increase in the volume of abusive NPE tactics.

¹³ AIPLA, Report of the Economic Survey, at p. 37 (2015)
<http://files.ctctcdn.com/e79ee274201/b6ced6c3-d1ee4ee7-9873-352dbe08d8fd.pdf>.

¹⁴ Pub. L. No. 116–260, Div. Q, Title II, § 212.

¹⁵ *The Great Recession Resulted in an Explosion of NPE Assertions*, UnifiedPatents, (April 23, 2020), <https://www.unifiedpatents.com/insights/2020/great-recession-explosion-of-npe-assertions>.

¹⁶ *NPE Patent Litigation Up by 10% in 2021*, Rational Patent, (January 12, 2022), <https://www.rpxcorp.com/data-byte/npe-patent-litigation-up-by-10-in-2021/>.

As noted above, Congress has addressed the concern of creating a more efficient and less costly means of addressing patent validity by establishing the PTAB. It is unclear as to how a new and separate small claims patent court would address unique issues in the U.S. patent system. Practically, we believe that continued PTAB reform is the most realistic means of making further tangible improvements. It is our recommendation that USPTO continues to improve the PTAB process instead of considering a small claims patent court that is prone to abuse.

Key questions that require agreement across impacted stakeholders remain and must be resolved before the proposal ACUS seeks comment on can proceed. For example:

- There appears to be no consensus on the institutional placement, structure, and internal organization of a potential small claims patent court, including whether it should be established as or within the Article III federal court system, as or within an Article I court, or as an administrative tribunal. The App Association recommends creating a small claims patent court only once a strong consensus emerges on this critical foundation, including from the small business community such a court is intended to benefit.
- The selection, appointment, management, and oversight of officials who preside over proceedings in a potential small claims patent court is unknown. We also note that the judicial precedent raises concerns as to whether the judges in the small claims patent court system can have unreviewable power.¹⁷
- The subject-matter jurisdiction of a potential small claims patent court should be limited; participation in such proceedings should be voluntary; and parties should not be able to remove cases to another administrative tribunal or federal court. Any scope of subject-matter jurisdiction for a small claims patent court invokes a concern for small entities. It was the intent of Congress through the AIA to create the PTAB in order to resolve issues of patentability within the USPTO. PTAB post-grant proceedings have since supported small entities in bringing claims of invalidity against NPEs and invalid patent holders before expert judges. We do not see utility in duplicating the PTAB. Small entities are also at risk of being victims of serial infringement claims in a small claims patent court by large NPEs.
- Past the potential of a small claims patent court negatively impacting small business defendants, small entity patent holders can also be harassed by NPEs and other large entities if the scope of the small claims patent court. In lieu of high litigation costs, some patent holders may use the small claims patent court as a venue to pursue multiple weak challenges against small patent holders. It appears that the small claims patent court's process would need to be voluntary and not removeable in order to combat the potential abuse of a small claims patent proceeding.
- The procedures and rules of practice for a potential small claims patent court, including, pleadings, discovery, and alternative dispute resolution, require further development and consensus. We stress the importance of limiting discovery if a

¹⁷ *United States v. Arthrex, Inc.*, 141 S. Ct. 1970 (2021).

small claims patent court is formed. A cap on damages does not minimize the fees incurred by parties for litigating a case in the small claims patent court and in parallel with other proceedings. In the same AIPLA study that we have referred to above, out of \$600,000 in litigation costs, on average \$400,000 is incurred by the end of discovery when \$1,000,000 are at stake.¹⁸ The cost of discovery accounts for most of the cost in patent litigation. Mandatory limits on discovery are necessary in order to mitigate excessive costs imposed on small entities.

- The remedies that a potential small claims patent court would be able to provide require deliberation. We caution the ability to seek injunctions in any case and monetary damages in ownership and inventorship cases in a small claims patent court. Injunctions have commonly been used by large entities as a tactic to halt small innovators from entering a market or developing their patented inventions. If a small claims patent court provides injunctive relief, it will likely be over utilized against small entities. Monetary relief similarly should not be offered in inventorship and ownership cases because of the high potential for harassment against small patent holders.

¹⁸ AIPLA, *supra* note 15.

III. Conclusion

The App Association views no apparent benefit to establishing a small claims patent court. An additional venue in which repeat abusers of the patent system can expand their profitable operations against real innovators is not the solution to high-cost litigation and procedural inequities within the federal courts and the PTAB. In the event that a small claims patent court is implemented, we implore you to consider our concerns and their direct impact on small entities.



Brian Scarpelli
Senior Global Policy Counsel

Priya Nair
IP Policy Counsel

Leanna Wade
Public Policy Associate

ACT | The App Association
1401 K St NW (Ste 501)
Washington, DC 20005
202-331-2130