

AIPLA

American Intellectual Property Law Association

July 5, 2022

Small Claims Patent Court Comments
Administrative Conference of the United States
Suite 706 South
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Washington, D.C. 20036
Via email: info@acus.gov

To Whom it May Concern:

Pursuant to the Small Claims Patent Court Study Comment Request, 87 Fed. Reg. 26183 (May 3, 2022), the American Intellectual Property Law Association (“AIPLA”) submits comments on a potential small claims patent court or small claims patent proceeding and its impacts.

Founded in 1897, AIPLA is a national bar association of approximately 8,500 members that include professionals engaged in private or corporate practice, in government service, and in the academic community. AIPLA members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, trade secret, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property. Our mission includes helping establish and maintain fair and effective laws and policies that stimulate and reward invention while balancing the public’s interest in healthy competition, reasonable costs, and basic fairness.

AIPLA is pleased to provide our current thoughts below on the specific proposed questions put forward in the Request for Comments and will continue to study these issues.

1. Whether there is need for a small claims patent court.

Yes, AIPLA believes that there is such a need.

AIPLA envisions some potential constituencies for a small claims patent court to those claims that are limited in value and in which injunctive relief is not sought, and cases involving individual inventors, small businesses, or micro-entity plaintiffs that may not be able to afford the expense of traditional federal district court litigation. AIPLA believes certain cases would benefit from small claims treatment, providing a streamlined forum for the quick resolution of small value patent litigation.

Patent litigation is expensive—disproportionately so when comparatively small potential damages are at stake. Indeed, the primary cited evidence on the cost of patent litigation is AIPLA’s Report on the Economic Survey, which AIPLA conducts bi-annually. For cases

with less than \$1 million at stake, the median cost to litigate a patent infringement case was \$300,000 through claim construction in 2020 and \$675,000 through appeal. *See* 2021 Report on the Economic Survey, AIPLA, at 60 (September 2021). These figures have remained consistent over the past decade. *See id.* In other words, for small value cases, *successful* plaintiffs are confronted with paying 67.5% or more of their potential recovery in attorneys' fees to litigate through final decision. For cases with potential damages between \$1 million and \$10 million, the median costs double: \$650,000 to litigate through claim construction and \$1 million to litigate through appeal. *Id.* And if one or more petitions for *inter partes* review (“IPR”) are filed, and they frequently are, additional costs are imposed—median costs for defending an IPR through appeal range from \$450,000 to \$650,000, depending on the technology involved. In sum, the median cost to litigate small to moderate value patent infringement cases may substantially exceed the potential damages recovery, particularly where an IPR is filed. These costs constitute a potentially prohibitive barrier to entry to the courthouse for small value cases.

AIPLA believes there is considerable value in a small claims patent court, where small value cases could be litigated with substantially streamlined processes and bench trials to limit costs. AIPLA, therefore, supports initiating a patent small claims pilot program to study the need and adjust the procedure as appropriate.

2. The policy and practical considerations in establishing a small claims patent court.

The success of the patent system depends in part on three basic elements: (1) prompt and effective issuance of patent rights for genuinely new, useful and nonobvious inventions; (2) an effective system of enforcing those rights to exclude unauthorized using, making, selling, offering, or importing those inventions; and (3) the timely expiration of these rights giving the public full possession of the disclosed inventions in the public domain.

For a patent system to realize its potential, these elements must be available to all inventions and all inventors, large and small. Costs will always be a challenge, and the substantial cost of enforcement is well documented. Whatever the cost difficulties of patent enforcement, attorneys' fees and costs can be overwhelming relative to the small value case, rendering a claimant's patent rights ineffective. Similarly, defense costs of even a small value case can be prohibitive for accused infringers. When litigation costs, rather than the merits of a claim, are determinative, the legal system fails its essential purposes.

AIPLA believes that, provided certain critical elements are included, the U.S. patent system could be strengthened by creating a small claims proceeding that would improve the enforcement alternatives where the cost of litigation is disproportionate to the value of the claim.

AIPLA addresses the relevant practical considerations in response to Question 6, below.

- 3. The institutional placement, structure, and internal organization of a potential small claims patent court, including whether it should be established within the Article III federal courts, as or within an Article I court, or as an administrative tribunal.**
- 4. The selection, appointment, management, and oversight of officials who preside over proceedings in a potential small claims patent court.**

Questions 3 and 4 are addressed together below.

AIPLA recommends that the small claims patent court proceed before U.S. District Court Magistrate Judges; or in the alternative, consideration be given to creating a new, specialized administrative court.

Magistrate Judges are demonstrably capable of adjudicating patent infringement claims. They regularly do so and could accommodate the potential volume of small value cases. Charging them with the small claims process would build (and build on) experience, expertise, and capacity in the district courts. Administrating small patent claims at the district court level would be simpler than establishing a new specialized, administrative court, as small claimants could opt-in at or after filing. Although, as set forth in response to Question 6, below, AIPLA recommends that a small value claims process rely on written submissions rather than live testimony at trial. To the extent that live testimony or hearings are necessary, they could be held remotely, using videoconference links already in use by district courts, reducing or avoiding travel costs and venue disputes. Magistrate Judges, unlike administrative agencies, such as the USPTO, are experienced with managing first instance litigation through adjudication and damages.

AIPLA recognizes that there are also disadvantages to committing the small claims process to existing District Court Magistrate Judges. Given Magistrate Judges' current practice in overseeing traditional federal litigation, absent specific statutory guidance there may not be significant streamlining of small claims cases in practice. Moreover, patent small claims cases would have to compete with other pressing matters on the Magistrate Judges' dockets, including criminal matters. In addition, there could be variation in implementation across districts, potentially leading to forum selection problems akin to those that affect current patent litigation. And, depending on volume, implementation at the district court level also could necessitate hiring additional Magistrate Judges. Nonetheless, there are equal or greater challenges to establishing a new specialized, administrative court. On balance, AIPLA believes that committing a small claims process to Magistrate Judges is likely the most efficient approach. Alternatively, consideration should be given to creating a new, specialized administrative court.

- 5. The subject-matter jurisdiction of a potential small claim patent court, whether participation in such proceedings would be mandatory or voluntary, and whether parties can remove cases to another administrative tribunal or federal court.**

The Seventh Amendment to the U.S. Constitution provides the right to a jury trial for patent infringement cases. Therefore, participation should be voluntary for both parties (*i.e.*, both parties would waive the right to a jury trial for the adjudicated claims). The District Courts' have subject matter jurisdiction over all patent infringement claims. Personal jurisdiction and

venue would have to be established, by both parties opting in, waiving jury trial of all issues, and consenting to any other prerequisites, such as the damages cap discussed in response to Question 7. Further, AIPLA believes that parties opting in should waive their right to file IPRs, to expedite cost-effective disposition of the case.

6. The procedures and rules of practice for a potential small claims patent court, including, as relevant, pleadings, discovery, and alternative dispute resolution.

AIPLA believes that the success of a small claims patent court likely would rise and fall with the streamlining or elimination of traditional discovery, motions, and trial practice. If procedures are not sufficiently streamlined, costs will remain prohibitively high and fail to incentivize participation by either plaintiffs or defendants. AIPLA proposes that the small-claims process center on a low-cost, efficient, and streamlined process, from complaint to decision, with standardized, scheduled procedures leading to final written submissions in lieu of trial, and a final determination to be issued by a set deadline.

One critical consideration is discovery. Discovery often can consume a third or more of the parties' litigation resources. Any small claims procedure must substantially limit the scope/cost of and streamline the discovery process, while providing the essential information needed to resolve the dispute fairly and efficiently.

For written discovery and other documentary evidence, AIPLA recommends eliminating bespoke discovery requests and replacing them with a set of limited standard discovery requirements sufficient to establish the critical facts relating to infringement, validity, and damages, provided on a set schedule that reflects the extent to which a party bears the burden of proof or must respond to the party that does.

For testimonial evidence, the parties should designate not more than a single party witness on each of infringement, validity, and damages, whose proffered opening testimony should be presented in writing or other recorded form, and subsequently made available for deposition, by scheduled deadlines. Additional information may be requested only for good cause shown. Deposition testimony should be intended to be used in lieu of live testimony at trial.

AIPLA recommends eliminating expert discovery, including expert reports and depositions. AIPLA recommends replacing technical expert discovery with an independent technical advisor appointed by the Court and agreed to by both parties (but without ex parte contact with the Court). The technical advisor would be paid for jointly by the parties, similar to procedures used by many district courts. A national bench of technical advisors might be permanent staff or contractors, specializing in specific technologies and industries.

AIPLA also recommends limiting, or eliminating, all pre-trial motions practice, streamlining the process from complaint to final written submissions, after discovery is provided and any disputes regarding that discovery are resolved. This includes eliminating a separate claim construction hearing, which would instead be consolidated with the final submissions.

After discovery and before filing final written submissions, AIPLA recommends mandatory, time-limited mediation before a neutral, without assessing costs to the parties. This

mediation could be before another Magistrate or District Judge in the district or volunteer attorney.

AIPLA recommends simultaneous final written submissions by the parties on the issues on which they bear the burden, with one response brief. Such briefing would include any claim construction issues to be decided by the Court. The briefing should be limited by word-count on a per-asserted-claim basis. Testimony should be presented, to the extent possible, in written or other recorded form, as deposition testimony was intended to be used in lieu of live trial testimony. Optionally, the parties could submit proposed findings of fact and conclusions of law at the conclusion of the briefing process.

AIPLA then recommends a time limit for the issuance of the final determination, similar to the procedures of the International Trade Commission and PTAB. Sixty or 90 days likely would provide sufficient time for the Magistrate Judge to consider the submissions and draft an opinion, while providing the prompt resolution required to incentivize participation by the parties and contain costs.

AIPLA recommends that a schedule be issued specifying all intermediate deadlines and a final determination date, promptly after the parties have agreed to opt into in the small-claims process. A strict time limit is essential to eliminate disputes and contain costs, as delay necessarily increases costs to both parties. The certainty of a quick judgment, far quicker than trial in federal district court, will incentivize plaintiffs to file their cases with the new court.

7. The remedies that a potential small claims patent court would be able to provide.

AIPLA believes that damages should be limited to money damages in the form of a lump sum payment, capped at an amount both high and low enough to incentivize both plaintiffs and defendants, respectively, to participate. AIPLA believes a damages cap around \$1 to \$2 million could achieve this goal. The damages cap could increase over time with inflation. Recovery of attorneys' fees and costs should not be available, with the exception of a case which the Court finds on its own motion to have been frivolous or to have been filed or prosecuted in bad faith.

Injunctive relief should also not be available. While AIPLA recognizes that claimants may desire injunctive relief, particularly small business and micro-entities seeking to enter new markets against much larger competitors as one example, the threat of injunctive relief would strongly disincentive defendant-participation and substantially increase costs to both parties. The threat of injunction would likely perpetuate some of the problems the court is designed to remedy, disincentivizing larger and better-funded defendants from opting in. Moreover, injunctive relief would be inconsistent with the jurisdictional limitations on damages proposed above. Adjudicated infringers who continue to infringe would be liable for additional money damages for future infringement based on preclusion principles, as set forth in response to Question 8, below.

8. The legal effect of decisions of a potential small claims patent court.

The final determination of a small claims patent court should be final and non-appealable. The ability to appeal, and particularly re-litigate, would reduce, or obviate the cost

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savings. To this end, AIPLA recommends eliminating or substantially limiting judicial review to circumstances under which relief from judgment could be sought under Fed.R.Civ.P. 60. The preclusive effect should be limited to the parties and accused products subject to the final determination, and not be binding against third parties, including downstream customers. Thus, for example, a determination that the patent is not invalid and is infringed would be binding only on the named defendant but not on third parties. Similarly, a determination of non-infringement or that the patent is invalid, would preclude the patentee from asserting the patent claims against the same product but would not otherwise preclude suit against a third party who is not in privity with the defendant. Limited preclusive effect would incentivize participation by both plaintiffs and defendants, and prevent determinations reached under these abbreviated proceedings from being used against third parties who have not waived their jury trial right or right to full discovery or to a full presentation of the evidence. This same preclusive effect is provided in Section 1507(a) of the CASE Act for the Copyright Claims Board.

9. Opportunities for administrative and/or judicial review of small claims patent court decisions.

AIPLA believes that the availability of any form of judicial review—whether at the district court (review of a Magistrate Judge’s Report and Recommendation) or Federal Circuit level—should be balanced against the goals of maintaining a streamlined and cost-effective adjudicative process and minimizing the burden on any reviewing body. To this end, AIPLA recommends eliminating or substantially limiting judicial review to circumstances under which relief from judgment could be sought under Fed.R.Civ.P. 60.

We appreciate the opportunity to provide these comments and would be happy to further discuss our views on these issues. If you have any questions or would like us to clarify any of these points, please let us know.

Sincerely,



Patrick J. Coyne
President
American Intellectual Property Law Association