

From: ACUS Information nfo@acus.gov [REDACTED]
Subject: FW: sma c a ms patent court
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To: [REDACTED]

From: David Boundy [REDACTED]
Sent: Thursday, September 1, 2022 10:24 PM
To: ACUS Information <info@acus.gov>
Subject: small claims patent court

My comments attached. Thanks for the opportunity to comment.

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DAVID BOUNDY



September 1, 2022

Via Email info@acus.gov

Kazia Nowacki
Small Claims Patent Court Comments
Administrative Conference of the United States
Suite 706 South
1120 20th Street NW
Washington, DC 20036

Dear ACUS:

A small claims patent court is worth consideration. For small companies and individual inventors as plaintiff, a lower-cost forum could be valuable. At the same time, there are many devils in many details.

I am a patent attorney in Boston. People tell me I am regarded as the leading non-academic expert at the intersection of administrative law and patent law. In 2018, I was the invited panel moderator for a discussion of *Chevron* at the Federal Circuit Judicial Conference.

Initially, I question whether the effort spent on a small claims patent court will divert Congressional attention from more meaningful problems. I believe that the two crucial problems in today's patent system are: (a) the uncertainty generated by the Supreme Court's decisions in *Alice Corp. Pty. Ltd. v. CLS Bank Intern.*, 134 S. Ct. 2347 (2014) and *Mayo Collaborative v. Prometheus Labs.*, 566 U.S. 66 (2012) and (b) the limitations on infringement remedies effected by the courts, particularly *eBay Inc. v MercExchange, LLC*, 547 U.S. 388 (2006). Together, these decisions have given rise to the problem of predatory "efficient infringement." 20 years ago, infringement damages and injunctions were a substantially greater cost than the cost of a freely-negated license. But over the last decade, the courts have shown large infringers that there's no incentive to license or settle—it's more efficient to infringe now, and take a chance on damages that are no higher than would be negotiated for an arms' length license. Predatory efficient infringement is particularly a business model for the big tech companies. I suggest that ACUS should carefully consider whether Congressional attention should be diverted from these two problems.

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Article III or PTAB? A small claims patent court should be an Article III court of limited jurisdiction, not an administrative tribunal.

A small claims court should *not* be lodged with the PTAB. The PTAB's performance to date suggests some structural influence that makes it impossible for the PTAB to observe the most basic principles of administrative law. I have written multiple articles on this, which you can find at my SSRN page, <http://ssrn.com/author=2936470>. For example, despite several decisions from the Federal Circuit holding that the PTAB may not bypass the rulemaking provisions of the APA via "precedential decisions," *Facebook, Inc. v. Windy City Innovations, LLC*, 973 F. 3d 1321 (Fed. Cir. 2020), *Aqua Prods., Inc. v. Matal*, 872 F.3d 1290 (Fed. Cir. 2017) (*en banc*), the PTAB continues to do exactly that. (I wrote the *amicus* brief that forms the heart of the court's discussion of the issue in *Windy City*, <https://ssrn.com/abstract=3687493>) In a recent rulemaking, the PTAB made a number of false statements, each of which had the effect of allowing the PTAB to avoid cost-benefit analyses required by the Paperwork Reduction Act, Regulatory Flexibility Act, or several executive orders.

<https://ssrn.com/abstract=3326827> A two-part article explained wholesale shortcircuiting of statutory rulemaking requirements when the PTO implemented Arthrex director review. <https://www.ipwatchdog.com/2021/07/22/uspto-implementation-arthrex-questions-answers-administrative-law-part-dismissal-subregulatory-rulemaking/id=135896> <https://www.ipwatchdog.com/2021/07/26/uspto-implementation-arthrex-questions-administrative-law-part-ii-bigger-picture-reform/id=135965> The PTO and PTAB regularly "reparaphrase" public comment letters in order to avoid fairly answering issues. Other comments are simply ignored. The PTAB's compensation scheme is based on "decisional units," and incentivizes the most decisions for the least work. The PTO as a whole is funded entirely by user fees, and senior management's annual performance plans (which I obtained by FOIA) emphasize fee income over fair implementation of the law, even for purely adjudicatory activities. I have not done a concentrated study of the PTAB's adjudication decisions to evaluate decision quality. But I have looked carefully at the PTO's and PTAB's rulemaking, and there, brazen cheating to evade work and to enhance PTO revenues is pervasive.

If small claims patent court jurisdiction is added to the PTAB, the obvious conflict of interest should not be replicated. Fees should *not* be set to cover costs—that results in improper incentives. Taxpayer subsidy is the only way to ensure that adjudicators "hold the balance nice, clear and true." (This should be corrected for today's IPRs, and PGRs as well.)

"Small" in what dimension? Size of damages, size of entity? The Senate letter asks you go consider the needs of "small and medium sized enterprises and innovative startups" and "independent inventors and small businesses." That suggests that the jurisdictional limit should be based on size of the plaintiff entity, not the amount of damages. In predatory "efficient infringement" cases, damages could be quite large.

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Funding. The fee model should **not** track the USPTO's current IPR/PGR model of the Patent Trial and Appeal Board. The PTAB is a separate "business unit" within the USPTO. Many of the administrative patent judges who decide IPR/PGR proceedings derive up to 100% of their salary from IPR/PGR fees, all of which are paid by patent challengers. Like any other "business unit," the PTAB and specific APJs have direct financial incentives to produce results that are favorable to the side of the dispute that pays their salaries, so there will be follow-on business next year. Further, unlike ALJs, APJs earn bonuses, and part of the bonus is contingent on decisions at institution phase. The conflicts of interest are apparent,¹ Members of the public have expressed concern that APJs are subject to financial temptations, and those temptations ought not be replicated. If the small claims patent court is lodged in the executive branch, the judges should be ALJs operating under the conflict-of-interest avoidance laws, including 5 C.F.R. § 930.206 (no performance rating or bonus for ALJs) and § 930.211, not the rules that govern retention and compensation of today's APJs.

Motions. To control costs, motions in small claims patent court would likely have to be only by leave of court. Free-fire-zone motions practice is one of the cost drivers in today's patent litigation.

Discovery. Any plan for a small claims patent court must recognize that discovery is often essential to just results, and will be essential if the tribunal is to attract any more than a handful of cases per year. Often, internal details of an accused product cannot be known from the product and publicly-available information. Therefore, discovery into the internal engineering and operational details must be permitted, and schedules must accommodate discovery and the concomitant disputes. In most modern technology areas, in an infringement case, a plaintiff often starts with only educated inference of the internal operation of the accused product, and discovery is the only way to know for sure whether infringement is actually occurring. (This contrasts to current *Inter Partes* Review and Post-Grant Review, where all the relevant information is already public, and the IPR/PGR petitioner has a great deal of time to locate it before filing.) Discovery is a necessary evil if a small claims patent court is to be a feasible forum and achieve its desired ends for anything other than the simplest technologies. While it's possible that there are enough cases in those simple technologies that a small claims court could have a reasonable docket, my intuition is that there isn't, but I don't have data to support that intuition.

Hearings/trials. Live trial will be essential. It will have to be far more substantial than today's one hour hearings for IPRs and PGRs. An infringement trial will have to be

¹ See *New Vision Gaming v. SG Gaming*, No. 20-1399, Opening Brief, Paper No. 29 (Fed. Cir. Jun. 30, 2020); Ron D. Katzenbach, *The Pecuniary Interests of PTAB Judges - Empirical Analysis Relating Bonus Awards to Decisions in AIA Trials*, <https://ssrn.com/abstract=3871108> (July 5, 2021).

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fundamentally unlike today's IPR/PGR trial: in today's IPR/PGR trials, the only fact issues in dispute are resolution of ambiguity in documents. In contrast, in an infringement trial, the disputed issues of fact will go to technological detail of the accused device, and damages, so the rules must permit adequate time for the fact-finder to make adequate inquiry.

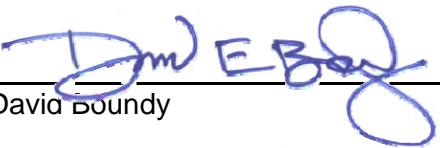
Invalidity counterclaims. Out of simple fairness, it seems inevitable that the small claims patent court would have to have jurisdiction to consider invalidity. That would mean that a patent could face triple jeopardy: a district court proceeding, an IPR or PGR, and an invalidity defense in small claims. How would that be prevented while giving accused infringers fair opportunity to defend?

Injunctions. The small claims court must have jurisdiction to award injunctions. The goal of the small claims court is early termination, and injunctions drive settlement like nothing else. All damages experts I've worked with have noted that the reference point for damages has to be the value of an injunction. It's really not possible to accurately establish damages if injunctions are off the table.

Damages limit Capping the jurisdiction of the tribunal by damages is probably counterproductive. Procedural counterbalance to the "big guy little guy" imbalance of many of today's cases is most needed for "efficient infringement" cases where damages are large and the vulnerability of a patent owner to "attrition litigation" is also large.

Appealability. Some of your comment letters suggested *de novo* review in district court. That's entirely counterproductive if the goal is low cost resolution to disputes. On the other hand, limits on discovery may result in a less-than-full-and-fair proceeding. I don't have a recommendation to resolve that tension.

Estoppel and issue preclusion. What estoppel or preclusion should apply to a patent owner that loses a small claims proceeding? This is a truly difficult issue. In any abbreviated process, the patent owner's opportunity for discovery and full presentation at trial will be remarkably attenuated relative to an Article III civil action. If a patent owner loses a case in small claims patent court, should he/she have another bite at the apple with Article III district court discovery? What if the limited discovery permitted under small claims rules turns up evidence that suggests that fair resolution is only possible with full Article III district court discovery? The right balance is not clear to me. Perhaps the right answer is that a patent owner should have the right to convert a small claims proceeding to an Article III civil action at any time, with full relation back to the small claims filing date.



David Boundy

September 1, 2022

Date