Subject: Small Claims Patent Court Comments
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From: Jeff Hardin
To: ACUS Information
CC: Kazia Nowacki
Attachments: Jeff Hardin_Comment_ACUS_Small_Claims_Patent_Court_87_FR_26183.pdf

Dear Administrative Conference,

Please find my comments pursuant to the ACUS Small Claims Patent Court study, 87 FR 26183, attached to this email.

Best,
Jeff Hardin

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September 2, 2022

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Re: Small Claims Patent Court Study; Comment Request (87 FR 26183)

Dear Administrative Conference:

As an inventor-stakeholder having been granted ten U.S. patents and as a small business owner, I am grateful for the opportunity to provide comments pursuant to the *Small Claims Patent Court Study*, 87 FR 26183. The commentary below is my own and reflects my personal views; it does not reflect the views of any entity with which I have or have had a professional relationship.

Additionally, my comments are informed in part by my involvement with the Study of Underrepresented Classes Chasing Engineering and Science Success Act of 2018 ("SUCCESS Act"), *Pub. L. No. 115-273, 132 Stat. 4158 (2018)* and reflect my views on the origin and purpose of the various legislative provisions that Congress enacted into law through the Leahy-Smith America Invents Act ("AIA"), *Pub. L. No. 112-29, 125 Stat. 284 (2011)*.

For some background, I will first elaborate on my involvement with inventors, which will shed some light on today's patent system for small and independent patent holders. I will then conclude by speaking into the small claims patent court study topics mentioned in the Federal Register notice, using this background as a guide.

Inventors Have Spoken: Post-grant Enforcement Concerns Halt Participation in the Patent System and Prevent Progress of the Useful Arts and Sciences

In May 2019, my family traveled to Alexandria, VA to assist the USPTO by providing commentary in public hearings pursuant to the SUCCESS Act, which required the Director of the USPTO to perform a study and to provide to Congress a report on that study, including providing legislative recommendations to increase the participation of women, minorities, and veterans in the patent system and entrepreneurial activities. *See 84 FR 17809.*

My wife, a minority female, and I provided both oral testimony[1] and written testimony[2], along with seven helpful legislative recommendations. Moreover, upon inspection of all the SUCCESS Act study comments the USPTO received, the voice of the inventor remained clear—**over 75% of the underrepresented inventor-stakeholders who provided public comments[3] in the SUCCESS Act hearings expressed that *post-grant***

[1] Recording of oral testimony at https://www.youtube.com/watch?v=2fF7d9i0Km4
[2] Written testimony available at https://www.uspto.gov/sites/default/files/documents/SUCCESSAct-Hardin-Duran.pdf
[3] The received public comments provided during the SUCCESS Act study are available at https://www.uspto.gov/successact

enforcement concerns are a barrier to participation **in today's patent system**[4]. The reason is obvious—*the ability to protect her invention is the sole reason why an inventor seeks a patent in the first place*, and failing that ability by a patent grant, pursuing the U.S. patent bargain becomes futile. For Congress to help underrepresented inventors, *both dimensions*—the front-end initial pursuit, and the back-end ability to enforce—must work in tandem. Moreover, the back-end dimension remains first and foremost, because ***without the ability to enforce the patent grant, the front-end pursuit becomes moot***.[5] Below are just a few comments provided by underrepresented inventors during the SUCCESS Act study carrying these sentiments:

> *The real disparity ... is one of financial resources and not of color or sex ... I don't expect to participate in the US patent system any further unless this financial disparity is addressed. The USPTO should eliminate the IPR process for all patents initially filed by a small entity, a micro entity, and for inventor owned and controlled companies.*
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> Tesia Thomas, minority female inventor[6]

> *[O]nce the inventor obtains their patent, the US patent system turns against the minority, women, and economically disadvantaged inventor. With the PTAB finding most of the patents it reviews invalid, the balance is tipped against the disadvantaged.*
>
> Richard Baker, licensing executive, patent agent, inventor[7]

> *The USPTO should not encourage more women, minorities, and veterans to file for patents, or its effect will be like a trap, or even a fraud, ... after spending so much money obtaining a patent ... [it] can be easily infringed or even invalidated.*
>
> Ronald Zhang, minority inventor[8]

Who is Underrepresented Today: The Entire Class of Independent Inventors & Small Businesses

When Congress passed the Leahy-Smith America Invents Act ("AIA")[9], fresh on its mind was the threat of patent trolls—"entities that vacuum up patents by the hundreds or thousands and whose only innovations occur in the courtroom" and that "hurt small businesses and independent inventors before they even have a chance to get off the ground."[10] Accordingly, the AIA's sense of Congress puts emphasis on "protecting the rights of small businesses and inventors from predatory behavior"[11]. However, ***the unintended consequences of the AIA enabled a new type of troll—the efficient infringer[12]—that exhibits its own predatory behavior on inventors***. This "reverse patent

[4] US Inventor, Article *SUCCESS ACT – Selected Public Comments*. https://usinventor.org/success-act-uspto-report/
[5] IPWatchdog published an article I authored on this very topic, available at https://www.ipwatchdog.com/2021/11/04/raimondo-takes-helm-council-inclusive-innovation-inventors-unresolved-ask/id=139535/
[6] Thomas, SUCCESS Act comments. https://www.uspto.gov/sites/default/files/documents/SUCCESSAct-Thomas.pdf
[7] Baker, SUCCESS Act comments. https://www.uspto.gov/sites/default/files/documents/SUCCESSAct-NEIP.pdf
[8] Zhang, SUCCESS Act comments. https://www.uspto.gov/sites/default/files/documents/SUCCESSAct-Zhang.pdf
[9] Leahy-Smith America Invents Act, *Pub. L. No. 112-29, 125 Stat. 284 (2011)*
[10] H.R. 1249, Congressional Record Vol. 157, No. 91. https://www.congress.gov/congressional-record/2011/06/23/house-section/article/H4480-1
[11] Sec. 30. Sense of Congress, Leahy-Smith America Invents Act, *Pub. L. No. 112-29, 125 Stat. 284 (2011)*
[12] https://www.ipwatchdog.com/2017/03/17/tech-ruling-class-stifles-innovation-efficient-infringement/id=79391/

troll", as House Representative Dan Bishop (NC-9) recently summarized it[13], does not create any innovation at all, but simply challenges valid and enforceable patents issued by the USPTO. Those patents are challenged at the same USPTO that issued them, in an administrative tribunal called the Patent Trial and Appeal Board ("PTAB"). In these post-grant challenges, small businesses and independent inventors struggle financially trying to defend their issued patents from being invalidated. Having a chance of licensing their technology and competing in the market is thwarted by such post-grant patent challenges.

The inventors who testified during the SUCCESS Act study recognize this and expressed that *inter partes* review ("IPR"), for example, a patent challenge procedure created by the AIA that occurs at the PTAB, **unintentionally stacked the deck against smaller entities, which not only includes women, minorities, and veterans, but includes *all independent inventors who seek patent protection*.**

> *Inventors are a minority class, and it is crucial that we concurrently increase the enforceability of those patents held by minorities of women, veterans or any other class, but mostly the patents held by this minority of people called independent inventors. Patents have become liabilities for independent inventors thanks to the PTAB and lack of strong enforcement in court. If the recommended legislation does not include increased protection of patents, we will end up destroying the lives of the very individuals we intend to help.*
>
> Kip Azzoni Doyle, female inventor and author on American innovation[14]

The PTAB Administrative Tribunal is Not Conducive for Encouraging Innovation

IPRs at the PTAB were purported to Congress as being a faster and cheaper alternative to litigation[15], but the question is, faster and cheaper for whom? It is not uncommon for patent-infringement litigation in district court to be stayed for two or three years, pending the disposition of IPRs challenging the asserted patents and any subsequent appeals to the Federal Circuit. This very thing defeats the purpose of IPRs serving as a substitute for litigation; rather, they are in addition to it, as retired U.S. Court of Appeals for the Federal Circuit Chief Judge Paul Michel recently expressed—IPRs are so ubiquitous that it's now almost malpractice for a big business *not* to file an IPR[16]. In fact, of the more than 12,000 IPR petitions that have been filed between September 16, 2012 and November 30, 2020, less than 2% comprise small and medium-sized entities against nonpracticing entities, or NPEs. The vast majority of petitions are filed by large operating companies, usually against a smaller competitor.[17] Furthermore, new business models have arisen, such as those whereby surrogate companies challenge patents on behalf of large subscribing corporations without having time bar limitations.[18]

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[13] *The Patent Trial and Appeal Board After 10 Years: Impact on Innovation and Small Businesses*, House Committee on the Judiciary Hearing, June 23, 2022 at https://www.youtube.com/watch?v=JHVr_8dAgnE at 1:12:12. A concise summary of the discussion in this hearing can be viewed at https://www.youtube.com/watch?v=Fr_IzvJp_t8.

[14] Doyle, SUCCESS Act comments. https://www.uspto.gov/sites/default/files/documents/SUCCESSAct-Doyle.pdf. Doyle also recently authored a book entitled *Blood in the Water: America's Assault on Innovation*, detailing her dreadful first-hand experience with today's patent system. https://www.amazon.com/Blood-Water-Americas-Assault-Innovation/dp/B09LGTTXL5/

[15] H.R. 1249, Congressional Record Vol. 157, No. 91. https://www.congress.gov/congressional-record/2011/06/23/house-section/article/H4480-1

[16] https://www.ipwatchdog.com/2021/04/22/ptab-masters-day-four-judge-michel-facts-change-views-change/id=132637/

[17] Malone, *PTAB Trials Disproportionately Harm Small Businesses*. https://www.law360.com/articles/1348182/ptab-trials-disproportionately-harm-small-businesses

[18] Hoyle, *Is Unified Patents a War Profiteer*? https://www.ipwatchdog.com/2020/03/31/unified-patents-war-profiteer/id=120267/

In addition to the foregoing, with i) an estimated mean cost of $450,000 to undergo a single post-grant challenge[19] and ii) the fact that no monetary recovery is provided to patentees lucky enough to survive a review at the PTAB (leaving an inventor responsible for attorneys' fees in a PTAB challenge with no upside), contingency representation for inventors is a very unlikely scenario. Furthermore, the option for possible litigation funding often doubles or triples legal fees and expenses of an enforcement campaign, so if an inventor is actually lucky enough to receive a license settlement or recovery, the inventor is likely to never see that recovery, as it disappears to pay off the attorneys and the funders, leaving the inventor in the same financial position as she started. The only thing she has to show for it is "principle" and lost time, and therefore, even what may be a "victory" provides no financial incentive for inventors to continue any innovation pursuit.

The outlook for today's inventor and small business seeking patent protection is bleak. With this backdrop, this study by the ACUS might serve to find the right fit so that these inventors can resolve their patent disputes, helping correct the problem of enforcing and defending patents that inventors face.

Comments on Specific Topics

In the Federal Register notice *Small Claims Patent Court Study*, 87 FR 26183, the ACUS is seeking feedback on specific topics, which I address below.

1. *Whether there is need for a small claims patent court.*
2. *The policy and practical considerations in establishing a small claims patent court.*

Rather than create a patent court for small claims, US innovation policy should focus on enabling *small entities*. When it comes to innovation, small entities take the lead, and what they bring are their big ideas. Unlike large corporations who are constrained by bureaucracy and who's primary objective is to keep the status quo, small entities are the disruptors. As the saying goes, necessity is the mother of all invention, and large corporations are not in need to disrupt and innovate. For example, the operating systems that run today's world were created, not in a corporate headquarters, but in garages by individuals. Their claims were big, yet the entities themselves were small. Policy should focus on enabling these creators to get a shot at climbing the ladder—a ladder that today's big business has pulled.

How should a small entity be defined?

Small entity is outlined in 37 CFR § 1.27 and 13 CFR § 121.802; however, these rules do not provide a fitting definition for small entity because, as soon as an inventor transfers some rights to a party who does not qualify as a small entity, that inventor no longer qualifies as a small entity. This is a problem because,

[19] *2017 AIPLA Report of the Economic Survey*. https://www.aipla.org/detail/journal-issue/economic-survey-2017

as seen in the example above with litigation funding, a license settlement provides no guarantee that the inventor will ever see any recovery, so, even if the inventor has transferred some rights of her invention, it is very likely she is in no better financial position than when she started. Thus, to quality as a small entity, the individual or business owned by the individual should have no more than 500 employees, consistent with 13 CFR § 121.802(a), and nothing more.

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.*

As Justice Gorsuch explained in his dissenting opinion in *Oil States*[20], due process of law and separation of powers were ignored by the creation of the AIA and its PTAB administrative tribunal in pursuit of expediency. This administrative tribunal has been disastrous for patent holders, as John M. Whealan, who served as Counsel to the Senate Judiciary Committee and advised on legislation that became the AIA, testified to the U.S. House Subcommittee on Courts, Intellectual Property, and the Internet[21]:

> *IPRs have had a profound effect on the patent system. [They] share many of the attributes as were feared of PGR second window, including inability to quiet title and multiple and serial petitions. IPRs have devalued every single U.S. patent. Patents are supposed to be presumed valid. They are not before the PTAB. Invalidity must be proven by clear and convincing evidence. Not at the PTAB. The numbers confirm this. There are over 1,400 filed each year—that's 3.5 times as many as the USPTO estimated to Congress. IPR petitioners fare much better than patentees, given IPRs are instituted over 60% of the time, and in final decisions, some claims are invalidated 80% of the time.*
>
> *… But laws can have unexpected and unintended consequences.*[22]

Learning from this experiment, the proper court establishment for small entities resides in Article III federal court, and the officials who preside over these proceedings would be the same Federal District Court judges that are selected and appointed today. The best solution would be for the Federal Rules of Civil Procedure to establish small entity rules.

One rule that would be helpful for small entities is establishing venue. For example, due to the Supreme Court decision in *TC Heartland*, the scales were tipped in favor of infringers, as plaintiffs now must traverse the country to an infringer's home district in its state of incorporation. To spur and enable innovation, and so as to not enable forum shopping, small entities should be able to defend their rights in districts where

[20] *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*—a case which sought to answer whether *inter partes* review was a violation of Article III—available at https://www.supremecourt.gov/opinions/17pdf/16-712_87ad.pdf
[21] Hearing: *The Patent Trial and Appeal Board & the Appointments Clause.* https://judiciary.house.gov/calendar/eventsingle.aspx?EventID=2249
[22] *Id*. (Whealan, opening statement at 1:11:27.)

they performed their research, consistent with S.2733 of the 114th Congress[23], or in a courthouse that is closest to their residence.

5. *The subject-matter jurisdiction of a potential small claims 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.*

   If the small entity rules establish a patent holder as a small entity, any post-grant challenge at the PTAB should be optional. Once the PTAB becomes a faster, cheaper, and fair alternative to district court litigation, small entities will opt for the PTAB.

6. *The procedures and rules of practice for a potential small claims patent court, including, as relevant, pleadings, discovery, and alternative dispute resolution.*
7. *The remedies that a potential small claims patent court would be able to provide.*

   The procedures and rules of practice would be the same as the Federal Rules of Civil Procedure, with the inclusion of rules for small entities.

   As for remedies, prior to 2006, a small entity enforcing her patent rights could obtain the true market value as remedy for infringement of her patent in a free market via injunction. However, the Supreme Court in *eBay v. MercExchange* created a new public interest test, requiring patent holders to have a market product with manufacturing and distribution power to replace the infringer, and if a patent holder does not have this, she cannot receive injunctive relief. The remedy is that she must take a mandatory license as determined by the court, rather than an injunctive relief solution that would create competition and spur innovation. The rules should be amended for small entities such that injunctions are the default remedy.

8. *The legal effect of decisions of a potential small claims patent court.*
9. *Opportunities for administrative and/or judicial review of small claims patent court decisions.*

   The legal effect of decisions should be the same as in Article III federal court.

   Judicial review should be the same as in Article III federal court.

[23] *"[A]ny civil action for patent infringement…may be brought [] in a judicial district…where an inventor named on the patent in suit conducted research or development that led to the application for the patent in suit."* See https://www.congress.gov/bill/114th-congress/senate-bill/2733/text

Conclusion

I encourage the ACUS to remember that the inventor is the source of innovation, as John M. Whealan reminds us[24]: "A critical voice seems to have been missing from the discussion: that of patent owners—the innovators who invested thousands of dollars and months of effort in obtaining patents from the USPTO only to be later told by the same USPTO that their patents are worthless. … [W]ithout the innovators, the inventors, and the patentees, none of us would be doing what we are today."

Thank you for your consideration, and I thank you for remembering the voice of the Inventor and the exclusive Right that is to be secured to her for her Discoveries.

Respectfully submitted,

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[24] *The Patent Trial and Appeal Board and the Appointments Clause: Implications of Recent Court Decisions*, House Subcommittee on Courts, Intellectual Property, and the Internet, https://docs.house.gov/meetings/JU/JU03/20191119/110260/HHRG-116-JU03-Wstate-WhealanJ-20191119.pdf