



# Small Claims Patent Court Consultative Group

## Public Meeting Minutes

August 3, 2022, 12:00 p.m. – 2:00 p.m. (ET)  
Virtual

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### Consultative Group Members Attending

- Susan Braden (Board of Directors, United Inventors Association; Former Chief Judge of the U.S. Court of Federal Claims)
- Jorge Contreras (University of Utah College of Law)
- Rochelle Dreyfuss (New York University School of Law)
- John Duffy (University of Virginia School of Law)
- Christian Helmers (Santa Clara University Leavey School of Business)
- Andrei Iancu (Irell & Manella LLP; Former Undersecretary of Commerce for IP and Director of the USPTO)
- Sapna Kumar (University of Houston Law Center)
- Brian Love (Santa Clara University School of Law)
- Alan Marco (Georgia Tech School of Public Policy; Former Chief Economist for the USPTO)
- Adam Mossoff (George Mason University Antonin Scalia Law School)
- Tejas Narechania (University of California Berkeley School of Law)
- Matthew Powers (Tensegrity Law Group LLP)
- John Riley (U.S. Copyright Office)
- Jeffrey Sears (Columbia University)
- Amy Semet (University of Buffalo School of Law)
- David Taylor (Southern Methodist University Dedman School of Law)

### ACUS Staff and Consultants Attending

- Andrew Fois, Chair
- Jeremy Graboyes, Director of Public and Interagency Programs
- Shawne McGibbon, General Counsel
- Kazia Nowacki, Staff Counsel
- Kali Murray, Project Consultant
- Arti Rai, Project Consultant

- Melissa Wasserman, Project Consultant
- Conrad Dryland, Attorney Advisor and Special Counsel to the Chair
- Matthew Gluth, Attorney Advisor
- Todd Rubin, Attorney Advisor
- Alexandra Sybo, Attorney Advisor
- Austin Brandenburg, Intern
- Allyson Cavaretta, Intern

#### Public Attendees

- Susan Jensen
- Milagros Montesino
- Eleni Roumel

#### **Meeting Opening**

The virtual meeting commenced at 12:00 p.m. ET on August 3, 2022. Chairman Fois thanked the consultative group members for volunteering their time to share their views and expertise with the Office of the Chairman of the Administrative Conference of the U.S. (ACUS) as part of an independent study for the U.S. Patent and Trademark Office (USPTO) regarding options for a potential small claims patent court.

In lieu of introductions, Ms. Nowacki directed attendees to the webpage for this study<sup>1</sup> and the meeting agenda, which list all consultative group members along with their titles and affiliations. Ms. Nowacki explained that, to promote transparency, ACUS posts the names, titles, and affiliations of all consultative group members on its website and that information about members of this consultative group will also appear in the final report submitted to USPTO. Ms. Nowacki noted that some members may have other affiliations that are relevant to the subject of this study. Members may, for example, be members of organizations that have weighed in on the issue of a small claims patent court or advise, advocate on behalf of, or represent an individual or organization with such an interest. In the interest of transparency, Ms. Nowacki asked that members let ACUS know about any relevant affiliations that were not listed on the study webpage or meeting agenda and stated that ACUS would update the webpage to reflect any additional information it received.

Ms. Nowacki then provided an overview of the study and its impetus, purpose, and methodology.

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<sup>1</sup> The webpage for this study and all related materials are available at <https://www.acus.gov/research-projects/us-patent-small-claims-court>.

## **Empirical Research**

Professor Rai provided an overview of how the ACUS research team intended to use existing datasets to better understand the nature and extent of barriers that patent owners face when attempting to enforce patent rights against infringement and how a small claims patent court might be designed to effectively address those barriers. She described the questions ACUS was attempting to answer empirically, including whether the patent rights of small entities are underenforced through federal court litigation and whether litigation costs prevent or dissuade patent owners from pursuing low-value claims against alleged infringers. Professor Rai also identified the existing datasets on which ACUS intended to rely to answer those questions.

Professor Rai, joined by Professor Wasserman, then asked consultative group members for input on what questions regarding barriers faced by patent owners can be addressed empirically and what empirical datasets should ACUS use to answer those questions.

Consultative group members agreed that the Professor Rai had identified the right set of questions to ask and the databases to answer them.

## **Jurisdiction**

Professor Rai asked whether the appropriate locus of inquiry is “small claims,” as the term “small claims patent court” would suggest, or rather “small entities,” as discussions about a potential small claims patent court often suggest. Professor Rai noted that USPTO rules already define “small entity” for fee purposes (37 C.F.R. § 1.27) and asked if that is an appropriate definition to use in this context. Mr. Graboyes pointed consultative group members to language in the July 27, 2021, letter from six senators to then-Commissioner for Patents Drew Hirshfeld requesting this study:

Patents are the life-blood of innovation and are critical to small and medium sized enterprises and innovative startups. This is particularly true for firms and enterprises owned by people of color, women, and other underrepresented groups. Unfortunately, the very enterprises that are most dependent on intellectual property protection often find their patents infringed by competitors, usually larger, well-funded firms. These startups then face a difficult choice: pursuing district court litigation, which can easily exceed a million dollars and take three to five years, or letting their patent be infringed; thereby allowing competitors to capture the market and destroy their economic viability.

This is a situation that no patent owner—especially independent inventors and small businesses—should face. . . . Therefore, we request that you engage and fund the Administrative Conference of the United States (ACUS) to study and recommend whether and how such a small claims tribunal could be established, including the proper forum (e.g., whether within an existing federal institution or independently), and what types of remedies such a forum could provide to small and medium-sized enterprises and independent inventors.<sup>2</sup>

Several consultative group members stated that the focus should be on small claims rather than small entities. Professor Contreras stated that the jurisdiction of most other small claims tribunals centers on the nature of the claim rather than the nature of the entity and cautioned that limiting a tribunal to small entities could create opportunities for gamesmanship.

Mr. Powers stated that one approach would be to focus on patent infringement suits that settle for a small amount (potentially as high as \$6–10 million) but “late” in litigation, on the assumption that such claims are likely to be high-quality claims in which the low value did not justify the costs of litigation. He stated there was unlikely to be a need for a small claims patent court for cases that settle early in the process (i.e., within 6 months), which are likelier to be low-quality claims. Professor Marco asked whether a claim that initially asserts a high dollar amount but ultimately settles for a low amount should be considered a “small claim.” And for cases in which there is a low judgment, what was the initial ask? Professor Love agreed that limiting jurisdiction by claims size seemed sensible but cautioned that because the initial claim is not reflected anywhere in the docket for a patent infringement suit, there is no way to identify the size of the initial claim in existing patent cases. Professor Contreras believed that the best measure of the value of a case is the amount of a final judgment, and that a dollar-based jurisdictional threshold would enable plaintiffs to self-select into the appropriate tribunal.

Professor Kumar suggested that an easier approach would be to cap the damages a small claims patent court could award, and parties would sort themselves accordingly. Professor Contreras stated a logical damages cap would be \$75,000, as that is the existing threshold for federal diversity jurisdiction. He noted that while federal courts automatically have jurisdiction to hear patent claims, this threshold applies to other types of case and seems appropriate. Professor Dreyfuss also liked the idea of a maximum damages provision. Professor Love noted that this is the approach used in the United Kingdom’s Intellectual Property Enterprise Court, which has a damages cap of £10,000.

Professor Narechania was concerned that selecting a number like \$75,000 would leave a donut hole, particularly if the threshold for a viable claim in traditional patent litigation is much higher—say, \$1 million. What would happen, for example, to a \$500,000 claim? Professor

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<sup>2</sup> The letter is available on ACUS’s website at <https://www.acus.gov/letter/senatorial-request-uspto-acus-study>.

Taylor agreed, stating that \$75,000 seems not only random but unreasonably low because almost no patent cases would fit into this category. He noted that empirical data and surveys would help shed light on a more appropriate number. Professor Taylor also suggested this approach might raise the possibility that plaintiffs would opt out (if allowed) if they discovered the value of their claim was higher than they initially believed.

Professor Contreras responded that \$500,000 claims would go to district court like they do now, noting that not every patent litigator charges millions of dollars to bring a case.

Judge Braden recommended, and Mr. Sears agreed, that a small claims patent court be available to “small businesses” as the Small Business Administration (SBA) defines that term (13 C.F.R. pt. 121) but limited to practicing entities to eliminate opportunities for gamesmanship. Professor Contreras noted that universities are small entities under USPTO rules but not small businesses under SBA rules. Judge Braden stated that although she had not given thought to excluding universities, universities seemed to be able to retain competent counsel to litigation. Mr. Sears agreed that there was no need for universities to have access to a small claims tribunal.

Professor Contreras stated that trying to filter plaintiffs by practicing status would be difficult. Universities, for example, do not practice. And patent assertion entities can come up with creative ways of characterizing themselves as practicing entities, as they have successfully done at the International Trade Commission (ITC), by arguing that patent licensing is a business.

Judge Braden responded that the benefit of using the SBA classification for claimants is that there is no category for “patent licensing.” She believed that the issue of nonpracticing entities could be solved if there were no monetary damages.

Professor Marco asked what problem a small claims patent court was intended to solve: equity concerns (“David vs. Goliath”), efficiency concerns, both, or something else. Professor Narechania agreed, asking whether inefficiencies are more related to claims size or entity size. His initial instinct was claims size and recommended that ACUS try to identify when claims are priced out of court. He noted, however, that it would be difficult to find data about claims that patent owners decide not to pursue.

Consultative group members discussed the July 27, 2021, letter from six senators that led to this study, which indicates that members of Congress are primarily concerned with equitable access to judicial enforcement of patent rights. Professor Murray noted that the biggest shift since the issue of a small claims patent court was last studied a decade ago is congressional interest in the equitable distribution of innovation. Judge Braden agreed.

Mr. Sears stated that in addition to a “David vs. Goliath” problem, there might also be a “Goliath vs. David” problem. Professor Love echoed this concern, stating that if the goal is to help small- and medium-sized entities, we should keep in mind that a small claims court might not only make it easier for such entities to sue but might also make them more attractive targets for litigation.

On the question of jurisdiction, Professor Love asked whether a small claims patent court would hear design patents or be limited to utility patents. He noted the new phenomenon of multi-defendant “counterfeiting” suits involving design patents in the Northern District of Illinois, which arguably fit the use case for a small claims court and are arguably abusive.

### **Institutional Placement and Constitutional Issues**

Judge Braden stated she no longer believed that the Court of Federal Claims is the appropriate location for a small claims patent proceeding and that the patent pilot program in federal district courts was ineffective. She added that she opposed using magistrates to decide small patent claims and that she did not believe inventors wanted or would support any replication of the Copyright Claims Board (CCB) in the patent context. She recommended instead that the ITC’s jurisdiction be expanded to include small claims patent claims beyond those now covered under section 337 of the Tariff Act. Professor Wasserman and Professor Kumar asked how the ITC could decide patent infringement cases without the section 337 trigger. Judge Braden responded that she supported broadening the ITC’s mission and restructuring it to serve as a Trade and Innovation Commission.

There followed a discussion of constitutional issues surrounding the placement of a small claims patent court in a non-Article-III tribunal. Several members stated that while the Supreme Court has held that an administrative process for challenging the validity of patents violates neither the Judicial Vesting Clause nor the Seventh Amendment, it has also suggested that patent infringement suits, at least those involving claims for monetary damages, are “suits at common law” within the meaning of the Seventh Amendment for which parties have a right to a jury trial.

Judge Braden pointed out that the Court of Federal Claims adjudicates patent infringement suits against the United States without juries. Professor Kumar and Professor Taylor both stated that the Court of Federal Claims is differently situated because it involves a limited waiver of sovereign immunity. Professor Kumar and Mr. Powers believed there was no way to draft legislation authorizing a non-Article-III institution to establish a compulsory small claims proceeding that would get passed or pass constitutional muster. Professor Contreras agreed that a wholesale revision of section 337 to convert the ITC into a domestic tribunal seems difficult to accomplish legislatively.

Professor Kumar stated that one possibility is a model like the bankruptcy courts with a right of appeal to federal district court. Professor Contreras added that general civil small claims court decisions are generally appealable to district court, which addresses the Seventh Amendment issue. Professor Kumar noted that ITC decisions are appealed directly to the Court of Appeals for the Federal Circuit rather than federal district court. Judge Braden suggested that ACUS confer with the Judicial Conference of the U.S., which she believed would oppose the creation of a new Article I or Article III court or adjunct forum based on the bankruptcy model.

Mr. Powers stated that expanding the jurisdiction of the ITC would have to involve a major statutory change, which seems impossible to do efficiently. He suggested that it would be easier to do something with the current system. District courts could set up their own rules. Professor Love noted that the Eastern District of Texas attempted to add a cheaper “Track B” in the mid-2010s. He recalled that it was virtually never used but might be an interesting model for ACUS to consider. Professor Contreras liked the suggestion of implementing a small claims proceeding through modifications to district court rules. Mr. Iancu echoed Mr. Powers, adding that there is no need to reinvent the wheel.

### **Mandatory vs. Voluntary Participation**

Most consultative group members agreed that, in light of the constitutional issues, participation in a small claims patent proceeding would need to be a voluntary. That is, both the plaintiff and defendant would need to consent to its use. Professor Taylor stated that the tribunal would need to be appealing to both plaintiffs and defendants, suggesting that plaintiffs otherwise might be incentivized to file claims in district courts that are viewed as especially favorable to them, such as the Western District and Eastern District of Texas. Mr. Powers and Mr. Iancu agreed.

Mr. Powers suggested various “carrots” could be put in place to convince plaintiffs and defendants to waive jury trial rights, for example by limiting claims and defenses, limiting inter partes review (IPR) by USPTO, or imposing severe limits on discovery.

Professor Taylor stated that he believed patent owners typically like juries while accused infringers do not. He suggested that the reduced costs of a small claims proceeding might attract patent owners and the elimination of juries might attract accused infringers. Mr. Iancu added that plaintiffs might also give up a right to damages or damages over a certain amount. He stated that the biggest complaint from small and independent inventors and startups is underenforceability of patent rights given the lack of time and money to pursue infringement litigation. Mr. Iancu suggested that a small claims proceeding need not wholly displace other potential forums (e.g., Western District of Texas, District of Delaware) but that it would need the right incentives to persuade parties to self-select into it.

Mr. Iancu suggested looking at the CCB. Mr. Powers cautioned that the CCB is not entirely apt given differences between patents and copyrights and the fact that copyright infringement claims are typically a lot lower than patent infringement claims.

Professor Contreras, Professor Love, and Professor Narechania emphasized it will be important to consider how a small claims patent proceeding within the district court would work alongside IPR. Professor Narechania asked whether and how being in a small claims proceeding would affect institution decisions. He hoped being in a small claims proceeding would not reduce the likelihood of IPR.

### **Remedies and Legal Effect of Decisions**

Several consultative group members noted that the question of remedies—monetary versus injunctive—is relevant to the constitutional calculus. Professor Duffy suggested that participation in a small claims proceeding could be made mandatory if the proceeding offered only equitable relief. A jury could then consider damages afterward. Professor Duffy also noted that a jury trial might not be bad if most of the proceeding could be handled quickly and inexpensively by a judge, without a jury, as a matter of law.

Professor Taylor asked what the value of an injunction would be. Professor Dreyfuss saw value in injunctive relief but was unsure you could “end run the jury” in the way Professor Duffy proposed. Judge Braden stated that the aim of a small claims patent proceeding should be equitable relief rather than monetary damages. What small inventors need, she said, is not monetary damages but rather the ability to license their inventions.

Professor Dreyfuss mentioned that while a small claims process can potentially lower the costs associated with infringement litigation, it may also result in a record and arguments that are not as fully developed. She asked whether such considerations should affect whether decisions rendered through a small claims process should have res judicata effect. Professor Rai noted that a decision granting injunctive relief would be less valuable if it does not have preclusive effect.

### **Qualitative Research**

Professor Helmers reiterated that it would be difficult to empirically measure the “latent demand” for litigation and asked how ACUS would get around this “observability” problem and quantitatively measure the expected change in litigation that would result from different damages caps, limits imposed on discovery, etc.

Professor Murray acknowledged the limits of quantitative research, especially given the lack of data reflecting the experience of women and people of color, and emphasized the importance to



this study of a qualitative instrument. As noted above, Professor Murray mentioned, and Judge Braden agreed, that the biggest shift since this issue was last studied in 2012 is congressional interest in the equitable distribution of innovation.

Professor Murray provided an overview of the qualitative methodology ACUS intends to use for this study. She stated that the research team intends to interview affected stakeholders, asking them how the patent system has changed over time and what they see as the problem facing patent owners and eliciting their views on different options for a small claims patent court. Professor Duffy suggested focusing qualitative questions on nonlegal questions, especially what kinds of incentives would encourage people to use or consent to using this forum.

### **Attorneys' Fees**

Throughout the meeting, some members raised the possibility that mechanisms related to representation could be used to address some of the barriers that patent owners face in infringement litigation. Professor Narechania and Professor Marco suggested looking at contingency fees. Professor Marco also suggested looking at litigation finance. Professor Helmers raised the possibility of cost recovery and fee shifting rules for a small claims court, which Professor Contreras supported. Professor Contreras suggested authorizing law school clinics to litigate cases in a small claims patent court.

### **Concluding Remarks**

Ms. Nowacki closed the meeting by thanking consultative group members for their input and inviting them to email her with any comments, questions, or additional information about the study or its quantitative and qualitative methods.