



# PATENT SMALL CLAIMS

## REPORT TO THE U.S. PATENT & TRADEMARK OFFICE

ADMINISTRATIVE CONFERENCE OF THE UNITED STATES  
OFFICE OF THE CHAIRMAN

*This report was prepared by the Office of the Chair of the Administrative Conference of the United States. It does not necessarily reflect the views of the Conference (including its Council, committees, or members).*

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## CONTRIBUTORS

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**Jeremy S. Graboyes**

Research Director  
Administrative Conference of the United States

**Arti K. Rai**

Elvin R. Latty Professor of Law  
Duke University School of Law

**Kali Murray**

Professor of Law  
Marquette University Law School

**Alexandra Sybo**

Attorney Advisor  
Administrative Conference of the United States

**Kazia Nowacki**

Attorney Advisor  
Administrative Conference of the United States

**Melissa F. Wasserman**

Charles Tilford McCormick Professor of Law  
The University of Texas at Austin School of Law

## ACKNOWLEDGEMENTS

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The Conference thanks the six Senators who requested this study and the United States Patent and Trademark Office for whom we prepared this report. The Conference also thanks all those who participated in this study, including public commenters, interviewees, and members of the consultative group.



ADMINISTRATIVE CONFERENCE OF THE UNITED STATES

March 31, 2023

Ms. Kathi Vidal  
Under Secretary of Commerce for Intellectual Property and Director  
U.S. Patent and Trademark Office  
600 Dulany Street  
Alexandria, VA 22314

Dear Director Vidal:

On behalf of the Office of the Chair of the Administrative Conference of the United States (ACUS), I am pleased to transmit to you this report, entitled *Patent Small Claims*.

As stated in the request that led to this report, patents are “the life-blood of innovation.” Small- and medium-sized enterprises and independent inventors depend on patent protections to participate and flourish in the innovation economy. This is particularly true for people of color, women, and other underrepresented groups. Unfortunately, the high costs and long duration of litigation prevent many people from protecting their patents from infringement by competitors.

In July 2021, a bipartisan group of six senators—Senator Thom Tillis, Senator Patrick Leahy, Senator Tom Cotton, Senator Mazie Hirono, Senator Christopher Coons, and Senator John Cornyn—requested that the U.S. Patent and Trademark Office fund ACUS to undertake a new study to examine one potential solution: the establishment of a tribunal to adjudicate patent small claims less expensively and more efficiently.

This report was prepared by the Office of the Chair of ACUS. The views expressed do not necessarily reflect those of the Council, members, or committees of ACUS. The principal authors were Research Director Jeremy Graboyes, Attorney Advisors Kazia Nowacki and Alexandra Sybo, and three leading scholars: Professors Kali Murray, Arti Rai, and Melissa Wasserman. We are grateful to the many people who shared their views and experiences with us, including more than 130 people who submitted written comments, more than 20 academic experts and legal practitioners who provided advice on the study’s methodology, and many stakeholders who sat for interviews.

Thank you for the opportunity to prepare this report.

Respectfully,

Andrew Fois  
Chair  
Administrative Conference of the United States

**VIA ELECTRONIC TRANSMISSION**

July 27, 2021

Mr. Drew Hirshfeld  
Commissioner for Patents  
Performing the functions and duties of the Under Secretary of Commerce for Intellectual  
Property and Director  
United States Patent and Trademark Office  
600 Dulany Street  
Alexandria, VA 22314

Dear Mr. Hirshfeld:

We write you today to request a study regarding the feasibility of establishing a small claims court for patent cases. In December 2012 then Director David Kappos issued a Federal Register notice requesting public comment on “whether the United States should develop a small claims proceeding for patent enforcement.”<sup>1</sup> Since Director Kappos’s tenure, the USPTO has not followed up on that notice. We believe it is warranted to refocus on this important matter.

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. That is why several prominent intellectual property law associations supported studying the feasibility of a small claims tribunal in 2012 and 2013, including the American Bar Association’s Section on Intellectual Property Law, the American Intellectual Property Law Association, and the United Inventors Association. Given the dynamics of the current litigation situation and the passage of time since the 2012 notice we believe it is time to more formally study this issue.

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. As you know, the ACUS is an independent federal agency that convenes expert representatives from the public and private sectors to promote improvements in efficiency, advocacy, and fairness. ACUS typically works with national legal scholars and federal institutes to conduct research and prepare studies working with legal

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<sup>1</sup> See 77 Fed. Reg. 74830 (Dec. 18, 2012).

scholars to provide non-partisan, well-documented, and unbiased recommendations to the Administration, Congress, and the American public. We request that the ACUS study and recommendations be conducted with input by all stakeholders and completed within and provided to the Senate Judiciary Committee no later than December 31, 2022.

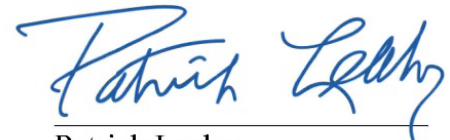
Thank you for your prompt attention to this matter. We look forward to the conclusions of your study and to working together to ensure that all inventors have an opportunity to efficiently enforce their intellectual property rights. If you have any questions, please do not hesitate to contact us.

Sincerely,



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Thom Tillis  
United States Senator



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Patrick Leahy  
United States Senator



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Tom Cotton  
United States Senator



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Mazie K. Hirono  
United States Senator



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Christopher A. Coons  
United States Senator



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John Cornyn  
United States Senator

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# ABBREVIATIONS

AAA	American Arbitration Association
ABA	American Bar Association
ABA-IP	American Bar Association Section of Intellectual Property Law
ADR	Alternative Dispute Resolution
AIA	Leahy-Smith America Invents Act
AIPLA	American Intellectual Property Law Association
ACUS	Administrative Conference of the United States
ALJ	Administrative Law Judge
APA	Administrative Procedure Act
APEX	Amazon Patent Evaluation Program
APJ	Administrative Patent Judge
ATJ	Administrative Trademark Judge
CASE Act	Copyright Alternative in Small-Claims Enforcement Act
CBP	U.S. Customs and Border Protection
CCB	Copyright Claims Board
CCO	Copyright Claims Officer
CES	Center for Economic Studies (Census Bureau)
CFC	Court of Federal Claims
CIT	Court of International Trade
CRB	Copyright Royalty Board
CRJ	Copyright Royalty Judge
FJC	Federal Judicial Center
FRCP	Federal Rules of Civil Procedure
FRE	Federal Rules of Evidence
IP	Intellectual Property
IPEC	Intellectual Property Enterprise Court
IPEC-MT	Intellectual Property Enterprise Court Multi-Track
IPEC-SCT	Intellectual Property Enterprise Court Small Claims Track
IPR	Inter Partes Review

JCUS	Judicial Conference of the United States
MSPB	Merit Systems Protection Board
NAPP	National Association of Patent Practitioners
NPB	National Patent Board
NPE	Non-Practicing Entity
OPM	Office of Personnel Management
OUII	Office of Unfair Import Investigations (U.S. International Trade Commission)
PAE	Patent Assertion Entity
PGR	Post-Grant Review
PIPLI	Public Interest Patent Law Institute
PTAB	Patent Trial and Appeal Board
SBA	Small Business Administration
TPLF	Third-Party Litigation Financing
TTAB	Trademark Trial and Appeal Board
UPDR	Uniform Domain Name Dispute Resolution Policy
UIA	United Inventors Association
UPC	Unified Patent Court
UPNEP	Utility Patent Neutral Evaluation Procedure (Amazon)
USCO	U.S. Copyright Office
USITC	U.S. International Trade Commission
USPTO	U.S. Patent and Trademark Office
WIPO	World Intellectual Property Organization

# INTRODUCTION

*To “promote the Progress of Science and useful Arts,” the Constitution grants Congress the power to secure “for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”*<sup>1</sup>

Federal patent law accomplishes this objective in two main ways. First, it defines standards for patentability and establishes procedures, available at the U.S. Patent and Trademark Office (USPTO), for granting patents to inventors for their patentable discoveries.<sup>2</sup> Second, it secures inventors’ exclusive right to their patented inventions by establishing a process for inventors to enforce their patents against infringement by others.<sup>3</sup>

“Patents are the life-blood of innovation,” a bipartisan group of six Senators wrote in the letter to the USPTO that led to this study. When competitors infringe patents, the law provides a way for patent owners to enforce their rights and secure to themselves the exclusive right to their discoveries. By rewarding inventors for their discoveries in this manner, the patent system is intended to incentivize innovation and progress.

As the six Senators noted, the protections afforded to patent owners are especially “critical to small and medium sized enterprises and innovative startups,” particularly “firms and enterprises owned by people of color, women, and other underrepresented groups.”<sup>4</sup> But as a practical matter, patent infringement litigation is expensive and time-consuming. Inventors, practitioners, scholars, intellectual property (IP) law associations, and many others have long

raised concerns that the high costs and time-consuming nature of patent litigation prevent many patent owners, especially independent inventors and small- and medium-sized enterprises, from enforcing their patents.

Patent owners “face a difficult choice,” the Senators explained. Patent owners can either “pursu[e] district court litigation, which can easily exceed a million dollars and take three to five years,” or they can “let[] their patent be infringed; thereby allowing competitors to capture the market and destroy their economic viability.”<sup>5</sup> Neither option achieves the Constitution’s goal of securing to inventors the exclusive right to their discoveries. This perpetuates inequities that members of many communities face in accessing and benefitting from the innovation economy.

Periodically over several decades, stakeholders and scholars have considered whether a small-claims procedure might provide a more equitable solution. Most recently, on December 18, 2012, the USPTO requested public comment on “whether the United States should develop a small claims proceeding for patent enforcement.”<sup>6</sup> Several prominent IP associations—including the American Bar Association’s (ABA’s) Section on IP Law (ABA-IP), the American IP Law Association (AIPLA),

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<sup>1</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>2</sup> 35 U.S.C. § 100 *et seq.*

<sup>3</sup> 35 U.S.C. § 271 *et seq.*

<sup>4</sup> Letter from Senators Thom Tillis, Patrick Leahy, Tom Cotton, Mazie K. Hirono, Christopher A. Coons & John Cornyn to Andrew Hirshfeld, Comm’r of Pats. performing the functions of the Under Sec’y and Dir., USPTO (July 27, 2021).

<sup>5</sup> *Id.*

<sup>6</sup> 77 Fed. Reg. 74,830 (Dec. 18, 2012).

and the United Inventors Association (UIA)—supported studying the feasibility of a small claims tribunal at that time.

The landscape of patent litigation has changed significantly since the USPTO invited public comment in December 2012. At the time, the Leahy-Smith America Invents Act (AIA)—the most significant reform to the patent system in a generation—was barely a year old, and its central provisions had been in effect for just three months. It would be several months before the Executive Office of the President released a report finding that patent assertion entities (PAEs) increasingly filed suits and used “aggressive litigation tactics,” harming firms of all sizes but especially “small and inventor-driven companies.”<sup>7</sup> Coincident with the report’s release, President Obama announced executive actions to, among other things, “level the playing field for innovators.”<sup>8</sup> The number of nonpracticing entities (NPEs) and PAEs has continued to rise.<sup>9</sup>

“Given the dynamics of the current litigation situation and the passage of time since the 2012 notice,” Senators Thom Tillis (R-NC), Patrick Leahy (D-VT), Tom Cotton (R-AR), Mazie Hirono (D-HI), Christopher Coons (D-DE), and John Cornyn (R-TX) requested that the USPTO engage the Administrative Conference of the United States (ACUS) to study, with “input by all stakeholders,”

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.

The USPTO in turn asked ACUS to conduct this study.

This report to the USPTO reflects the ACUS Office of the Chair’s findings on this important subject. As noted on its cover, this report does not necessarily reflect the views of the Council, committees, or members of ACUS.<sup>10</sup> This report identifies and discusses the main legal, policy, and practical issues associated with the establishment of a small claims patent proceeding. It does not offer an opinion on any legal matter, nor does it exhaustively address every issue that policymakers might encounter in establishing a small claims patent proceeding or selecting a forum to administer it. A more detailed assessment may be warranted depending on the forum selected, including additional stakeholder engagement and consultation with representatives from the selected forum.

The ACUS Office of the Chair hopes this report’s findings and recommendations will inform the USPTO and Congress as they continue to explore solutions to the barriers that independent inventors and small- and medium-sized enterprises face in securing the exclusive right to their discoveries.

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<sup>7</sup> EXEC. OFF. OF THE PRESIDENT, PATENT ASSERTION AND U.S. INNOVATION 1 (2013).

<sup>8</sup> Off. of the Press Sec’y, Exec. Off. of the President, *Fact Sheet: White House Off. of the Press Sec., White House Task Force on High-Tech Patent Issues*, THE WHITE HOUSE (June 4, 2013), <https://obamawhitehouse.archives.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues>.

<sup>9</sup> NPEs are firms that typically do not practice their patents—i.e., manufacture, distribute, or sell products—but instead seek to generate revenue by asserting their patents against manufacturers, distributors, and sellers. PAEs are a subset of NPEs that primarily acquire patents from third parties rather than the USPTO. FTC, PATENT ASSERTION ENTITY ACTIVITY: AN FTC STUDY (2016).

<sup>10</sup> To learn more about the organization of ACUS, visit 5 U.S.C. § 595.

# METHODOLOGY

The USPTO asked ACUS to conduct an independent survey and analysis of issues associated with and options to consider in designing a small claims patent court. Questions we sought to answer through this study include:

- Whether there is a need for a small claims patent court;
- The policy and practical considerations in establishing a small claims patent court;
- 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, or within an Article I court, or as an administrative tribunal;
- The selection, appointment, management, and oversight of officials who preside over proceeding in a potential small claims patent court;
- 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;
- The procedures and rules of practice for a potential small claims patent court, including, as relevant, pleadings, discovery, and alternative dispute resolution (ADR);
- The remedies that a potential small claims patent court would be able to provide;
- The legal effect of decisions of a potential small claims patent court; and
- Opportunities for administrative and/or judicial review of small claims patent court decisions.

To answer these questions, we relied primarily on documentary research, quantitative data, and extensive input from a wide range of stakeholders and experts obtained through written public comments, a consultative group, and interviews.

## *Documentary Research*

ACUS consulted a wide range of materials for this study, including academic journals, legal materials including statutes and judicial opinions, congressional resources including draft legislation and committee materials, materials associated with the USPTO's 2012 request for public comments, and materials made available by other public- and private-sector entities that have previously considered the feasibility of a small claims patent court, such as the Advisory Commission on Patent Reform, the ABA, AIPLA, and the Judicial Conference of the United States (JCUS).

## *Quantitative Data*

We analyzed quantitative data on patent litigation to better understand the experience of small- and medium-sized enterprises and innovative startups, including those owned by people of color, women, and other underrepresented groups; assessed whether a small claims patent proceeding would benefit individuals who lack the resources to effectively enforce their patents; and identified structural and procedural options for designing such a proceeding.

We note at the outset that obtaining compelling empirical evidence as to whether a small claims patent proceeding would improve the patent system is, for a variety of reasons, nearly impossible. First, the specific details of a small claims patent proceeding's design will be critical to its success. This report lays out options for structuring such a proceeding, but, for many options, we simply lack data on the consequences they might have for the patent system. A pilot program, along the lines of the Patent Pilot Program recently concluded in certain district

courts, might provide an opportunity to test the effects of different design options.<sup>11</sup>

Second, there are significant hurdles involved in trying to quantify how many meritorious patent infringement claims are not filed or settled for an inappropriately low value as a result of prohibitively high litigation costs. This would require us to compare claims filed and settlements reached under the current system with the hypothetical claims and settlements that would arise in a system with lower litigation costs. This counterfactual is not available.

We instead gathered and analyzed data that provides an overview of the current patent litigation landscape, with a focus on the costs of federal court litigation. We also gathered and analyzed data that would suggest whether meritorious patent infringement claims are not being litigated, or are being settled for inappropriately low valuations, because of high litigation costs. In doing so, we gathered data from a number of different sources, including the scholarly literature, public information originally gleaned from private databases such as Lex Machina and Docket Navigator, and survey information from sources like the bi-annual AIPLA survey.

It is similarly difficult to assess the consequences of the current system for people of color, women, and other underrepresented groups. While the USPTO collects inventors' names and limited geographical information about inventors, it does not, for example, collect data regarding inventors' race or gender. Other data sources, including those compiled by the federal courts and private-sector entities, also lack relevant demographic data.

Other researchers have had only limited success using existing datasets to study the experience of underrepresented groups in the patent system. In 2014, for example, the USPTO partnered with the Census Bureau Center for Economic Studies (CES) to conduct a statutorily mandated study of the diversity of patent applicants, including minorities, women, and veterans. The

researchers, who sought to compare USPTO and Census data, found that the information collected by the USPTO did not provide “a strong basis for matching with Census data” and was “not sufficient to allow CES to meaningfully describe the cumulative diversity characteristics of inventors as a group.”<sup>12</sup> In an interview conducted for this study, staff in the Small Business Administration's (SBA's) Office of Advocacy explained that while the Office can effectively track the experience of small entities, it confronts significant constraints examining the experience of inventors who are members of underrepresented groups.<sup>13</sup>

Finally, as discussed in greater detail throughout this report, there is no consistent definition of what constitutes a “small entity.” The Patent Act defines “small entities” to include small business concerns (as defined in the Small Business Act), as well as independent inventors and nonprofit organizations (as defined in USPTO regulations).<sup>14</sup> This definition includes all firms with up to 500 employees as well as nonprofits, including large research universities with substantial endowments. The Patent Act also refers to “micro entities,” which are small entities that, among other things, have been named as an inventor on a limited number of previous patent applications and have an income that does not exceed three times the median household income.<sup>15</sup> In this report, we use the term “small entities” broadly to include, at a minimum, independent inventors and small- and medium-sized enterprises. Unless otherwise specified, the term as used in this report excludes universities.

A consequence of the lack of data is that we were unable to estimate the volume of cases a small claims patent tribunal could be expected to receive. To select an appropriate forum for a small claims patent proceeding and determine the resources needed to administer it effectively, it is critical to gain a better understanding of the demand for it. This and other uncertainties may counsel in favor of establishing an initial pilot program to learn more.

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<sup>11</sup> See Comment of Engine Advocacy & PIPLI (July 5, 2022).

<sup>12</sup> USPTO, MEMORANDUM ON THE STUDY OF DIVERSITY AMONG PATENT APPLICANTS 2–3, <https://www.uspto.gov/sites/default/files/documents/Determination%20on%20Diversity%20of%20Applicants.pdf>.

<sup>13</sup> Interview with representatives from the Small Business Administration Office of Advocacy.

<sup>14</sup> 35 U.S.C. § 41(h)(1); 37 C.F.R. § 1.27.

<sup>15</sup> 35 U.S.C. §§ 41(h) note, 123(a); 37 C.F.R. § 1.29.

### **Public Comments**

It was critical to conduct this study with input from all stakeholders. To ensure all interested persons had an opportunity to participate in this study, ACUS issued a notice requesting public comments on issues associated with and options for designing a small claims patent court. The notice was published on ACUS's website on April 28, 2022, and in the *Federal Register* on May 3, 2022.<sup>16</sup> ACUS further publicized the request by issuing a press release and posting announcements on Twitter, Facebook, and LinkedIn.<sup>17</sup> The request for comments was shared by a range of people and organizations, ensuring it reached a wide audience of potentially interested persons. Comments were originally due by July 5, 2022, but the comment deadline was subsequently extended through September 2, 2022. Interested persons were notified of the extension through a notice published in the *Federal Register* on July 12, 2022, press releases, and social media announcements.<sup>18</sup> ACUS received 133 comments on or before September 2, 2022. All timely comments were made publicly available on the ACUS website as soon as possible after they were received and remain available for viewing on the ACUS website.<sup>19</sup>

### **Consultative Group**

ACUS convened a consultative group of academic experts and legal practitioners, listed in the Appendix, to advise ACUS on questions regarding the study's methodology for quantitative, qualitative, and legal research. ACUS staff selected consultative group members—based, in part, on input from Professors Murray, Rai, and Wasserman, senior USPTO officials, and congressional staff—to reflect diverse perspectives. Members included academic scholars in law and economics, current and former senior federal officials, patent practitioners, and nonprofit

affiliates. The consultative group met virtually on August 3, 2022, and January 19, 2023, and members of the public were invited to attend. Minutes of consultative group meetings, as well as communications among consultative group members that ACUS received, were made publicly available on the ACUS website after each meeting and remain available for viewing on the webpage for this study.

### **Interviews**

Finally, the researchers conducted interviews with a wide range of stakeholders. Potential interviewees were selected based on previous experience with patent litigation or small claims processes. In selecting interviewees, the researchers considered recommendations made by the consultative group. Interviews were a particularly significant source of information given the dearth of existing empirical research and the limitations of using quantitative data for this study.

We conducted 22 interviews as part of this study. Some interviewees participated individually, while others participated as part of a group. The researchers asked interviewees about their personal experiences with the patent system; the experiences of small- and medium-sized enterprises, independent inventors, and members of underrepresented groups; options for designing a small claims patent proceeding; preferences with respect to the institution that should administer a small claims patent proceeding; and legal and practical barriers that would affect the use of such a proceeding.

Interviews with stakeholders are necessarily limited by the questions asked, the perspectives and knowledge of the interviewees, and other explicit and implicit factors that influence information gathering via semi-structured interviews.

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<sup>16</sup> 87 Fed. Reg. 26,183 (May 3, 2022).

<sup>17</sup> Press Release, Admin. Conf. of the U.S., ACUS to Undertake Study of Small Claims Patent Court for U.S. Patent and Trademark Office (Apr. 28, 2022).

<sup>18</sup> 87 Fed. Reg. 41,274 (July 12, 2022); Press Release, Admin. Conf. of the U.S., Administrative Conference Receives More Than 65 Public Comments for Small Claims Patent Court Study (Aug. 30, 2022); Press Release, Admin. Conf. of the U.S., ACUS Extending Comment Period for Small Claims Patent Court Study (July 6, 2022).

<sup>19</sup> *U.S. Patent Small Claims Court*, ADMIN. CONF. OF THE U.S., <https://www.acus.gov/research-projects/us-patent-small-claims-court>.

# BACKGROUND

This Part begins by describing the evolution of patent law and the institutions that administer it. It then describes the state of patent infringement litigation, describing current litigation costs and their effects on small entities that seek to enforce their patents. It describes the history of proposals to establish a small claims proceeding to resolve patent disputes quickly and inexpensively. It concludes by discussing how policymakers can ensure a small claims patent proceeding is equitably designed and administered.

## LEGAL AND HISTORICAL BACKGROUND

The history of the Anglo-American patent system stretches back to the seventeenth century. Monarchs had long granted letters patent bestowing rights or privileges to people and corporations, including monopolies on the manufacture, sale, or use of specific products. In 1624, the English Parliament enacted the Statute of Monopolies, which generally rendered letters patents null and void but instead, and crucially, permitted the state to grant inventors the exclusive right to use or make “new manufactures” for a period of 14 years.

Shortly thereafter, American colonial governments began granting patents to inventors upon petition. Massachusetts granted Samuel Winslow the temporary exclusive right to a new salt production process in 1641, which is often considered the first “patent” in America. Patents were typically granted through invention-specific, private acts of colonial and state legislatures.

The country’s first governing charter, the Articles of Confederation, did not grant the Continental Congress the power to regulate IP. But recognizing the benefits for the new national economy of IP protections, the Continental

Congress in 1783 called on individual states to adopt copyright legislation. South Carolina passed such a statute in 1784, which also granted “Inventors of useful machines” the “exclusive privilege of making or vending their machines for the like term of 14 years.” Other state legislatures followed suit. The result was a patchwork of patent systems, requiring that inventors patent their inventions on a state-by-state basis.

Although the record is sparse on any substantive discussion, in 1787, James Madison and Charles Pinckney of South Carolina both proposed that the draft Constitution include a provision granting the central government the power to regulate IP. After debate, including criticism by Thomas Jefferson, the proposal was adopted. The result was the Constitution’s IP Clause, which gives Congress the power to “promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” This clause provides the basis for the laws governing patents and copyrights.

The First Congress carried out this enumerated power through the Patent Act of 1790. The statute established a standard for granting patents; assigned responsibility for granting patents to a committee of the Secretary of State, Secretary of War, and Attorney General; and established that the remedy for infringement was damages assessed by a jury.<sup>20</sup> This system was replaced three years later by the Patent Act of 1793, which established the patent examination system that remained in place until 1836, when Congress established the USPTO. The Patent Act of 1793 also provided patent owners a cause of action for infringement “available in the circuit court of the United States, or any other court having competent jurisdiction.”<sup>21</sup>

<sup>20</sup> Patent Act of 1790, ch. 7, 1 Stat. 109 (*repealed by* Patent Act of 1793, ch. 11, 1 Stat. 31).

<sup>21</sup> Patent Act of 1793, ch. 11, 1 Stat. 318, 318–23 (*repealed by* Patent Act of 1836, ch. 357, 5 Stat. 117).



Although jury trials at law were initially the norm under both the 1790 and 1793 statutes, a shift to bench trials occurred for patent cases in the mid-nineteenth century. Professor Christopher Beauchamp dates this shift to the 1850s and 1860s, finding it “closely linked to the rise of large-scale patent litigation.”<sup>22</sup> This shift was cemented in 1870, when Congress made explicit that patent suits were “originally cognizable, as well in equity as at law.” Under the Patent Act of 1870, courts exercising equitable jurisdiction had the power to grant injunctions, royalties, and damages in equity.<sup>23</sup> For more than a century, jury trials in patent litigation all but disappeared. They returned in the 1980s and 1990s, and more than 70% of patent trials in the district courts are now jury proceedings.<sup>24</sup>

The current statutory regime governing patents, collectively referred to as the Patent Act, stems from the Patent Act of 1952 and is codified at title 35 of the *U.S. Code*. The Act permits any person who “invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any and useful improvement thereof” to “obtain a patent therefor.”<sup>25</sup>

To obtain a patent, an inventor must file a patent application with the USPTO that contains a description of the invention, referred to as a “specification,” and one or more claims describing the subject matter which the inventor regards as the invention. A USPTO patent examiner assesses the patentability of the invention based on the criteria outlined in the Patent Act, including patentable subject matter, utility, novelty, nonobviousness, and disclosure requirements. If the patent application meets the patentability requirements, the USPTO Director grants the patent. If the patent application fails to meet one or more of the patentability

requirements, the application is rejected. An applicant whose application is rejected may apply for reexamination.<sup>26</sup> Adverse examiner decisions may be appealed to the Patent Trial and Appeal Board (PTAB), an adjudicatory board within the USPTO. Applicants may challenge PTAB decisions either by appealing to the U.S. Court of Appeals for the Federal Circuit or by filing a civil action in the U.S. District Court for the Eastern District of Virginia.<sup>27</sup>

Third parties may challenge the validity of a granted patent by initiating an action in a district court or the PTAB.<sup>28</sup> Challenges asserted through PTAB proceedings take either of two forms: inter partes review (IPR) or post-grant review (PGR).<sup>29</sup> In 2018, the Supreme Court upheld the constitutionality of assigning an executive-branch entity, the PTAB, authority to conduct IPRs.<sup>30</sup> Validity is also frequently challenged during infringement actions brought in district courts; in addition to noninfringement, invalidity is the most common defense in infringement actions.<sup>31</sup>

To “secure” for inventors the exclusive right to their inventions, the Patent Act provides a cause of action by which patent owners can obtain legal or equitable relief when others make, use, offer to sell, or sell their patented invention without permission to do so.<sup>32</sup> Several forums across the federal government hear and decide disputes related to patent infringement.

**District Courts.** Patent owners can seek relief for infringement by filing a civil action in federal district court. Damages and equitable remedies are available in district court actions.<sup>33</sup> Several dozen district courts have adopted local rules for patent cases.<sup>34</sup> Patent-specific standing orders serve a similar purpose elsewhere.

<sup>22</sup> Christopher Beauchamp, *The First Patent Litigation Explosion*, 125 *YALE L.J.* 848, 912–23 (2016).

<sup>23</sup> Copyright (Patent) Act of 1870, ch. 230, 16 Stat. 198 (amended 1874, 1891).

<sup>24</sup> Christopher Beauchamp, *The First Patent Litigation Explosion*, 125 *YALE L.J.* 848, 911–12 (2016).

<sup>25</sup> 35 U.S.C. § 101.

<sup>26</sup> USPTO refers to reexamination in this context as “continued examination.” See 37 C.F.R. § 1.114.

<sup>27</sup> 35 U.S.C. §§ 141–145.

<sup>28</sup> Third parties must have standing to obtain declaratory judgments in district court.

<sup>29</sup> 35 U.S.C. §§ 311–19, 321–29.

<sup>30</sup> *Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC*, 138 S. Ct. 1365 (2018).

<sup>31</sup> See 35 U.S.C. § 282(b).

<sup>32</sup> 35 U.S.C. §§ 271–73.

<sup>33</sup> 28 U.S.C. § 1338; see also JOHN R. THOMAS, CONG. RSCH. SERV., R44904, REMEDIES FOR PATENT INFRINGEMENT (2017).

<sup>34</sup> See generally Megan M. La Belle, *The Local Rules of Patent Procedure*, 47 *ARIZ. ST. L.J.* 63 (2015).

**U.S. International Trade Commission.** The U.S. International Trade Commission (USITC) is an independent agency that administers the Tariff Act, which prohibits unfair practices in import trade, including the importation of articles that infringe a valid and enforceable patent. When someone imports or seeks to import an article that infringes a patent, the patent owner may file a complaint with the USITC. The USITC investigates and, if warranted, adjudicates alleged infringing activity. The USITC can issue exclusion orders, directing U.S. Customs and Border Protection to exclude infringing articles from entry into the United States, and cease-and-desist orders, prohibiting unfair activity associated with infringing articles that were previously imported and enforceable by civil fines. The USITC can also order infringing parties to pay civil penalties to the government. Damages are unavailable.<sup>35</sup>

**Court of Federal Claims.** The Court of Federal Claims (CFC) is a legislative court, established under Article I of the Constitution, in which patent owners can seek “reasonable and entire compensation” for alleged infringement of a patent by the U.S. government and government contractors.<sup>36</sup>

**Federal Circuit.** In all cases “arising under” patent law, decisions of the USPTO, district courts, USITC, CFC, are reviewable by a single court of appeals: the Court of Appeals for the Federal Circuit.<sup>37</sup> Decisions of the Federal Circuit are, in turn, reviewable by the Supreme Court.

Specialized forums may also have a role in specific contexts. The Food and Drug Administration, for example, plays a part in administering a process for early resolution of

patent infringement disputes involving certain kinds of pharmaceuticals.<sup>38</sup>

Of course, parties may and often do settle disputes privately, with or without the involvement of a court or agency. The Federal Judicial Center (FJC) has published a *Patent Mediation Guide*.<sup>39</sup> Private entities like the American Arbitration Association (AAA) and the Sedona Conference have developed rules and best practices for private resolution of patent disputes,<sup>40</sup> and two online marketplaces, Amazon and eBay, have established their own dispute resolution procedures.

## THE COSTS OF PATENT LITIGATION AND EFFECTS ON SMALL ENTITIES

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Litigation is expensive, and patent litigation is particularly expensive given the often complex technical or scientific questions involved. Congressional inquiries from as early as 1912 have investigated the high costs and long duration of patent suits and their effects on inventors and innovation.<sup>41</sup> There have long been concerns that these high monetary and time costs have a disproportionate adverse impact on independent inventors and small- and medium-sized entities, including those owned by traditionally underrepresented groups. In 1919, a congressional committee heard testimony that:

The cost of litigating patents is so great that only the largest companies can stand the expense of a full-fledged litigation carried to the extreme limits. The smaller company hesitates to undertake even a litigation which they think will only go to ordinary limits; and the individual inventor can not [sic] undertake any litigation at all, as a rule.<sup>42</sup>

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<sup>35</sup> 19 U.S.C. § 1337.

<sup>36</sup> 19 U.S.C. § 1498(a).

<sup>37</sup> 28 U.S.C. § 1295(a)(1).

<sup>38</sup> KEVIN J. HICKEY, CONG. RSCH. SERV., RL46525, PATENT LAW: A HANDBOOK FOR CONGRESS 22–23 (2020). The FDA has characterized its role in reviewing patent claims as “ministerial.” *Caraco Pharm. Labs., Ltd. v. Novo Nordisk A/S*, 566 U.S. 399, 407 (2012).

<sup>39</sup> KATHI VIDAL ET AL., FED. JUD. CTR., PATENT MEDIATION GUIDE (2019), [https://permanent.fdlp.gov/gpo117959/Patent\\_Mediation\\_Guide.pdf](https://permanent.fdlp.gov/gpo117959/Patent_Mediation_Guide.pdf).

<sup>40</sup> See AM. ARB. ASS’N, RESOLUTION OF PATENT DISPUTES: SUPPLEMENTARY RULES (2006), <https://www.adr.org/sites/default/files/Resolution%20of%20Patent%20Disputes%20Supplementary%20Rules.pdf>.

<sup>41</sup> *Oldfield Revision and Codification of the Patent Statutes: Hearing on H.R. 23417 Before the H. Comm. on Pats.*, 62d Cong. (1912); L.H. Baekeland, *The Incongruities of American Patent Litigation*, 74 SCI. AM. SUPP. 322 (1912).

<sup>42</sup> *United States Patent Office: Hearings on H.R. 5011, H.R. 5012, and H.R. 7010 Before the H. Comm. on Pats.*, 66th Cong. (1919).

The potential consequences are significant. As a matter of public policy, the patent system exists to encourage innovation. It does so by granting inventors, for a limited time, the exclusive right to exclude others from manufacturing, using, or selling their inventions. In practical terms, it grants patent owners a right to sue competitors for infringement. If the high costs and time involved in litigation render that right an empty one, patents are devalued and there is less reward for innovation.

Most participants in this study—whether as a public commenter, interviewee, or consultative group member—perceived that the high costs of patent litigation pose significant barriers to small entities that seek to enforce their patents. Relying on qualitative and quantitative data sources, we attempted to measure whether this perception is accurate.

Patent infringement litigation in the district courts has several stages, and each stage in the process can be expensive. A lawsuit typically begins when a patent owner files a complaint in a district court alleging infringement. An alleged infringer must file an answer within 21 days of service confirming or denying each paragraph of the complaint.<sup>43</sup>

After an answer is filed, there is a case management conference to schedule significant

dates in the lawsuit, such as when discovery begins and ends.<sup>44</sup> Every patent contains claims that define the subject matter covered by the patent and to which the patentee has exclusive rights. In a patent infringement lawsuit, the scope of a patent's claims is often in dispute. A judge typically construes the scope of disputed claims through a pretrial hearing, known as a *Markman* hearing, in which evidence is received on the meaning of key terms.<sup>45</sup> If the judge determines that material issues of fact with respect to validity or infringement remain after discovery and briefing, the case may go to trial. The case may be appealed when the judge reaches a final judgment.

The most widely cited data on patent litigation costs is drawn from a biannual survey conducted by AIPLA. The 2020 survey relied on responses from 740 individuals of a total of 7,220 AIPLA members, for a 10.8% response rate. Respondents were asked to estimate costs of which they had personal knowledge at each stage of the litigation process. Because these cost estimates are supposed to represent personal knowledge, they are cost estimates based only on the respondent's side of the litigation. For that reason, total costs across both sides could potentially be twice as high on average if the plaintiff and defendant incur symmetric costs.

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<sup>43</sup> FED. R. CIV. P. 12(a)(1)(A)(i).

<sup>44</sup> FED. R. CIV. P. 16.

<sup>45</sup> See *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996).

MEDIAN LITIGATION COSTS	\$000s				
	2012	2014	2016	2018	2020
<b>PATENT INFRINGEMENT, ALL VARIETIES</b>					
<b>LESS THAN \$1 MILLION AT RISK</b>					
Initial case management	N/A	N/A	\$25	\$50	\$50
Inclusive of discovery, motions, and claim construction	\$350	\$400	\$250	\$250	\$300
Inclusive of pre and post-trial, and appeal when applicable	\$700	\$600	\$500	\$700	\$675
Cost of mediation	N/A	\$100	\$25	\$40	\$35
<b>\$1-\$10 MILLION AT RISK</b>					
Initial case management	N/A	N/A	\$60	\$80	\$75
Inclusive of discovery, motions, and claim construction	\$1,000	\$950	\$550	\$600	\$650
Inclusive of pre and post-trial, and appeal when applicable	\$2,000	\$2,000	\$1,000	\$1,500	\$1,000
Cost of mediation	N/A	\$200	\$50	\$50	\$75
<b>\$10-\$25 MILLION AT RISK</b>					
Initial case management	N/A	N/A	\$100	\$150	\$113
Inclusive of discovery, motions, and claim construction	\$2,000	\$1,900	\$1,000	\$1,225	\$1,000
Inclusive of pre and post-trial, and appeal when applicable	\$3,325	\$3,100	\$2,000	\$2,700	\$3,000
Cost of mediation	N/A	\$250	\$75	\$80	\$80
<b>MORE THAN \$25 MILLION AT RISK</b>					
Initial case management	N/A	N/A	\$138	\$250	\$250
Inclusive of discovery, motions, and claim construction	\$3,000	\$3,000	\$1,700	\$2,375	\$2,125
Inclusive of pre and post-trial, and appeal when applicable	\$5,500	\$5,000	\$3,000	\$4,000	\$4,000
Cost of mediation	N/A	\$300	\$100	\$100	\$150

*Reproduced with permission from the 2021 AIPLA Report of the Economic Survey.*

While we assume that the plaintiff and defendant are similarly situated to the extent that each side is a well-capitalized, risk-neutral practicing entity with the potential to both sue and be sued for infringement, we also assume that the plaintiff may incur greater costs, at least in the early stages of the case.<sup>46</sup> If the plaintiff and defendant incurred entirely symmetric costs, then it is possible that even a small claims plaintiff could achieve an appropriate settlement, because the defendant would want to avoid further litigation as much as the plaintiff.

On these assumptions, the data indicate that costs can be bracing. From 2012 to 2020, litigants reported spending a median of \$300,000 to

\$400,000 per side in litigation through claim construction, even when less than \$1 million was at risk. But the relationship between litigation expenditures and risk amount is not linear. For claims in which less than \$1 million was at risk, parties reported spending 30%–40% of that total through claim construction. In contrast, when \$25 million or more was at risk, litigation costs per side through claim construction were only \$2.125 to \$3 million, or approximately 8.5%–12% of the amount at risk. Some substantial amount of expenditure appears to be necessary no matter how small the amount in controversy, particularly if the plaintiff wants to move past a case management conference.

<sup>46</sup> It bears mentions, however, that according to 68% of respondents to the 2020 AIPLA survey, plaintiffs and defendants bear symmetric costs. AIPLA, 2021 REPORT OF THE ECONOMIC SURVEY 79 (2021).

The result may be that, at least at the margin, small claims are less likely to be brought or more likely to settle for less than the appropriate value. We do not have data on suits not filed, unfortunately. Although settlement may be an efficient way to resolve disputes in many cases, concerns have been raised that settlements are driven less by efficiency and more by plaintiffs' inability to pay the costs required to enforce their patents through litigation.

A working paper by Christopher Cotropia and coauthors used docket entries from 16,000 patent infringement lawsuits filed in district courts between 2005 and 2010 to assess when cases terminated across different stages of litigation. The authors found that approximately 20% of cases settled before the alleged infringer filed an answer, which typically occurred 2.6 months after the complaint was filed. Approximately 40% of cases settled before the case management meeting, which typically took place 3.5 months after the date the complaint was filed. And 88% of cases settled before the *Markman* hearing, which typically took place about 22.5 months after trial. Only 4.2% of cases reached a trial. Trials started on average 31.5 months after the filing date, and the average case reaching trial was resolved 20.9 months after the start of the trial.<sup>47</sup> Although information on damages awards in the small percentage of cases that make it to a damages award is not likely to be representative of the amount at risk in all cases brought, it is nevertheless noteworthy that 55% of cases litigated to completion involved awards of less than \$1 million and 75% of such cases involved awards of less than \$10 million.<sup>48</sup>

Although the years covered in the study by Cotropia and coauthors and AIPLA data are different, it seems likely that the substantial costs parties must incur to recover even sums less than \$1 million through litigation are at least partly

responsible for the high rates of settlement before claim construction.

We also investigated the impacts of litigation costs on the ability of independent inventors and small- and medium-sized enterprises to enforce patents through litigation. There may be significant overlap between “small claims” and “small entities,” if for no other reason than that proving large damages may require a showing of lost profits, which in turn requires a showing that the small entity could have met the full range of demand for the patented item. But regardless of whether it has a small claim, a small entity is less likely to be well-capitalized and risk-neutral, which makes it even less likely that the entity would bring suit or be able to negotiate an appropriate settlement.

A stylized hypothetical illustrates this potential “David and Goliath” scenario. Suppose a person owns a patent that is 80% likely to be held valid and infringed and that, as a result of the infringement, has incurred a loss of \$5,000,000. In that case, a risk-neutral, well-capitalized plaintiff may, in principle, be willing to pay up to \$3,999,999 to enforce the patent. But if the plaintiff is not well-capitalized and risk-neutral, it may be unable to tolerate even a small risk of loss.

As noted earlier, one empirical challenge is defining what constitutes a “small entity.” Under the USPTO’s definition, a person, small business concern (as defined by the SBA), or nonprofit organization is a small entity if it has not assigned or otherwise conveyed its patent rights by contract to an entity that would not qualify as a small entity.<sup>49</sup> For present purposes, this designation may be over-inclusive, because, under SBA size standards, it includes all firms with up to 500 employees as well as nonprofits, including large research universities with substantial endowments.

<sup>47</sup> Christopher A. Cotropia et al., *A Granular Analysis of Civil Litigation* (Aug. 2018) (unpublished manuscript) (on file with authors).

<sup>48</sup> Michael D. Frakes & Melissa F. Wasserman, *Irrational Ignorance at the Patent Office*, 72 VAND. L. REV. 975 online app. at 16 (2019), <https://scholarship.law.vanderbilt.edu/vlr/vol72/iss3/7/>; see also THE SEDONA CONFERENCE, COMMENTARY ON PATENT LITIGATION BEST PRACTICES: STREAMLINING LOWER-VALUE PATENT CASES CHAPTER, PUBLIC COMMENT VERSION 4 (Matthew Powers et al. eds., 2022), [https://thesedonaconference.org/sites/default/files/publications/Streamlining\\_Lower-Value\\_Patent\\_Cases\\_PCV\\_September\\_2022\\_0.pdf](https://thesedonaconference.org/sites/default/files/publications/Streamlining_Lower-Value_Patent_Cases_PCV_September_2022_0.pdf) (reporting data from Lex Machina that 57/74, or 74%, cases in which monetary damage were awarded between 2019 and 2021 had awarded damages of less than \$15 million).

<sup>49</sup> 37 C.F.R. § 1.27.

The USPTO definition of “small entity” is nonetheless useful because patents assigned to such entities are labeled accordingly. Relying on these labels, scholars have found that patents issued to small entities tend to be slightly overrepresented in patent litigation.<sup>50</sup> One potential explanation is that litigation intermediaries, or PAEs, are asserting small entities’ patents. Data from the Stanford NPE Litigation Dataset lends some support to this hypothesis. A paper based on this dataset, which discusses a 20% random sample of lawsuits filed between 2000 and 2015—for a total of 10,812 lawsuits in the sample—finds that while individual-inventor-started firms constituted only 12.7% of plaintiffs, suits by firms that had “acquired patents” constituted 21.5% of lawsuits.<sup>51</sup>

Intermediaries, especially PAEs, may have structural advantages in litigation, and it is widely assumed that they incur lower litigation costs than other entities.<sup>52</sup> Most notably, PAEs can impose discovery costs on defendants but, because PAEs do not practice, defendants are limited in their ability to reciprocate. Intermediaries can also achieve economies of scale by bringing suit on multiple patents against multiple defendants.<sup>53</sup> PAEs—and, relatedly, third party funding of patent litigation—have attracted and continue to attract significant attention.<sup>54</sup>

This discussion begs the question: does this model—in which small entities enforce their patents through litigation intermediaries—actually benefit small entities? Unfortunately, empirical evidence is scarce and sometimes contradictory.<sup>55</sup> With respect to the specific issue of the amount of PAE revenue distributed to the original inventors of the patented technology, some data is suggestive of a substantial transfer. As recently as 2019, Acacia Research Group—arguably the largest publicly traded PAE—reported it paid more in royalties to inventors than it did to contingency fee lawyers who enforced their patents in court.<sup>56</sup> Other evidence is less optimistic. James Bessen and Michael Meurer have estimated that independent inventors receive less than 7% of the PAE licensing revenue, leading them to conclude that “it seems difficult to make a convincing argument that the effect of PAEs is to increase innovation incentives.”<sup>57</sup> Still others, most notably David Schwartz and Jay Kesan, have challenged the data utilized by Bessen and Meurer to estimate this figure, casting even more doubt on the debate.<sup>58</sup>

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<sup>50</sup> Rebecca Weires et al., *Narrowing the Universe: A Machine Learning Approach to Patent Clearance*, 20 CHI.-KENT J. INTELL. PROP., 180, 190 (2021) (tables A4 and A6, with relatively large and positive logistic regression coefficients on the small entity variable).

<sup>51</sup> Shawn P. Miller et al., *Who’s Suing Us: Decoding Patent Plaintiffs Since 2000 with the Stanford NPE Litigation Dataset*, 21 STAN TECH. L. REV. 235, 254 (2018).

<sup>52</sup> Fiona M. Scott Morton & Carl Shapiro, *Strategic Patent Acquisitions*, 79 ANTITRUST L.J. 463 (2014).

<sup>53</sup> Although the AIA reduced economies of scale to some extent by reducing opportunities for joinder of large groups of defendants, large groups of patents can still be asserted against single defendants in serial fashion in a single district court. Another species of litigation intermediary, which may either compete or cooperate with PAEs is the contingent fee patent lawyer. See generally David Schwartz, *The Rise of Contingent Fee Representation in Patent Litigation*, 64 ALA. L. REV. 335 (2012). Information on litigation financing is even less available publicly than information on PAEs.

<sup>54</sup> See, e.g., Letter from Sen. Patrick Leahy & Sen. Thom Tillis to the Hon. Gene L. Dodaro, Comptroller Gen., U.S. Gov’t Accountability Off. (Dec. 16, 2022) (requesting that GAO study “recent developments in third-party funding of patent litigation”).

<sup>55</sup> David L. Schwartz & Jay P. Kesan, *Analyzing the Role of Non-Practicing Entities in the Patent System*, 99 CORNELL L. REV. 425, 449 (2014).

<sup>56</sup> Press Release, Acacia Rsch. Corp., Acacia Research Reports Fourth Quarter and Full-Year 2020 Financial Results (Mar. 29, 2021), [https://acaciaresearch.com/prviewer/release\\_only/id/4672558](https://acaciaresearch.com/prviewer/release_only/id/4672558) (noting that Acacia paid slightly more to its lawyers in 2020 than it did in inventor royalties).

<sup>57</sup> James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 CORNELL L. REV. 387, 411 (2014); see also Fiona M. Scott Morton & Carl Shapiro, *Strategic Patent Acquisitions*, 79 ANTITRUST L.J. 463, 482–83 (2014).

<sup>58</sup> For challenges to data utilized by Bessen & Meurer, see David L. Schwartz & Jay P. Kesan, *Analyzing the Role of Non-Practicing Entities in the Patent System*, 99 CORNELL L. REV. 425 (2014).

## PROPOSALS FOR A SMALL CLAIMS PROCEEDING

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There have been many proposals to reduce the costs and time associated with patent litigation. Some attempt to streamline patent litigation across all cases, for example by vesting authority to hear patent suits in a single trial court or appeals court, incentivizing the use of arbitration or other ADR methods, promoting the use of court-appointed technical experts, using technically competent magistrates or special masters to manage or hear cases, or ensuring that judges have sufficient flexibility to efficiently manage discovery and other facets of patent litigation.

Other proposals have sought to alleviate the effects of costly and protracted patent litigation on small entities. Legislation has been introduced, for example, that would provide financial support or government-appointed counsel to patent owners who could not afford representation in patent litigation.<sup>59</sup> But the most consistent design proposal has been to establish a small claims proceeding or a proceeding available to small entities that would resolve patent infringement disputes quickly and inexpensively, similar to state small claims courts.

Reference to a “small claims patent court” appears in print as early as 1968,<sup>60</sup> but the concept dates at least as far back as the 1966 report of the President’s Commission on the Patent System. The Commission recommended several reforms to ensure that the patent system would be “more effective in serving the public interest in view of the complex and rapidly changing technology of our time.” But recognizing that the proposed reforms still “may not be sufficient to insure [sic] a ‘day in court’ for the individual or corporation of modest means,” the Commission recommended an alternative procedure, namely:

A party to a patent case seeking to reduce his litigation costs, with the consent of the adverse party, may submit his case to the court on a stipulation of facts or on affidavits without the usual pretrial discovery. This procedure may be used where no injunctive relief is asked and only limited damages are sought. Incentives shall be provided to consent to the procedure, as set forth [in the report].<sup>61</sup>

Two significant developments on this front emerged in the late 1980s. First, in 1988, the Parliament of the United Kingdom passed a law authorizing the establishment of “patents county courts” in the court system of England and Wales.<sup>62</sup> The intent in establishing the patents county court was to provide a forum that would benefit individual inventors and small- and medium-sized enterprises seeking to enforce their patents through streamlined, lower-cost procedures.

A year later, the Franklin Pierce Law Center, with the Kenneth J. Germenshausen Center for the Law and Entrepreneurship at the University of New Hampshire, held its second biennial Patent System Major Problems Conference. Although the primary focus of the 1989 conference was the use of arbitration and other ADR methods to resolve patent disputes quickly and inexpensively, the conferees also discussed a proposal for a small claims proceeding.<sup>63</sup>

That proposal spurred renewed consideration of the concept of a small claims patent court. AIPLA quickly endorsed the creation of a streamlined proceeding for resolving patent disputes involving an amount in controversy of less than \$1 million. The ABA Section of Patent, Trademark and Copyright Law—now the ABA-IP—also endorsed the establishment of “an expedited, low-cost small claims procedure within the

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<sup>59</sup> *Compulsory Licensing of Patents: Hearings on H.R. 925, H.R. 9815, and H.R. 1666 Before the Subcomm. On Compulsory Licensing of H. Comm. on Pats.*, 65th Cong. 260 (1938).

<sup>60</sup> Roy B. Moffitt, *Reduction of Patent Litigation Cost by Patent Office Involvement*, 50 J. PAT. OFF. SOC’Y 431, 452–53 (1968).

<sup>61</sup> PRESIDENT’S COMM’N ON THE PAT. SYS., “TO PROMOTE THE PROGRESS OF . . . USEFUL ARTS” IN AN AGE OF EXPLODING TECHNOLOGY 39–42 (1966).

<sup>62</sup> Copyright, Designs and Patents Act 1988, c. 48, §§ 287–92 (Eng.).

<sup>63</sup> Homer O. Blair, Franklin Pierce L. Ctr. Remarks at Franklin Pierce Law Center Second Patent System Major Problems Conference, (Mar. 23, 1989), in 30 IDEA: J.L. & TECH. 123, 217 (1990).

federal judiciary” to resolve civil patent disputes having “an amount in controversy less than an appropriate sum.”<sup>64</sup> (The Section recommended \$100,000.)

Also in 1990, the Department of Commerce established an Advisory Commission on Patent Reform to identify ways to, among other things, reduce the cost and complexity of patent litigation and streamline the processes for enforcing patent rights. The Commission’s final report, issued in 1992, proposed various measures to reduce transaction costs for patent enforcement and alleviate undue burdens on the judiciary. Among other things, it proposed adopting a small claims procedure for patent cases in federal courts.<sup>65</sup>

The establishment of the first patents county court in London in 1990 prompted conferees at the Franklin Pierce Law Center’s fourth biennial Patent System Major Problems Conference in 1993 to again consider the viability and usefulness of a small claims, or rather a “small claimants,” court for resolving patent disputes. The experience of the patents county court, which was restructured as the Intellectual Property Enterprise Court (IPEC) in 2013, remains an important point of comparison for any proposed small claims patent proceeding. (The reformed IPEC is generally considered to be successful.<sup>66</sup>)

Aside from the occasional reference to a small claims patent court,<sup>67</sup> serious consideration was not given in the United States to the idea of a small claims court until 2009. That year, patent

practitioner Robert Greenspoon published an article asking whether the United States was “finally ready for a small claims court.”<sup>68</sup> Two years later, then-Chairman of the House Judiciary Committee Lamar Smith asked the U.S. Copyright Office (USCO) to study and recommend reforms to “improve the adjudication of small copyright claims.” That study, released in September 2013, led to the establishment of the Copyright Claims Board (CCB) in 2020.<sup>69</sup>

Given renewed interest in the idea of a process to more quickly and inexpensively resolve small IP claims, the USPTO and USCO organized a May 2012 roundtable at which IP experts examined whether such a process was needed and, if so, how best to establish one.<sup>70</sup> Following a subsequent Patent Small Claims Proceeding Forum in October 2012, the USPTO published a notice in the *Federal Register* requesting public comments “as to whether the United States should develop a small claims proceeding for patent enforcement.”<sup>71</sup> Twenty-two comments were received in response.<sup>72</sup>

During this period, the JCUS, AIPLA,<sup>73</sup> and ABA-IP all discussed options for establishing a small claims patent court. The ABA-IP appointed a Task Force to examine the feasibility of establishing a forum for resolving small patent claims. The Task Force endorsed the establishment of a small patent claims court and presented its findings at Inns of Courts and other meetings.<sup>74</sup> A few published articles during this

<sup>64</sup> Ronald L. Yin, *Federal Small Claims Procedure*, 1990 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. REP. 194, 194–96 (1990).

<sup>65</sup> ADVISORY COMM’N ON PAT. L. REFORM, A REPORT TO THE SECRETARY OF COMMERCE 13–14 (1992).

<sup>66</sup> See CHRISTIAN HELMERS, YASSINE LEFOUILI & LUKE McDONAGH, INTELL. PROP. OFF, EXAMINING PATENT CASES AT THE PATENTS COURT AND INTELLECTUAL PROPERTY ENTERPRISE COURT 2007-2013 (2015).

<sup>67</sup> John B. Pegram, *Should There Be a U.S. Trial Court With a Specialization in Patent Litigation?*, 82 J. PAT. & TRADEMARK OFF. SOC’Y 765, 796 (2000).

<sup>68</sup> Robert P. Greenspoon, *Is the United States Finally Ready for a Patent Small Claims Court*, 10 MINN. J.L. SCI. & TECH. 549 (2009).

<sup>69</sup> U.S. COPYRIGHT OFF., COPYRIGHT SMALL CLAIMS (2013).

<sup>70</sup> *IP Small Claims Roundtable*, GEO. WASH. UNIV. L. SCH. (May 20, 2012), <https://www.law.gwu.edu/intellectual-property-event-videos>.

<sup>71</sup> 77 Fed. Reg. 74,830, 74,830–31 (Dec. 18, 2012).

<sup>72</sup> *Public Comments on “Patent Small Claims Proceedings in the United States”*, USPTO, <https://www.uspto.gov/ip-policy/patent-policy/public-comments-patent-small-claims-proceedings-united-states>.

<sup>73</sup> *Patent Small Claims: The Next Big Idea*, GLOBAL IP L. GRP. (Feb. 28, 2013), [https://www.giplg.com/images/article/files/20130228\\_AIPLA\\_Agenda\\_Gerst.pdf](https://www.giplg.com/images/article/files/20130228_AIPLA_Agenda_Gerst.pdf); Paul Shukovsky, *Key Players Update AIPLA on Growing Momentum for Patent Small Claims Court*, 86 PAT. TRADEMARK & COPYRIGHT J. (BL) 75 (May 10, 2013), <https://www.bloomberglaw.com/product/blaw/document/X8DU6EP8000000>.

<sup>74</sup> September 2012 Giles S. Rich American Inn of Court Meeting Minutes, AM. INNS OF CT. (Sept. 19, 2012), <https://inns.innsocourt.org/media/43610/september2012meetingrecap.pdf>.



time also offered perspectives on the possibility of a small claims patent proceeding.<sup>75</sup>

Several other notable developments affected patent enforcement during this period. Congress established the Patent Pilot Program in January 2011, permitting judges in certain district courts to request or decline to hear patent cases. Its stated purpose was to “encourage enhancement of expertise in patent cases among district judges.” Although Congress declined to renew the pilot when it terminated in 2021, an FJC report released afterward found that the program increased efficiency and experience in patent litigation in the district courts with designated judges. Cases were completed faster, and parties were found less likely to appeal cases assigned to a pilot program judge, likely due to the increased frequency of settlements.<sup>76</sup> And the AIA became law in 2012, indirectly affecting patent litigation by authorizing the PTAB to review the validity of granted patents.

From 2013 to 2015, members of Congress introduced additional bills to reform patent litigation. Although most focused on the impact of NPEs and PAEs, several contain elements relevant to this study. The Patent Transparency and Improvements Act, introduced by Senator Patrick Leahy in December 2013, for example, would have directed the USPTO Director to develop online “educational resources for small business to address concerns arising from patent infringement” and would have established a Small Business Patent Ombudsman.<sup>77</sup>

The PATENT Act, introduced by Senator Charles Grassley in April 2015, would have directed the Administrative Office of the U.S. Courts, in consultation with the FJC and the USPTO, to “conduct a study to examine the idea of developing a pilot program for patent small

claims procedures in certain judicial districts within the existing patent pilot program.” The study was to examine: (1) “the necessary criteria for using small claims procedures;” (2) “the costs that would be incurred for establishing, maintaining, and operating such a pilot program;” and (3) “the steps that would be taken to ensure that the procedures used in the pilot program are not misused for abusive patent litigation.” The PATENT Act also would have directed the Judicial Conference of the United States to develop rules and procedures to “address concerns regarding the asymmetries in discovery burdens and costs that may arise” in patent litigation.<sup>78</sup>

A similar bill—the Innovation Act, introduced by Representative Robert Goodlatte in February 2015—would have directed the Director of the Administrative Office of the U.S. Courts to designate at least six of the district courts participating in the Patent Pilot Program to develop rules and procedures addressing discovery and case management.

The STRONG Patents Act, introduced by Senator Christopher Coons in March 2015, would have directed the Small Business Administration (SBA) to prepare a report analyzing the impact of patent ownership by small business concerns and of civil actions against small business concerns relating to patent infringement.<sup>79</sup> The SBA conducted a separate, congressionally-mandated study of the preliminary impacts of the AIA on small businesses and conducted other studies examining small businesses’ participation in the patent system.<sup>80</sup>

And in 2018, Representative Dana Rohrabacher introduced the Inventor Protection Act, which would have required “simplified damages” and “expedited judicial proceedings” for cases

<sup>75</sup> See, e.g., Colleen Chien et al., *Santa Clara Practices in Patent Litigation Survey*, 42 AIPLA Q.J. 137, 195 (2014); John M. Golden, *Patent Privateers: Private Enforcement’s Historical Survivors*, 26 HARV. J.L. & TECH. 545, 606–10 (2013); Paul R. Gugliuzza, *Patent Law Federalism*, 2014 WIS. L. REV. 11, 65–66 (2014); Brian Harris, *Active Promotion of Useful Arts: Considering the Government’s Role in Patent Enforcement*, 4 TEX. A&M L. REV. 241, 250 (2018); Dmitry Karshedt, *The Completeness Requirement in Patent Law*, 46 B.C. L. REV. 949, 1023–24 (2015).

<sup>76</sup> Patent Cases Pilot Program, Pub. L. No. 111-349, 124 Stat. 3674 (2011); MARGARET S. WILLIAMS & REBECCA EYRE, FED. JUD. CTR., PATENT PILOT PROGRAM: FINAL REPORT (2021).

<sup>77</sup> Patent Transparency and Improvements Act of 2013, S. 1720, 113th Cong. (2013).

<sup>78</sup> PATENT Act, S. 1137, 114th Cong. (2015).

<sup>79</sup> STRONG Patents Act of 2015, S. 632, 114th Cong. (2015).

<sup>80</sup> JOSH LERNER ET AL., THE LEAHY-SMITH AMERICA INVENTS ACT: A PRELIMINARY EXAMINATION OF ITS IMPACT ON SMALL BUSINESSES (2015), [https://cdn.advocacy.sba.gov/wp-content/uploads/2019/05/15103651/rs429tot\\_AIA\\_Impact\\_on\\_SB.pdf](https://cdn.advocacy.sba.gov/wp-content/uploads/2019/05/15103651/rs429tot_AIA_Impact_on_SB.pdf).

involving inventor-owned patents, namely: (1) “a trial within 12 months after service of a complaint, with prioritization in the court’s docket, if necessary;” (2) “a trial no more than 7 days in duration;” (3) “a maximum of 10 discovery requests for each party;” (4) “pleadings limited to 100,000 words per party;” and (5) “such other provisions as the court determines appropriate to ensure relief is accessible to the inventors.”<sup>81</sup>

Relatedly, Congress passed the Copyright Alternative in Small-Claims Enforcement (CASE) Act in December 2020, establishing a new voluntary tribunal, called the Copyright Claims Board (CCB), for the sole purpose of resolving small claims copyright disputes.<sup>82</sup> The request for this study followed six months later in July 2021.

Several private-sector organizations have also remained interested in the concept of a small claims patent proceeding. In 2020, the Sedona Conference convened a team to draft recommendations for “streamlining lower-value patent cases.” The streamlined program is designed to be “implemented as part of a district court’s local patent rules or as an individual judge’s standing order for handling certain patent cases.” A version of the Sedona Conference’s proposal was released for public comment during the course of this study, in September 2022.<sup>83</sup> And in March 2021, United Inventors Association, prompted by the establishment of the CCB, hosted a discussion of the “logistics and benefits” of a small claims patent court.<sup>84</sup>

## DESIGNING AN EQUITABLE SMALL CLAIMS PATENT PROCEEDING

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As the Senators emphasized in their letter to the USPTO that led to this study, a small claims patent proceeding is intended to address inequities in the current patent system faced by small- and medium-sized enterprises, innovative startups, and independent inventors, including “firms and enterprises owned by people of color, women, and other underrepresented groups.” While American patent law has mechanisms in place to assist small entities who seek patents for their inventions, less attention has been paid to the barriers that small entities, including firms and enterprises owned by members of underrepresented groups, face in litigation.

A small claims patent proceeding—and the forum in which it takes place—should be structured to promote equitable access to the patent system by all individuals and entities, including small entities and members of historically underrepresented communities. Equity has been defined as “the consistent and systematic fair, just, and impartial treatment of all individuals who belong to underserved communities that have been denied such treatment.”<sup>85</sup> To promote equity, public-sector institutions like agencies and courts must assess barriers that people experience when they seek to navigate their processes and work to reduce or remove barriers to access and participation.<sup>86</sup> Public-sector institutions must also take steps to ensure procedures are perceived to be fair, just, and impartial. Transparency measures, such as open proceedings and publicly accessible rules and decisions, can help promote accountability and public confidence, in addition to providing guidance to parties.<sup>87</sup> Providing opportunities for public participation, for example by soliciting feedback on procedures and services, similarly promotes accountability and public confidence

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<sup>81</sup> Inventor Protection Act, H.R. 6557, 115th Cong. (2018).

<sup>82</sup> 17 U.S.C. §§ 1501–11.

<sup>83</sup> THE SEDONA CONFERENCE, COMMENTARY ON PATENT LITIGATION BEST PRACTICES: STREAMLINING LOWER-VALUE PATENT CASES CHAPTER, PUBLIC COMMENT VERSION (Matthew Powers et al. eds., 2022), [https://thesedonaconference.org/sites/default/files/publications/Streamlining\\_Lower-Value\\_Patent\\_Cases\\_PCV\\_September\\_2022\\_0.pdf](https://thesedonaconference.org/sites/default/files/publications/Streamlining_Lower-Value_Patent_Cases_PCV_September_2022_0.pdf)

<sup>84</sup> United Inventors Ass’n, *Intellectual Property: How to Win in Small Claims Patent Court*, YOUTUBE (Mar. 18, 2021), <https://www.youtube.com/watch?v=5D2Q3wH4HIs>.

<sup>85</sup> Exec. Order No. 13,985, 86 Fed. Reg. 7009 (Jan. 25, 2021).

<sup>86</sup> Exec. Order No. 13,985, 86 Fed. Reg. 7009 (Jan. 25, 2021); Exec. Order No. 14,058, 86 Fed. Reg. 71,357 (Dec. 16, 2021).

<sup>87</sup> *Cf.* 17 U.S.C. § 1506(t)(3) (requiring that the CCB publish final decisions on a publicly accessible website).

and improves the quality of an agency or court’s decision making.<sup>88</sup>

As noted earlier, one challenge to designing an equitable small claims patent proceeding is a lack of data demonstrating the effects of the current system or hypothetical systems on people of color, women, and other underrepresented groups. It is difficult to collect demographic data showing innovation among different social groups. Although a patent discloses the name of the inventor, the USPTO does not collect demographic data on the inventor’s social identity. The AIA required the USPTO to “establish methods for studying the diversity of patent applicants, including those applicants who are minorities, women, or veterans.”<sup>89</sup> After conducting a study with the U.S. Census Bureau Center for Economic Studies (CES), which compared publicly available data based on the names of patentees with confidential census data, the USPTO concluded:

[t]he analysis was only partially successful. CES was able to match 64.3% of the US-resident data provided by the USPTO. The basic information that the USPTO had collected from inventors—i.e., name, town and state—was not a strong basis for matching with Census data. For example, it was usually not possible to match common names (such as “John Smith” or “Mary Johnson”) in large cities (such as “New York, NY” or “Chicago, IL”). The poor quality of data matching and some statistical bias suggests that the limited information that the USPTO currently collects about inventors is not

sufficient to allow CES to meaningfully to describe the cumulative diversity characteristics of inventors as a group . . . .<sup>90</sup>

Other data sources are also lacking. Interviews with staff from the SBA’s Office of Advocacy suggest that while the Office can effectively track the relationship between innovation and entity size, it confronts significant constraints in examining innovation among inventors who are members of underrepresented groups.

Another challenge is that patent scholars have only recently begun to examine how systemic inequality and the patent system interact. Interdisciplinary scholarship has investigated the extent and causes of race and gender “gaps” in acquiring patents, for example,<sup>91</sup> and Colleen Chien has described additional “inequalities of innovation.”<sup>92</sup> Lateef Mtima has also described using the Constitution’s IP Clause as a way to promote social welfare as well as innovation.<sup>93</sup>

In designing a small claims patent proceeding, policymakers should consider different mechanisms to foster equity. An important first step is to enable the collection of better demographic data, which is critical to better understand the barriers faced by firms and enterprises owned by people of color, women, and other underrepresented groups. (The forum should collect data on other aspects of the proceeding too.<sup>94</sup>) Nonetheless, several possible mechanisms for reducing barriers were suggested to ACUS through this study. Professor Mtima noted, for example, that locating a small claims forum in a geographically diverse area may make the forum

<sup>88</sup> Memorandum for the Heads of Executive Departments and Agencies on Transparency and Open Government, 74 Fed. Reg. 4685 (Jan. 26, 2009).

<sup>89</sup> Leahy-Smith America Invents Act of 2011, Pub. Law No. 112-29, § 29, 125 Stat. 284, 339 (2011).

<sup>90</sup> USPTO, MEMORANDUM ON THE STUDY OF DIVERSITY AMONG PATENT APPLICANTS 2–3, <https://www.uspto.gov/sites/default/files/documents/Determination%20on%20Diversity%20of%20Applicants.pdf>.

<sup>91</sup> See, e.g., Lisa Cook, *Violence and Economic Activity: Evidence from African American Patents, 1870–1940*, 19 J. ECON. GROWTH 221–57 (2014); Diego Kozłowski et al., *Intersectional Inequalities in Science*, 119 PROCS. NAT’L ACAD. SCI. E2113067119 (2022); Paul R. Gugliuzza & Rachel Rebouché, *Gender Inequality in Patent Litigation*, 100 N.C. L. REV. 1683 (2022); Jussi Heikkilä, *IPR Gender Gaps: A First Look at Utility Model, Design Right and Trademark Filings*, 118 SCIENTOMETRICS 869 (2019); Mary T. Hannon, *The Patent Bar Gender Gap: Expanding the Eligibility Requirements to Foster Inclusion and Innovation in the U.S. Patent System*, 10 IP THEORY 1 (2021); Miriam Marcowitz-Bitton et al., *Unregistered Patents & Gender Equality*, 43 HARV. J.L. & GENDER 48 (2020); Allie Porter, *Where Are the Women? The Gender Gap within Intellectual Property*, 28 TEX. INTELL. PROP. L.J. 511 (2020).

<sup>92</sup> Colleen Chien, *The Inequalities of Innovation*, 72 EMORY L. REV. 1 (2022).

<sup>93</sup> Interview with Lateef Mtima, Howard University School of Law; see also Lateef Mtima, *IP Social Justice Theory: Access, Inclusion, and Empowerment*, 55 GONZ. L. REV. 401, 414 (2019).

<sup>94</sup> See Comment of Engine Advocacy & PIPLI (July 5, 2022).

more accessible for smaller entities and diverse inventors.

Dispute resolution systems used internationally and in other contexts also provide models for designing an equitable small claims patent proceeding. A prime example is the IPEC, established in the court system of England and Wales to “ensure that parties without the benefit of large financial resources are not deterred from seeking access to justice because of the high cost of litigation.”<sup>95</sup> A 2015 study for the United Kingdom’s Intellectual Property Office found that judges and IP practitioners were “unanimous” in their assessment that recent reforms to the IPEC had “greatly improved” small entities’ ability to access justice.<sup>96</sup>

Because many programs of administrative adjudication were established, at least in part, to resolve disputes more efficiently or cost-effectively, the PTAB and USITC also provide useful points of comparison.

Outside the patent context, the experience of the new CCB for small copyright claims will serve as an important model for comparison. And outside IP, state small claims courts provide clear inspiration for a small claims patent court. Small claims courts feature informal procedures, reduced fees, and speedy resolution of proceedings. As Suzanne Elwell and Christopher Carlson explain, small claims courts “were established to satisfy the needs of average citizens who, because of the difficulties of litigating in the regular civil courts, were unwilling or unable to resolve a dispute using the existing justice system.” Because small claims courts “are designed for the simple, speedy, and inexpensive adjudication of small civil disputes,” their design

has come to reflect the importance of accessible institutional design.<sup>97</sup>

Policymakers should use caution in modeling a small claims patent proceeding on small claims processes used in other contexts, however. First, the performance of these models is unclear. Data are still unavailable for the CCB, which is a very new forum.<sup>98</sup> Criticisms have been leveled against state small claims processes, and current research is limited on whether state small claims courts effectively remove barriers associated with party status or social identity.<sup>99</sup>

Second, patent litigation routinely involves issues that are far more technical in nature than anything confronted in copyright or other small claims. Third, “small” patent claims are substantially larger than small claims in other contexts. The CCB hears cases involving claims up to \$30,000, and state small claims courts are often limited to claims of only \$5,000–\$10,000. Study participants suggested that small claims in the patent context might be valued in the millions, perhaps even exceeding \$10 million.

Finally, policymakers should give careful thought to any unintended consequences of establishing a small claims patent proceeding within the patent system as it currently exists. Study participants noted that while reducing the cost and duration of patent litigation could help independent inventors and startups access and benefit from the patent system, an imbalanced or misguided approach to adjudicating small patent claims could exacerbate existing problems and open doors to new ones, for example by providing PAEs a less expensive forum in which to pursue claims against small entities.

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<sup>95</sup> HM COURTS & TRIBUNAL SERVICE, GUIDE TO THE INTELLECTUAL PROPERTY ENTERPRISE COURT (IPEC) 3 (2022).

<sup>96</sup> CHRISTIAN HELMERS, YASSINE LEFOULI & LUKE McDONAGH, EVALUATION OF THE REFORMS OF THE INTELLECTUAL PROPERTY ENTERPRISE COURT 2010-2013 34 (2015).

<sup>97</sup> Suzanne E. Elwell & Christopher D. Carlson, *The Iowa Small Claims Court: An Empirical Analysis*, 75 IOWA L. REV. 433, 434 (1990).

<sup>98</sup> Riddhi Setty, *New Copyright Venue Fields Hundreds of Claims, Evoking Optimism*, BLOOMBERG LAW (Jan. 13, 2023, 5:05 AM).

<sup>99</sup> See, e.g., WILLIAM DEJONG, U.S. DEP’T OF JUST., NAT’L INST. OF JUST., SMALL CLAIMS COURT REFORM (1983); Paul Gugliuzza, *Patent Law Federalism*, 2014 WIS. L. REV. 11, 65–66 (2014); Victoria J. Haneman, *Bridging the Gap With a (Purposeful) Restructuring of Small Claims Courts*, 39 W. NEW ENG. L. REV. 457, 462 (2017); Rebecca Sandefur, *Access to Civil Justice and Race, Class, and Gender Inequality*, 34 ANN. REV. OF SOCIOLOGY, 339, 350 (2008); Jessica K. Steinberg, *A Theory of Civil Problem-Solving Courts*, 93 N.Y.U. L. REV. 1579, 1600–04 (2018).

# THE FORUM

A CUS was asked to consider the proper forum for a small claims patent proceeding, “whether within an existing federal institution or independently.” The three most popular options among participants in this study (e.g., public commenters, consultative group members, interviewees) were the U.S. district courts, the USPTO, and the USITC. The potential benefits and drawbacks of each institution are considered in this Part. We also considered the possibility of establishing a new, independent federal institution to adjudicate small patent claims. The final section in this Part briefly addresses other options for which there does not appear to be significant support at this time: the CFC, the Court of International Trade (CIT), and a federally supervised system of private arbitration.<sup>100</sup>

As a legal matter, a proper forum must be consistent with constitutional principles, specifically the separation of powers and the guarantee of a jury trial in suits at common law. This Part begins by addressing constitutional principles policymakers should consider in determining the proper forum for a small claims patent proceeding.

As a policy matter, a proper forum should satisfy certain criteria. To reduce the costs and time associated with patent litigation, the forum should have adequate capacity, ample flexibility to craft procedures and manage cases, and sufficient access to substantive expertise. To induce use of a nonmandatory small claims patent proceeding, the forum should be structured such that stakeholders perceive it to be impartial and unbiased. Meaningful public

engagement may also promote accountability and confidence among stakeholders.

Selecting a proper forum will involve tradeoffs between and choices among competing preferences. For various reasons, some study participants preferred situating a small claims patent proceeding within the existing structure for deciding patent infringement cases; others proposed more dramatic changes. Some preferred the procedural and staffing flexibility of an administrative forum; others were skeptical of adjudicating patent infringement suits outside the Article III courts. As discussed in greater detail below, policymakers will need to consider how the unique institutional characteristics of any potential forum will affect the cost-effectiveness, efficiency, accuracy, and fairness of a small claims patent proceeding.

A key consideration for policymakers is specialization. Policymakers will also need to carefully consider the potential benefits and drawbacks associated with establishing a specialized forum, responsible only for small patent claims or some other limited category of cases, as opposed to assigning a small claims patent proceeding to forum with broader jurisdiction.<sup>101</sup> This is a longstanding debate, particularly in patent law.

The two primary benefits of a specialized forum are increased expertise and efficiency. Specialized courts increase expertise by repeatedly exposing adjudicators to a particular subject matter. Experts, in theory, should write higher-quality opinions that increase legal accuracy, meaning the legal rule is consistent with the underlying policy of the legal regime. In technically complex areas like patent law, specialists have a greater

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<sup>100</sup> One scholar has also proposed that state governments might play a role in developing small claims patent proceedings. See Paul Gugliuzza, *Patent Law Federalism*, 2014 WIS. L. REV. 11, 65–67 (2014).

<sup>101</sup> See Comment of Engine Advocacy & PIPLI (July 5, 2022).

understanding of not only the legal doctrine but also the underlying nonlegal principles, such as scientific facts.<sup>102</sup> Specialization can also promote institutional efficiency. The expertise that judges gain from sitting on specialized tribunals should enable them to adjudicate cases faster.<sup>103</sup>

There are two primary concerns associated with specialized tribunals. First is myopia, which stems from the fact that specialized courts limit the breadth of cases jurists review. This tunnel vision may cause adjudicators to preference the policies furthered by the laws they administer at the expense of competing laws and policies.<sup>104</sup> Further, because specialized courts have fewer peer-level tribunals, competition to write persuasive opinions and dialogue among peer-level tribunals may be diminished. This may inhibit the percolation, sharpening, and exchange of ideas, degrading the quality of opinions. The second common objection to specialized courts is their vulnerability to politicization.

Commentators argue that a one-dimensional docket may allow for ideological appointments.<sup>105</sup> Concentrating judicial power in a small subset of adjudicators enables interest groups to consolidate and focus their energy and resources towards appointments on that court. Moreover, the repetitive nature of the workload may make specialized judges vulnerable to interest groups that routinely argue before them.<sup>106</sup>

The difficult question is whether the benefits of specialized tribunals outweigh the costs associated with them. The United States, especially at the federal level, has a long tradition of generalist jurists. Given this history and the drawbacks of specialization, it is not surprising that it has long been the position of the JCUS that:

Except in limited contexts (i.e., bankruptcy proceedings, international trade matters, and claims against the federal government), the primary trial forum for disputes committed to federal jurisdiction should be a generalist district court whose judges are affiliated with, and required to reside in, the court's general geographic region, and whose facilities are reasonably accessible to litigants, jurors, witnesses, and other participants in the judicial process.<sup>107</sup>

The Administrative Office of the U.S. Courts reiterated this position in recommending against extending the Patent Pilot Program or making it permanent.<sup>108</sup>

Nevertheless, the benefits of a specialized forum may be larger for small patent claims than for other cases. It is likely that having legal and scientific expertise would be beneficial in adjudicating patent infringement claims, which can be technically complex. (For this reason, many countries have established specialized patent tribunals.<sup>109</sup>) Moreover, numerous study participants noted that for a small claims patent tribunal to be successful it must have adjudicators who are committed to the project. Adjudicators with scientific and patent law expertise may be more committed to this task.

A specialized forum could be structured in ways that may limit some of the costs associated with specialization. Policymakers can moderate the degree of specialization by manipulating the forum's jurisdiction. There are two aspects of a forum's jurisdiction that give rise to formalized specialization. First is the breadth of the forum's jurisdiction. Forums with limited jurisdiction hear cases of a particular type—such as tax or bankruptcy—necessarily hear a relatively narrow

<sup>102</sup> David P. Currie & Frank I. Goodman, *Judicial Review of Federal Administrative Action: Quest for the Optimum Forum*, 75 COLUM. L. REV. 1, 67 (1975).

<sup>103</sup> Daniel J. Meador, *An Appellate Court Dilemma and a Solution Through Subject Matter Organization*, 16 U. MICH. J.L. REFORM 471, 475

<sup>104</sup> RICHARD A. POSNER, *THE FEDERAL COURTS: CRISIS AND REFORM* 157 (1985).

<sup>105</sup> *Id.* at 153–56.

<sup>106</sup> Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 25 (1989).

<sup>107</sup> JUD. CONF. OF THE U.S., *LONG RANGE PLAN FOR THE FEDERAL COURTS* 50 (1995)

<sup>108</sup> ADMIN. OFF. U.S. CTS., *FINAL REPORT TO CONGRESS PURSUANT TO SECTION (1)(E) OF THE PILOT PROGRAM IN CERTAIN DISTRICT COURTS* ACT PUB. L. NO. 111-349 (2011) (Apr. 2021), <https://images.law.com/contrib/content/uploads/documents/401/69217/Patent-Pilot-Program-Administrative-Office-report.pdf>.

<sup>109</sup> INT'L CHAMBER OF COMMERCE, *ADJUDICATING INTELLECTUAL PROPERTY DISPUTES* 10 (2016).

range of legal issues, limiting their exposure to the broader legal corpus. Second is the exclusivity of the forum’s jurisdiction—i.e., the extent to which the forum has exclusive authority to hear cases in a particular area of the law. A forum with exclusive jurisdiction over a field of law has greater control to shape that area of the law.

The highest degree of specialization would be to create one forum that hears all small patent claims and does not hear any other case types. This design would give rise to the greatest benefits and costs associated with specialization. Notably, some of the potential costs associated with specialization, such as tunnel vision or lack of percolation of ideas that would lead to a diminishment in opinion quality, may be attenuated by robust appellate review. It is also worth emphasizing that although a forum might have exclusive jurisdiction to hear *small* patent claims, it is unlikely to exert much control over patent law more generally.

Alternatively, it is possible to preserve the benefits of specialization while diminishing the costs of specialization by either vesting multiple forums with authority to administer a small claims patent proceeding or by ensuring that any forum that hears small patent claims also hears other types of cases. In their joint comment to ACUS, Engine Advocacy and the Public Interest Patent Law Institute (PIPLI) suggested that it would be beneficial for adjudicators not to be restricted to patent infringement suits. Both of these latter options may increase the quality of opinions by increasing the percolation of ideas between sister tribunals or by increasing adjudicators’ exposure to legal issues that may limit concerns about tunnel vision.<sup>110</sup>

## CONSTITUTIONAL CONSIDERATIONS

As stakeholders noted, policymakers should consider several constitutional principles in selecting or designing a proper forum to administer a small claims patent proceeding,

specifically separation-of-powers principles governing the assignment of adjudicative proceedings to non-Article III judges and the appointment, supervision, and removal of “Officers of the United States,” as well as the Seventh Amendment’s guarantee of a jury trial in suits at common law.

### ***Assigning Adjudicative Proceedings to Non-Article III Judges***

Article III of the Constitution establishes the federal judiciary—consisting of “one supreme Court” and “such inferior Courts as the Congress may from time to time ordain and establish”—and vests in it the “judicial Power of the United States.” Although Congress may assign adjudicative functions to officials outside the Article III courts, the Constitution limits its power to assign the exercise of the “judicial Power” to such officials.

Article III courts are defined not only by their function but by institutional characteristics. Article III judges must be appointed through presidential nomination and Senate confirmation.<sup>111</sup> Judges have life tenure and may be removed from office only through impeachment by and conviction of high crimes and misdemeanors. They are also constitutionally protected against diminution in salary.<sup>112</sup> These characteristics are meant to protect the integrity of the judiciary and are integral to the constitutional separation of powers.<sup>113</sup>

Officials who lack these characteristics are not “judges” for purposes of Article III. This includes many officeholders involved in adjudicating IP matters, including the USPTO Director, USITC commissioners, and the copyright claims officers that make up the CCB. It also includes many officials who are called “judges” or work in forums called “courts,” including APJs, Administrative Law Judges (ALJs), CFC Judges, Magistrate Judges, Administrative Trademark Judges (ATJs), and Copyright Royalty Judges (CRJs).

<sup>110</sup> Melissa F. Wasserman & Jonathan D. Slack, *Can There be Too Much Specialization? Specialization in Specialized Courts*, 115 NW. L. REV. 1405, 1407–12 (2021).

<sup>111</sup> U.S. CONST. art. II, § 2, cl. 2.

<sup>112</sup> U.S. CONST. art. III, § 1, cl. 1.

<sup>113</sup> *Stern v. Marshall*, 564 U.S. 462 (2011).

Except in limited circumstances, Congress may not confer the government’s “judicial Power” on officials who are not Article III judges. This means that Congress generally may not “withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law, or in equity, or admiralty.”<sup>114</sup> This test is partly historical in nature: “[w]hen a suit is made of ‘the stuff of the traditional actions at common law tried by the courts at Westminster in 1789, and is brought within the bounds of federal jurisdiction, the responsibility for deciding that suit rests with Article III judges in Article III courts.’”<sup>115</sup>

This limitation on congressional power serves two purposes. First, it protects structural interests by maintaining the separation of powers and the system of checks and balances. Second, it protects the interests of litigants by insulating judges from improper influences.

The Court distinguishes between “private rights,” which Congress ordinarily may not withdraw from the cognizance of Article III judges, and “public rights,” which Congress ordinarily may assign to non-Article III decision makers. In general, private rights are matters that are the subject of suits at common law, in equity, or in admiralty. Private rights typically involve “the liability of one individual to another.”<sup>116</sup> Public rights cases, on the other hand, are those “in which the claim at issue derives from a federal regulatory scheme, or in which resolution of the claim by an expert Government agency is deemed essential to a limited regulatory objective within the agency’s authority.” What makes a right “public” as opposed to “private,” the Court has explained, “is that the right is integrally related to particular Federal Government action.”<sup>117</sup>

While public rights claims often arise “between the government and persons subject to its authority,”<sup>118</sup> they need not always involve the government as a party.<sup>119</sup> By way of example, the Court has found proceedings involving two companies involving data sharing,<sup>120</sup> a customer and a broker accused of violating the federal commodities law,<sup>121</sup> and, of course, a patent owner and a third-party challenging the validity of the patent<sup>122</sup> all to involve public rights.

The line between public and private rights is not always clear. By its own admission, the Court has not “definitively explained” the distinction between them, and its precedents have “not been entirely consistent.”<sup>123</sup> Some patent matters are clearly matters of public right that may be adjudicated by non-Article III judges in non-Article III forums. Applications for patents have been examined and decided by executive-branch officials since 1790. Prior to the AIA’s transition to a “first-to-file” system, executive-branch officials also decided interference proceedings, in which multiple inventors claimed to be the first to invent a claimed invention and therefore entitled to its patent. The Court upheld the constitutionality of interference proceedings in 1899.<sup>124</sup>

More recently, the Court upheld the authority of Congress to give executive-branch officials jurisdiction, concurrent with the federal district courts, to hear third-party challenges to the validity of granted patents. The AIA established the PTAB, which, in addition to hearing appeals from adverse decisions of patent examiners, provides a forum for deciding validity challenges through IPR. Although patent validity disputes were long adjudicated solely by Article III courts, the Supreme Court, in *Oil States Energy Services v. Greene’s Energy Group*, held that Congress

<sup>114</sup> *Stern*, 564 U.S. at 484 (quoting *Murray’s Lessee v. Hoboken Land & Improvement Co.*, 59 U.S. (18 How.) 272, 284 (1856)).

<sup>115</sup> *Stern*, 564 U.S. at 484 (quoting *N. Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 90 (1982)).

<sup>116</sup> *Crowell v. Benson*, 285 U.S. 22, 51 (1932).

<sup>117</sup> *Stern*, 564 U.S. at 465.

<sup>118</sup> *Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC*, 138 S. Ct. 1365, 1373 (2018) (quoting *Crowell*, 285 U.S. at 50); see also *Ex parte Bakelite Corp.*, 279 U.S. 438, 451 (1929)).

<sup>119</sup> *Stern*, 564 U.S. at 498.

<sup>120</sup> *Thomas v. Union Carbide Agric. Prods. Co.*, 473 U.S. 568 (1985).

<sup>121</sup> *Commodity Futures Trading Comm’n v. Schor*, 478 U.S. 833 (1986).

<sup>122</sup> *Oil States*, 138 S. Ct. 1365.

<sup>123</sup> *Id.* at 1373.

<sup>124</sup> *United States v. Duell*, 172 U.S. 576 (1899).



could authorize executive-branch officials to review patent validity through IPR. Looking to the historical record “from the founding to today,” the Court held that the grant of a patent is a matter involving public rights. It found that an initial patent grant represents a public franchise conferred by an administrative agency on the basis of statutory law, and that administrative reexamination of this initial grant similarly involves a public right. Noting the close parallels between IPR and interference proceedings, the Court rejected the argument that because IPR is initiated by a private party and does not involve a waiver of sovereign immunity, it involves a private right.

In a dissenting opinion, Justice Gorsuch and Chief Justice Roberts interpreted the historical record differently. They asserted that because the validity of an issued patent was decided by English courts in the eighteenth century, reexamination of the validity of the granted patent represents a private right that cannot be “withdraw[n] from judicial cognizance.”<sup>125</sup> The majority responded that although English courts often decided patent validity, patent revocation by the Privy Council was also a “prominent feature” of the English system in the eighteenth century. (The Privy Council is an advisory body to the British monarch that long exercised substantial executive power and operated essentially as an administrative body.) The majority and dissent vigorously dispute the significance of the Privy Council’s role around the time of the Constitution’s ratification and specifically of the Council’s last revocation in 1779.

Although the majority in *Oil States* placed validity review within the scope of the public rights doctrine, it explicitly declined to address whether infringement was a matter of public or private right.<sup>126</sup> Lower courts have not addressed the question since *Oil States*.

If an initial patent grant represents a public franchise conferred by an executive-branch agency, as the Court held in *Oil States*, one might argue that disputes involving unauthorized use of that franchise similarly involve public rights. Two non-Article III forums—the CFC and USITC—currently decide infringement cases, but both are distinguishable from a hypothetical small claims patent proceeding. The CFC has jurisdiction to decide cases in which a patent owner alleges infringement by the United States. Because the court’s jurisdiction over patent infringement suits against the federal government is explicitly premised on a statutory waiver of sovereign immunity, the comparison to a small claims patent proceeding is inapt.<sup>127</sup>

The USITC can issue exclusion orders under section 337 of the Tariff Act of 1930 against goods that infringe a valid U.S. patent.<sup>128</sup> Although section 337 proceedings can affect private rights, the Federal Circuit has noted that such proceedings may appropriately be assigned to an administrative agency because Congress created a new statutory cause of action as part of an overall public regulatory scheme “directed to the protection of the public interest from unfair trade practices in international commerce.”<sup>129</sup> There is, at present, no clear “overall public regulatory scheme” that would be protected by a small claims patent proceeding.

One might argue that inherent in Congress’s constitutional power to secure for limited times to inventors the exclusive right to their discoveries is the power to determine the optimal forum for adjudicating alleged infringement. But Congress also has the authority to establish bankruptcy laws, and the Court has rejected the argument that this power permits Congress to wholly remove bankruptcy adjudication from the cognizance of the Article III courts.<sup>130</sup>

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<sup>125</sup> *Oil States*, 138 S. Ct. at 1373 (Gorsuch, J., dissenting) (citing *Stern*, 564 U.S. at 484).

<sup>126</sup> *Id.* at 1379.

<sup>127</sup> Tucker Act, ch. 359, 24 Stat. 505 (1887) (codified as amended in scattered sections of 28 U.S.C.); see also *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 68–69 (1989) (Scalia, J., concurring in part).

<sup>128</sup> 19 U.S.C. § 1337.

<sup>129</sup> *Akso N.V. v. USITC*, 809 F.2d 1471, 1488 (Fed. Cir. 1986).

<sup>130</sup> *N. Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 73 (1982).

In *Oil States*, both the majority and minority considered the role of the Privy Council in reassessing the validity of granted patents in eighteenth-century England. A future Court might similarly consider the role that the Privy Council played in eighteenth-century patent infringement cases. According to recent historical research, however, the Privy Council played essentially no role in adjudicating patent infringement in England after the seventeenth century.<sup>131</sup>

Turning to other forms of IP, the USCO in analyzing small copyright claims declined to definitively conclude whether copyright infringement suits involved public or private rights but noted that “at least some types of small copyright claims should be amenable to non-Article III resolution.”<sup>132</sup> Congress ultimately chose to establish the CCB as a voluntary tribunal to minimize separation-of-powers and other constitutional concerns.

Justice Thomas has suggested that trademark infringement suits “might be of a type that must be decided by ‘Article III judges in Article III courts.’”<sup>133</sup> There are key differences between patents and trademarks, however. In that opinion, Justice Thomas described trademarks as private property rights that were not created by statute and do not depend on the government for their enforcement. In his majority opinion in *Oil States*, on the other hand, he described a patent as a public franchise and a “creature of statute.”<sup>134</sup>

As discussed earlier, the Supreme Court has not addressed whether patent infringement suits involve matters of private right. Assuming for argument’s sake that they do, the Court has recognized two circumstances in which Congress might assign officials other than Article III judges to adjudicate private rights disputes.

First, the Court has upheld the establishment of non-Article III “adjuncts” of Article III courts to perform limited factfinding in cases involving statutorily created rights subject to the supervision of an Article III court. When Congress creates a statutory right, it “clearly has the discretion, in defining that right, to create presumptions, or assign burdens of proof, or prescribe remedies; it may also provide that persons seeking to vindicate that right must do so before particularized tribunals created to perform the specialized adjudicative tasks related to that right.”<sup>135</sup> The Court has upheld, for example, the constitutionality of an executive-branch agency that was authorized to make “only specialized, narrowly confined factual determinations regarding a particularized area of law,” that “engaged in statutorily channeled factfinding functions,” and that had only a “limited power” to issue orders. Critically, orders “could be enforced only by order of the district court,” and district courts could set aside orders unsupported by substantial evidence.<sup>136</sup>

Because the Supreme Court has found that patents are “creatures of statute,” it might be permissible for Congress to give non-Article III adjudicators limited jurisdiction to conduct initial factfinding or play some other, limited role in patent infringement cases subject to adequate supervision by an Article III court. But more recent decisions of the Court make clear that, to be adequate, “supervision” by an Article III court must be robust. In *Stern v. Marshall*, for example, the Court considered whether the bankruptcy courts, as then constituted, could be considered adjuncts of Article III courts. It found that a tribunal with the power to enter final judgments subject to review under traditional appellate standards and only if a party chooses to appeal was “no mere adjunct of anyone.” The Court also emphasized the limited factfinding role of tribunals previously found to be adjuncts

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<sup>131</sup> Brief for H. Tomás Gómez-Arostegui and Sean Bottomley as Amici Curiae in Support of Neither Party at 34, *Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC*, 138 S. Ct. 1365 (2018) (No. 16-712) (citing Sean Bottomley, Patent Cases in the Court of Chancery, 1714–58, 35 J. LEGAL HIST. 31–32, 37 (2014); H. Tomás Gómez-Arostegui, *Stationers v Seymour (1677)*, in LANDMARK CASES IN INTELLECTUAL PROPERTY LAW 21, 38, & 38 n.74 (Jose Bellido ed., 2017)).

<sup>132</sup> U.S. COPYRIGHT OFF., COPYRIGHT SMALL CLAIMS I, 40–41 (2013).

<sup>133</sup> *B&B Hardware, Inc. v. Hargis Indus.*, 575 U.S. 138 (2015) (Thomas, J., dissenting).

<sup>134</sup> *Oil States*, 138 S. Ct. at 1374.

<sup>135</sup> *N. Pipeline*, 458 U.S. at 83.

<sup>136</sup> *N. Pipeline*, 458 U.S. at 77–87 (discussing *Crowell v. Benson*, 285 U.S. 22 (1932)).

of Article III courts.<sup>137</sup> To be considered an adjunct of an Article III court, then, the powers of the forum that administers a small claims patent proceeding would likely need to be circumscribed and its decisions, particularly on matters of law, would likely need to be subject to rigorous judicial review.

Second, the Court has held that the parties to a private rights dispute may, in some circumstances, consent to its resolution by officials who are not Article III judges. Although the Court has “declined to adopt formalistic and unbending rules” on the matter, given Article III’s structural purpose in maintaining the system of checks and balances, there are clearly limits on litigants’ ability to consent to adjudication of private rights outside the Article III courts.

The Court has stated that consent might be sufficient in cases where adjudication outside the Article III courts would not “usurp the constitutional prerogatives of the Article III courts.”<sup>138</sup> Factors the Court has considered in reviewing Article III challenges include “the extent to which the ‘essential attributes of judicial power’ are reserved to Article III courts, and, conversely, the extent to which the non-Article III forum exercises the range of jurisdiction and powers normally vested only in Article III courts, the origins and importance of the right to be adjudicated, and the concerns that drove Congress to depart from the requirements of Article III.”<sup>139</sup>

In its most recent pronouncement, *Wellness International Network, Ltd. v. Sharif*, the Court held that parties may consent to adjudication by non-Article III bankruptcy judges so long as Article III courts retain supervisory authority over the process, the scope of the non-Article III forum is limited, and Congress’s aim in assigning

adjudication to the non-Article III forum is not to aggrandize its own power at the expense of the judiciary. In a vigorous dissent, however, Chief Justice Roberts and Justice Thomas strongly emphasized that individual parties “‘cannot by consent cure’ an Article III violation implicating the structural separation of powers.”<sup>140</sup>

In its report on copyright small claims, the USCO concluded that a voluntary system for adjudication of copyright small claims outside the Article III courts would likely satisfy the constitutional separation of powers given the limited scope of the non-Article III tribunal and the fact that, as a practical matter, “many of the cases that would presumably be adjudicated in an alternative system could never be practically litigated in an Article III court.”<sup>141</sup> Similar considerations would apply in the patent context.

As a final note, if patent infringement is a matter of public right that Congress may assign to a non-Article III tribunal, the Constitution may still require that at least some issues decided by the non-Article III tribunal be subject to judicial review.<sup>142</sup> In *Oil States*, for example, the Supreme Court emphasized that it need not consider whether IPR would be constitutional “without any sort of intervention by a court at any stage of the proceedings.”<sup>143</sup> If patent infringement is a matter of private right, it is almost certain that the decisions of a non-Article III tribunal must be subject to judicial review.

#### ***Right to a Jury Trial in Common-Law Suits***

The Seventh Amendment provides that “the right of trial by jury shall be preserved” in “Suits at common law.”<sup>144</sup> Although the text of the Seventh Amendment contains what seems like a small-claims exception, limiting the Amendment’s application to suits “where the value in

<sup>137</sup> *Stern v. Marshall*, 564 U.S. 462, 488 (2011).

<sup>138</sup> *Wellness Int’l Network, Ltd. v. Sharif*, 575 U.S. 665, 679 (2015).

<sup>139</sup> *CFTC v. Schor*, 478 U.S. 833, 851 (1986) (citing *Thomas v. Union Carbide Agr. Prod. Co.*, 473 U.S. 568, 587 (1985); *N. Pipeline*, 458 U.S. at 84–86).

<sup>140</sup> *Wellness Int’l*, 575 U.S. at 1944–45; see also F. Andrew Hessick, *Consenting to Adjudication Outside the Article III Courts*, 71 VAND. L. REV. 715 (2018).

<sup>141</sup> U.S. COPYRIGHT OFF. COPYRIGHT SMALL CLAIMS 41 (2013).

<sup>142</sup> See generally Richard H. Fallon, Jr., *Of Legislative Courts, Administrative Agencies, and Article III.*, 101 HARV. L. REV. 915 (1988).

<sup>143</sup> *Oil States Energy Servs., LLC v. Greene’s Energy Grp.*, 138 S. Ct. 1365, 1379 (2018) (quoting *Atlas Roofing Co. v. Occupational Safety & Health Rev. Comm’n*, 430 U.S. 442, 455 n.13 (1977)).

<sup>144</sup> U.S. CONST. amend. VII.

controversy shall exceed twenty dollars,” that exception is plainly irrelevant in the patent context where cases regularly involve values into the millions.<sup>145</sup>

The jury trial right is limited to “Suits at common law.” The common law is distinguished from equity, admiralty, and matters of public right. As a historical matter, different courts had jurisdiction over law, equity, and admiralty. These courts often used different procedures, offered different remedies, and featured different factfinders. Law courts typically offered damages, for example, while equity courts could award injunctions and specific performance. Suits at common law were typically tried before a jury, while actions in equity were typically tried as bench trials. Although federal district courts are now courts of general jurisdiction with authority to hear all varieties of civil actions, the availability of a jury trial right under the Seventh Amendment still turns on whether or not a suit exists at common law.

As discussed in the previous section, claims involving public rights may be assigned to tribunals in which there is no opportunity for a jury trial. Indeed, the Court has held that “when Congress properly assigns a matter to adjudication in a non-Article III tribunal, ‘the Seventh Amendment poses no independent bar to the adjudication of that action by a nonjury factfinder.’”<sup>146</sup> If patent infringement is a matter of public right, then, Congress may, consistent with the Seventh Amendment, provide for the adjudication of small patent claims without the right to a jury trial.<sup>147</sup>

The Seventh Amendment “preserves” the right to a jury trial in suits at common law, which the Supreme Court has interpreted to mean that the Amendment guarantees parties the right to a jury trial as provided by the English common law at the time of the Amendment’s ratification in 1791. For a statutory cause of action, such as patent

infringement, courts examine “both the nature of the action and of the remedy sought” to determine whether the action in question is analogous to cases tried in the law courts. Under the first part of this test, courts “compare the statutory action to 18th-century actions brought in the courts of England prior to the merger of the courts of law and equity.” Under the test’s second and more important part, courts “examine the remedy sought and determine whether it is legal or equitable in nature.”<sup>148</sup>

On the question of whether the Seventh Amendment gives parties in patent infringement litigation a right to a jury trial, most commentators cite the Supreme Court’s opinion in *Markman v. Westview Instruments*. In that case, the Court held that claim construction is a question of law which may be resolved by a judge rather than a jury. In so holding, the Court stated that “there is no dispute that infringement cases today must be tried to a jury, as their predecessors were more than two centuries ago.”<sup>149</sup> It cited a single English case as support.

The Federal Circuit has addressed in greater detail whether the Seventh Amendment guarantees parties the right to a jury trial in patent infringement suits. Before and since *Markman*, the court has repeatedly held that the right to a jury trial turns on whether the patent owner seeks a legal remedy (e.g., damages) or an equitable remedy (e.g., injunctive relief).<sup>150</sup> In the principal case, *In re Lockwood*, the court held that a jury trial is required when a patent owner seeks damages but is not required when a patent owner seeks injunctive relief. The court noted that, in 1791, patent infringement claims in England could be raised in both actions at law and suits in equity and that the choice of whether a patent owner raised the action at law or in equity depended on the type of remedy sought. If a patent owner sought an injunction, he or she

<sup>145</sup> Note, *The Twenty Dollars Clause*, 118 HARV. L. REV. 1665, 1673–76 (2005).

<sup>146</sup> *Oil States*, 138 S. Ct. at 1378 (quoting *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 53–54 (1989)).

<sup>147</sup> Cf. William Baude, *Adjudication Outside Article III*, 133 HARV. L. REV. 1511, 1570–71 (2020).

<sup>148</sup> *Tull v. United States*, 481 U.S. 412, 417–18 (1987).

<sup>149</sup> 517 U.S. 370, 377 (1996).

<sup>150</sup> *In re Tech. Licensing Corp.*, 423 F.3d 1286 (Fed. Cir. 2005); *Tegal Corp. v. Tokyo Electron Am., Inc.*, 257 F.3d 1331 (Fed. Cir. 2001); *In re Lockwood*, 50 F.3d 966 (Fed. Cir. 1995), *vacated sub nom.*, *Am. Airlines v. Lockwood*, 515 U.S. 1182 (1995).

went to an equity court. If a patent owner sought only damages, however, a law court was used.<sup>151</sup>

Recent research suggests that the history of English common law patent cases is more complicated than what courts and commentators have generally understood. In a forthcoming article, Professors Gómez-Arostegui and Bottomley conclude, based on an exhaustive review of eighteenth-century English cases, that even when a plaintiff filed a patent infringement suit in a court of equity, the case was referred to a court at law if the defendant counterclaimed invalidity. They argue that a defendant who counterclaims invalidity thus has a Seventh Amendment right to a jury trial even if the plaintiff seeks only equitable remedies.<sup>152</sup>

The history of patent litigation is ultimately difficult to determine because patent infringement litigation, as we know it today, was so new in 1791. Patents were viewed as a royal prerogative until at least 1624, when the English Parliament enacted the Statute of Monopolies, and the modern form of patent infringement litigation emerged slowly during the seventeenth and eighteenth centuries.<sup>153</sup> English and Colonial American practice differed in several critical respects during this period. When the Constitution federalized patent law in 1789 and the Seventh Amendment was ratified in 1791, the first general patent laws in the United States were only a few years old.

Further, as described earlier, there is a long history of trying patent infringement disputes as bench trials. Indeed, between the mid-nineteenth century and the 1980s, most disputes were tried in equity as bench trials. And after 1870, equity courts also had statutory authority to award royalties and damages in addition to traditional equitable remedies.

Two juryless forums, the CFC and the USITC, currently decide patent infringement disputes, but actions in both forums involve unique public rights rather than suits that would have been tried at common law in the eighteenth century. The CFC decides suits against the government under a statutory waiver of sovereign immunity. Such suits were unknown to eighteenth-century common law.<sup>154</sup> As for the USITC, the Federal Circuit has held that orders directing the payment of civil penalties to the government (rather than damages to the patentee) involve public, not private, rights.<sup>155</sup> And USITC proceedings that result in an exclusion order or a cease-and-desist order provide equitable rather than legal remedies.<sup>156</sup>

Even if the Seventh Amendment grants parties in most infringement suits the right to a jury trial, however, the law is clear that a party can choose to waive its Seventh Amendment right to a jury trial so long as the waiver is knowing and voluntary.<sup>157</sup> Accordingly, while the Seventh Amendment might prevent the government from mandating that plaintiffs or defendants to a patent infringement suit participate in a proceeding in which there is no right to a jury trial, it would not appear to bar a voluntary system in which parties consented to proceed without a jury.

The USCO reached a similar conclusion in considering the establishment of a potential small claims copyright court.<sup>158</sup> In part to avoid Seventh Amendment concerns, Congress ultimately established the juryless CCB as a voluntary forum.

### ***Appointment of Officers***

The Constitution's Appointments Clause sets forth minimum requirements for appointing

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<sup>151</sup> *In re Lockwood*, 50 F.3d at 976.

<sup>152</sup> Tomás Gómez-Arostegui & Sean Bottomley, *Patent-Infringement Suits and the Right to Jury Trial*, 72 AM. U.L. REV. (forthcoming 2023).

<sup>153</sup> Adam Mossoff, *Rethinking the Development of Patents: An Intellectual History, 1550–1800*, 52 HASTINGS L.J. 1255 (2001).

<sup>154</sup> *McElrath v. United States*, 102 U.S. 426, 440 (1880).

<sup>155</sup> *Ninestar Tech. Co. v. USITC*, 667 F.3d 1373, 1383–84 (Fed. Cir. 2012).

<sup>156</sup> *See About Section 337*, USITC, [https://www.usitc.gov/intellectual\\_property/about\\_section\\_337.htm](https://www.usitc.gov/intellectual_property/about_section_337.htm).

<sup>157</sup> *CFTC v. Schor*, 478 U.S. 833, 848–49 (1986); *Seaboard Lumber Co. v. United States*, 903 F.2d 1560, 1563 (Fed. Cir. 1990); *Civil v. Waterman S.S. Corp.*, 217 F.2d 94, 97 (2d Cir. 1954).

<sup>158</sup> U.S. COPYRIGHT OFF., *COPYRIGHT SMALL CLAIMS 27–29* (2013).

“officers of the United States.”<sup>159</sup> Officers are those federal government officials who “exercise[] significant authority pursuant to the laws of the United States.”<sup>160</sup> The Supreme Court has distinguished officers from “employees,” who do not exercise such authority. The Constitution does not regulate the appointment of employees; most federal civilian employees are hired according to merit systems principles under the civil service laws.

Officers must be appointed by presidential nomination, by and with the advice and consent of the Senate, except that Congress may by law vest the appointment of “inferior officers” in the President alone, the courts, or the heads of departments.<sup>161</sup> Inferior officers are “officers whose work is directed and supervised at some level by others who were appointed by presidential nomination with the advice and consent of the Senate.”<sup>162</sup>

The Supreme Court has found a wide range of adjudicative positions established by statute to be “officers” for purposes of the Appointments Clause, including District Court and Circuit Judges,<sup>163</sup> the heads of administrative agencies and members of multi-member agencies, Magistrate Judges,<sup>164</sup> district court clerks,<sup>165</sup> ALJs,<sup>166</sup> APJs,<sup>167</sup> CRJs,<sup>168</sup> Judges of the Coast Guard Court of Criminal Appeals,<sup>169</sup> special masters within the CFC who decide Vaccine Act claims,<sup>170</sup> and Special Trial Judges who assist the Tax Court.<sup>171</sup> It is likely that the Court would also

find officials who, by statute, have authority to hear and decide small claims patent disputes to be “Officers of the United States” for purposes of the Appointments Clause.<sup>172</sup>

The question, then, is whether such officials must, as a constitutional matter, be appointed through presidential nomination and Senate confirmation, or whether such officials would be “inferior officers” whose appointment Congress may by law vest in the President alone, a court of law, or a department head. Although Congress likely has substantial discretion in this respect, there may be important structural consequences if Congress assigns authority to hear and decide small claims patent disputes to inferior officers appointed by the President alone, a court of law, or a department head. Such questions have featured prominently in litigation and commentary regarding the appointment of adjudicators including APJs,<sup>173</sup> ALJs,<sup>174</sup> and CRJs.<sup>175</sup>

First, Congress would need to ensure that the appointing official is indeed a court of law for constitutional purposes. For Appointments Clause purposes, a court of law may be an Article III court or a court that Congress establishes under its Article I power to “constitute Tribunals inferior to the supreme Court.”<sup>176</sup> A department is any “freestanding component of the Executive Branch, not subordinate to or contained within any such component.” The head of a department

<sup>159</sup> U.S. CONST. art. II, § 2, cl. 2.

<sup>160</sup> *Buckley v. Valeo*, 424 U.S. 1, 126 (1976).

<sup>161</sup> U.S. CONST. art. II, § 2, cl. 2.

<sup>162</sup> *Edmond v. United States*, 520 U.S. 651, 652 (1997).

<sup>163</sup> *See In re Sealed Case*, 838 F.2d 476, 483 (D.C. Cir.), *rev'd sub nom. Morrison v. Olson*, 487 U.S. 654 (1988).

<sup>164</sup> *Go-Bart Importing Co. v. United States*, 282 U.S. 344, 352 (1931); *Rice v. Ames*, 180 U.S. 371, 378 (1901); *United States v. Allred*, 155 U.S. 591 (1895).

<sup>165</sup> *Ex parte Hennen*, 38 U.S. (13 Pet.) 225, 258 (1839).

<sup>166</sup> *Lucia v. SEC*, 138 S. Ct. 2044 (2018).

<sup>167</sup> *United States v. Arthrex*, 141 S. Ct. 1970 (2021).

<sup>168</sup> *Intercollegiate Broadcasting Sys., Inc. v. Copyright Royalty Bd. & Librarian of Cong.*, 796 F.3d 111 (D.C. Cir. 2015); *see also SoundExchange, Inc. v. Librarian of Cong.*, 571 F.3d 1220, 1226–27 (D.C. Cir.) (Kavanaugh, J., concurring).

<sup>169</sup> *Edmond v. United States*, 520 U.S. 651 (1997) (Coast Guard Court of Criminal Appeals).

<sup>170</sup> *Masias v. Sec’y of Health & Hum. Servs.*, 634 F.3d 1283, 1295 (Fed. Cir. 2011).

<sup>171</sup> *Freytag v. Comm’r*, 501 U.S. 868, 881–82 (1991).

<sup>172</sup> *Cf. Russell W. Jacobs, The Copyright Claims Board and the Appointments Clause*, 2021 U. ILL. L. REV. ONLINE 85 (2021).

<sup>173</sup> *United States v. Arthrex*, 141 S. Ct. 1970 (2021); John Duffy, *Are Administrative Patent Judges Unconstitutional?*, 77 GEO. WASH. L. REV. 905 (2012).

<sup>174</sup> *Lucia v. SEC*, 138 S. Ct. 2044 (2018).

<sup>175</sup> *Intercollegiate Broadcasting Sys., Inc. v. Copyright Royalty Bd.*, 796 F.3d 111 (D.C. Cir. 2015).

<sup>176</sup> *Freytag*, 501 U.S. at 888–90.

may be a single individual or a multimember body.<sup>177</sup>

Second, Congress would need to ensure that the work of such officers “is directed and supervised at some level by others who were appointed by presidential nomination with the advice and consent of the Senate.”<sup>178</sup> This would likely require that the decisions of those officials be reviewable by a principal officer or a multimember body of principal officers within the same branch of government.<sup>179</sup>

### ***Supervision and Removal of Officers***

Article III judges have life tenure, may not be removed from office except on impeachment for and conviction of high crimes and misdemeanors, and are protected from diminution in salary. While non-Article III officers, like all “civil Officers of the United States,” may also be removed from office through impeachment and conviction, the Constitution otherwise leaves the question of their supervision and removal unregulated.

To insulate non-Article III adjudicators from undue influences and thereby promote impartial decision making, Congress has enacted laws restricting the ability of other officials to supervise and discipline them and remove them from office. Depending on the position, statutes may govern, among other things, the assignment of job duties, compensation, and performance appraisal. Statutes may also set forth limited grounds for which discipline or removal from office may be appropriate, specify the official or body responsible for determining whether discipline or removal of an adjudicator is warranted, and establish procedures for

discipline and removal. Such laws exist for a wide range of officials engaged in adjudicating IP cases, including ALJs, APJs, CFC Judges, Copyright Claims Officers (CCOs), and Magistrate Judges.

Although Congress may insulate non-Article III adjudicators through such laws, the way in which it does so may raise constitutional concerns. As an initial matter, the separation of powers prevents Congress from reserving a role for itself in the process for removing officials outside the legislative branch.<sup>180</sup> Congress may provide for-cause removal protection for members of politically balanced, multi-member agencies that perform “quasi-judicial” or “quasi-legislative” functions,<sup>181</sup> but it may not limit the President’s ability to remove the head of a single-director agency that perform clearly “executive” functions.<sup>182</sup> Congress may provide for-cause removal protection for inferior officers. As a general principle, however, it may not establish multiple layers of for-cause removal protection—that is, by providing that an inferior officer can only be removed for cause by a noninferior officer, called a “principal” officer, whom the President in turn can only remove for cause—at least where the inferior office by law performs functions that are central to the functioning of the executive branch.<sup>183</sup> The Supreme Court has not yet resolved the application of that principle to an important class of executive-branch adjudicators (ALJs),<sup>184</sup> and appeals courts have reached different conclusions.<sup>185</sup>

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<sup>177</sup> *Free Enter. Fund v. Pub. Co. Accounting Oversight Bd.*, 561 U.S. 477, 510–13 (2010); see also John Duffy, *Are Administrative Patent Judges Unconstitutional?*, 77 GEO. WASH. L. REV. 905 (2012) (arguing that the USPTO Director is not a department head for purposes of the Appointments Clause because the Director is subordinate to the Secretary of Commerce).

<sup>178</sup> *Edmond v. United States*, 520 U.S. 651, 662 (1997).

<sup>179</sup> See *Arthrex*, 141 S. Ct. 1970.

<sup>180</sup> *Myers v. United States*, 272 U.S. 52 (1926).

<sup>181</sup> *Humphrey’s Ex’r v. United States*, 295 U.S. 602 (1935).

<sup>182</sup> *Seila Law, LLC v. CFPB*, 140 S. Ct. 2183 (2020); *Collins v. Yellen*, 141 S. Ct. 1761 (2021).

<sup>183</sup> *Free Enterprise Fund v. Pub. Co. Acct. Oversight Bd.*, 561 U.S. 477 (2010).

<sup>184</sup> *Free Enterprise*, 561 U.S. at 504 n.10; see also *Free Enterprise Fund v. Pub. Co. Acct. Oversight Bd.*, 537 F.3d 667 (D.C. Cir. 2008) (Kavanaugh, J., dissenting).

<sup>185</sup> *Decker Coal Co. v. Pehringer*, 8 F.4th 1123 (9th Cir. 2021); *Calcutt v. Fed. Deposit Ins. Corp.*, 37 F.4th 293 (6th Cir. 2022); *Jarkesy v. SEC*, 34 F.4th 446, *reh’g denied en banc*, 51 F.4th 644 (5th Cir. 2022); see also *USDA v. Fleming*, 987 F.3d 1093 (D.C. Cir. 2021) (Rao, J., concurring in part and dissenting in part).

## DISTRICT COURTS

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Many public commenters supported locating a potential small claims patent proceeding within the district courts.<sup>186</sup> The district courts offer several benefits as a potential forum, but aspects of their institutional design might also pose challenges for implementing a small claims patent proceeding. After providing a brief overview of district courts' structure and operation, this section describes the potential benefits and drawbacks of the district courts as a forum for adjudicating small patent claims and options for establishing a small claims patent proceeding in the district courts. Of course, policymakers should consult the JCUS before implementing any specific proposal to establish a small claims patent proceeding within the federal courts.

### *About the District Courts*

The 94 district courts, established under Article III of the Constitution, are the general trial courts for the federal court system. They hear civil cases in law, equity, and admiralty as well as criminal cases. Each state or territory includes at least one federal judicial district, and each district includes at least one courthouse. There are more than 670 District Judges nationwide. As Article III judges, District Judges are appointed through presidential nomination and Senate confirmation, have life tenure, and are protected against diminution in salary.<sup>187</sup>

District courts also include non-Article III judicial officers who lack one or more of these characteristics. Magistrate Judges, who assist courts with a wide variety of cases, are appointed by a majority vote of the District Judges for a district and serve four- or eight-year terms.<sup>188</sup> Bankruptcy Judges also serve as judicial officers of district courts but hear only bankruptcy cases. They are appointed by a majority vote of Circuit Judges and serve 14-year terms.<sup>189</sup> Support

services for the district courts are provided by the Administrative Office of the U.S. Courts, a judicial-branch agency supervised by the JCUS.<sup>190</sup>

The Supreme Court has the congressionally delegated power to prescribe general rules of practice, procedure, and evidence for district court proceedings.<sup>191</sup> Civil proceedings generally are conducted according to the *Federal Rules of Civil Procedure* (FRCP) and *Federal Rules of Evidence* (FRE). These rules are created and revised through a lengthy and complex rulemaking procedure involving consideration by an advisory committee; opportunity for and consideration of public comments; approval by the Standing Committee of the Judicial Conference of the United States, the Judicial Conference, and the Supreme Court; and a lengthy congressional review period.<sup>192</sup>

Individual districts can also adopt local rules after giving appropriate public notice and an opportunity for comment. Local rules must be consistent with the FRCP and FRE.<sup>193</sup> Individual judges also have substantial discretion to manage individual cases and their caseloads generally such as through the issuance of standing orders.

### *Patent Adjudication in the District Courts*

Most patent infringement litigation takes place in the district courts. A key benefit of situating a small claims patent proceeding in the district courts would be the relative ease with which it could be accomplished. A small claims patent proceeding could be operationalized in some or all district courts without significant legislative changes, without the need to build a new institution, and without substantially disrupting the status quo. Another benefit is that separation-of-powers, the Seventh Amendment, and other constitutional questions are more easily avoided.

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<sup>186</sup> See, e.g., Comment of Jeff Hardin (Sept. 2, 2022); Comment of Curt Evans (Aug. 26, 2022); Comment of US Inventor, Inc. (Aug. 26, 2022).

<sup>187</sup> 28 U.S.C. ch. 5.

<sup>188</sup> 28 U.S.C. ch. 43.

<sup>189</sup> 28 U.S.C. ch. 6.

<sup>190</sup> 28 U.S.C. ch. 41.

<sup>191</sup> 28 U.S.C. § 2072.

<sup>192</sup> *About the Rulemaking Process*, U.S. COURTS, <https://www.uscourts.gov/rules-policies/about-rulemaking-process>.

<sup>193</sup> 28 U.S.C. § 2071(b).



On the other hand, several structural aspects of the district courts may contribute to the high costs and long duration of patent infringement suits. First, district courts rely on formal rules of practice, procedure, and evidence that are intended for use in a wide variety of cases—including different types of cases and cases involving higher- and lower-value claims. Aspects of the FRCP and FRE that might substantially affect the cost and duration of patent suits include formal pleadings, extensive discovery, extensive motions practice, reliance on traditional adversarial procedures to obtain expert evidence, and rules of evidence designed to facilitate factfinding by lay jurors.

There is a process in place for the federal judiciary to revise the FRCP and FRE, of course, and the courts have periodically developed supplemental rules for use in particular case types. (The Supreme Court recently amended the FRCP to include special rules for social security actions, for example.) Indeed, Senator Grassley introduced legislation in 2015 that would have directed the Judicial Conference of the United States to develop rules and procedures to “address concerns regarding the asymmetries in discovery burdens and costs that may arise” in patent litigation.<sup>194</sup> But, as noted above, the process for revising the FRCP and FRE can be lengthy and complex. Moreover, the Rules Enabling Act authorizes the Supreme Court to prescribe “general” rules of practice, procedure, and evidence.<sup>195</sup> The Judicial Conference strongly favors transsubstantive rules, i.e., rules that apply in all cases regardless of the size or subject matter of litigation.<sup>196</sup> Rules also may not “abridge, enlarge or modify any substantive right.”<sup>197</sup>

As an alternative to adopting nationwide rules for hearing small patent claims, individual district courts could adopt local rules, consistent with the

FRCP and FRE, that approximate a small claims process. As noted above, the process for adopting local rules is much simpler than the process for revising the FRCP and FRE. At least 35 federal district courts have already adopted local rules to address issues specific to patent litigation, including suggested pleading forms like claim construction and infringement charts, expanded expert discovery, and court-appointed technical experts.<sup>198</sup> Standing orders issued by individual judges might also provide an alternative or supplement to local rules. Adoption of local rules by individual district courts, or standing orders by individual judges, might facilitate a natural experiment to determine the optimal structure for a small claims patent proceeding. The Sedona Conference Working Group on Patent Litigation Practices has proposed using local rules or standing orders to streamline lower-value patent cases.<sup>199</sup>

While local rules and standing orders offer existing, flexible mechanisms to implement a small claims patent proceeding, there may be drawbacks to this approach. Because local rules and standing orders must be consistent with the FRCP and FRE, reforms made through these mechanisms may not fully address underlying concerns with the federal rules. And to the extent that nationwide uniformity is desirable, local rules and standing orders are, by their nature, not uniform. In her study of patent local rules, Megan Labelle concluded that “the consequence of local patent rules is highly fragmented patent practice from one federal district court to the next” and that, “in their current form, local patent rules not only work against the underlying objectives of the Federal Circuit—to promote uniformity in patent law and reduce forum shopping—but also undermine the trans-territorial and trans-substantive nature of the [FRCP].”<sup>200</sup>

<sup>194</sup> PATENT Act, S. 1137, 114th Cong. § 6 (2015).

<sup>195</sup> 28 U.S.C. § 2072(a).

<sup>196</sup> See generally David Marcus, *The Past, Present, and Future of Trans-Substantivity in Federal Civil Procedure*, 59 DEPAUL L. REV. 371, 372 (2010); see also JUD. CONF. OF THE U.S., LONG RANGE PLAN FOR THE FEDERAL COURTS 58–59 (1995).

<sup>197</sup> 28 U.S.C. § 2072(b).

<sup>198</sup> *Local Rules & Local Patent Rules by Federal Judicial District*, IRWIN IP, <https://irwinip.com/resources/local-rules-map/> (last updated Aug. 4, 2022).

<sup>199</sup> SEDONA CONF., COMMENTARY ON PATENT LITIGATION BEST PRACTICES: STREAMLINING LOWER-VALUE PATENT CASES (Matthew Powers et al. eds., 2022), [https://thesedonaconference.org/sites/default/files/publications/Streamlining\\_Lower-Value\\_Patent\\_Cases\\_PCV\\_September\\_2022\\_0.pdf](https://thesedonaconference.org/sites/default/files/publications/Streamlining_Lower-Value_Patent_Cases_PCV_September_2022_0.pdf).

<sup>200</sup> Megan M. La Belle, *The Local Rules of Patent Procedure*, 47 ARIZ. ST. L.J. 63, 66 (2015).

Fourth, district judges are generalists. District judges are not typically selected for their scientific or technical training or expertise, nor do they specialize in patent cases once admitted to the bench. Congress has shown interest in developing patent expertise among otherwise generalist district judges. The Patent Pilot Program, which lasted from 2011 through 2021, sought to “encourage enhancement of expertise in patent cases among district judges” by permitting patent cases in certain districts to be reassigned to designated judges. In a 2021 study, the FJC found that patent cases before designated judges terminated 15% faster than patent cases before non-designated judges. Due to small case counts and statistical anomalies, however, the FJC was unable to determine whether improved efficiency was attributable to improved expertise. In recommending against extending the pilot or making it permanent, the Administrative Office of the U.S. Courts reiterated the longstanding policy of the Judicial Conference that district courts should be fundamentally generalist institutions.<sup>201</sup>

Finally, patent suits compete for limited judicial capacity on crowded district court dockets, including against criminal cases, which are given higher priority. Because district judges are appointed through presidential nomination and Senate confirmation, it can be difficult to expand judicial capacity. To expand district courts’ capacity, Magistrate Judges or other non-Article III judicial officers might be used to hear or help manage patent cases. Of course, policymakers should carefully consider separation-of-powers principles before assigning patent cases to non-Article III officers.

Although no district courts are officially designated as specialist patent courts, it is worth noting that patent litigation is far from evenly distributed across all 94 district courts. Despite a 2017 Supreme Court decision limiting where plaintiffs may file suit,<sup>202</sup> patent litigation is overwhelmingly concentrated in a small handful

of district courts such as the Western District of Texas and the District of Delaware. Localized changes in these courts—through the adoption of local rules and standing orders, congressional establishment of a small patent claims pilot program in certain districts, or otherwise—might in practice have nationwide effects.

#### ***The District Courts as a Potential Forum for a Small Claims Patent Court***

There are several options for implementing a small claims patent proceeding in the district courts. Congress or the Supreme Court, through the process set forth in the Rules Enabling Act, could adopt uniform rules for adjudicating small patent claims that are applicable in all district courts. Alternatively, individual district courts—or at least those districts in which patent suits are especially prevalent—could adopt local rules that approximate a small claims patent proceeding, insofar as they are consistent with the FRCP. Individual districts could experiment with different options for structuring a small claims proceeding. As best practices emerge, perhaps an advisory committee could develop model local rules for adjudicating small patent claims.

Instead of establishing permanent rules for small patent claims at this juncture, it might be advisable to first test the performance of a small claims patent proceeding through a pilot program. A pilot program might be implemented nationwide or in selected districts, as Congress did for the Patent Pilot Program.

There are also several options regarding who should hear small patent claims. A small claims patent proceeding could be administered by District Judges—either all District Judges or designated District Judges, as under the Patent Pilot Program. Alternatively, to augment capacity, Magistrate Judges could hear or assist in managing small patent claims.<sup>203</sup> Magistrate Judges could even be selected based on scientific or technical training, or specific officers could routinely be assigned small patent claims to

<sup>201</sup> MARGARET S. WILLIAMS & REBECCA EYRE, FED. JUD. CTR., PATENT PILOT PROGRAM: FINAL REPORT (2021); *see also* Report of the Proceedings of the Judicial Conference of the United States 82 (Sep. 1990); Report of the Proceedings of the Judicial Conference of the United States 60 (Sep. 1986); Report of the Proceedings of the Judicial Conference of the United States 54 (Sep. 1962).

<sup>202</sup> *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, 581 U.S. 258 (2017).

<sup>203</sup> *See* Comment of AIPLA (July 5, 2022); Comment of Engine Advocacy & PIPLI (July 5, 2022).

develop expertise over time.<sup>204</sup> Congress might also consider establishing “small claims patent courts” as subunits of the district courts, akin to bankruptcy courts. As noted above, however, the Judicial Conference has, with limited exceptions, long opposed the establishment of new Article I tribunals within the judicial branch.

Even if small patent claims are assigned to generalist District Judges, there are options for accessing scientific or technical expertise aside. Options for district courts might include using special masters, court-appointed experts, and technical advisors to assist in technically complex cases; hiring law clerks with scientific or technical backgrounds; and designing education programs to provide specialized training to generalist judges.

## **U.S. PATENT AND TRADEMARK OFFICE**

Two commenters suggested that a small claims proceeding be housed within the USPTO. The National Association of Patent Practitioners (NAPP) proposed that the existing Patent Trial and Appeal Board (PTAB) administer the small claims proceeding in its comment, while Amazon proposed that a new body modeled on the CCB be established within the USPTO. Both models are discussed in this section.

### ***About the USPTO***

The USPTO is an executive-branch agency responsible for granting and issuing patents and registering trademarks and for disseminating information to the public about patents and trademarks. It is headed by a single Under Secretary of Commerce for IP, also called the Director of the USPTO. The Director, who must be a U.S. citizen and have “a professional background and experience in patent or trademark law,” is appointed by presidential nomination with the advice and consent of the

Senate. The President may remove the Director from office at will.<sup>205</sup>

While situated within the Department of Commerce and subject to the Secretary of Commerce’s policy direction, the USPTO exercises a significant degree of independence regarding “the management and administration of its operations,” as well as its “budget allocations and expenditures, personnel decisions and processes, procurements, and other administrative and management functions.”<sup>206</sup> This includes the authority to issue regulations governing the conduct of its proceedings subject to the requirements of the Administrative Procedure Act (APA).<sup>207</sup>

USPTO components receive and examine patent applications, grant patents to qualifying inventions, review denied patent applications, and review challenges to the validity of granted patents. Examiners, under the supervision of the Commissioner for Patents, review and decide applications. A separate subunit, the PTAB, has jurisdiction to review denied applications and, through post-grant review (PGR) and inter partes review (IPR), decide challenges to the validity of granted patents. The agency’s operations are funded primarily through user fees, with significant reductions available to small and micro entities.<sup>208</sup>

The PTAB consists of four statutory officers (the Director and Deputy Director of the USPTO, the Commissioner for Patents, and the Commissioner for Trademarks) and administrative patent judges (APJs) appointed by the Secretary of Commerce in consultation with the USPTO Director. The USPTO currently employs more than 200 APJs, who must be “persons of competent legal knowledge and scientific ability.” APJs are paid a salary fixed by the Director at rate of up to level III of the Executive Schedule and are otherwise subject to the provision of title 5 of the *U.S. Code* relating to federal employees.<sup>209</sup> They are thus subject to performance appraisal, entitled to

<sup>204</sup> See Comment of Richard Torczon (Aug. 29, 2022)

<sup>205</sup> 35 U.S.C. § 3(a).

<sup>206</sup> 35 U.S.C. § 1.

<sup>207</sup> 35 U.S.C. § 2(b)(2). The rulemaking requirements of the APA are at 5 U.S.C. § 553.

<sup>208</sup> 35 U.S.C. § 41(h).

<sup>209</sup> 35 U.S.C. §§ 3(b)(6), (c), 6.

performance awards and bonuses, and removable “only for such case as will promote the efficiency of the [civil] service.”

PTAB members hear and decide cases in panels of at least three members designated by the USPTO Director.<sup>210</sup> Following a recent Supreme Court decision, PTAB decisions are reviewable by the Director.<sup>211</sup> From there, appeal is to the Federal Circuit.

The USPTO has its headquarters in Alexandria, Virginia, and regional offices in Dallas, Denver, Detroit, and San Jose. The PTAB conducts hearings virtually and at the USPTO’s headquarters and regional offices.

### ***Patent Adjudication at the USPTO***

There are two types of patent adjudication at the USPTO: patent examination, which precedes the granting of a patent, and post-grant adjudication. Because a small claims patent proceeding would be a post-grant process, it is important to understand the history of post-grant proceedings within the USPTO, particularly the history that led to the PTAB’s creation.

Prior to the establishment of post-grant procedures within the USPTO, patent law commentators had long argued that the USPTO examination process was likely to produce at least some, and perhaps many, improper grants. They argued that to the extent improperly granted patents imposed unnecessary costs and called into question the credibility of the patent system, those improper grants ought to be corrected.<sup>212</sup>

For most of American history, district courts offered the primary venue for correcting improper grants. District court litigation was expensive,<sup>213</sup> however, and there were concerns that generalist judges and lay juries may not be well-equipped to tackle complex questions at the intersection of law, science, and policy.<sup>214</sup> Over time, many plaintiffs filed suit in specific districts, with the natural result being a certain amount of de facto specialization.<sup>215</sup> This private ordering toward certain districts arguably underscored the desire for technical expertise.

For structural reasons, administrative agencies often have greater flexibility to craft more efficient and cost-effective procedures than district courts. It is also easier for administrative agencies to select specially qualified adjudicators and, with limited jurisdiction, administrative adjudicators gain expertise from specializing in particular case types. The USPTO checked all of these boxes. In particular, the agency employed a corps of APJs who had long been required to be “persons of competent legal knowledge and scientific ability.”<sup>216</sup> (Before the AIA, APJs primarily adjudicated appeals from patent examiner denials.)

Limited post-grant, inter partes administrative reexamination of validity was instituted in 1999. Partly because of the highly prolonged duration of the 1999 procedure, however, it was never widely used.<sup>217</sup> Pressure to create a more robust post-grant system mounted and culminated with the passage of the AIA in 2011.<sup>218</sup> The AIA created several new PTAB adjudicatory proceedings that were designed to provide cheaper, faster alternatives to district court patent litigation.<sup>219</sup>

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<sup>210</sup> 35 U.S.C. § 6.

<sup>211</sup> *United States v. Arthrex, Inc.*, 141 S. Ct. 1970 (2021).

<sup>212</sup> Mark D. Janis, *Rethinking Reexamination: Toward a Viable Administrative Revocation System for U.S. Patent Law*, 11 HARV. J.L. & TECH. 1 (1997).

<sup>213</sup> AIPLA, 2022 REPORT OF THE ECONOMIC SURVEY (2022).

<sup>214</sup> Arti K. Rai, *Engaging Facts and Policy: A Multi-Institutional Approach to Patent System Reform*, 103 COLUM. L. REV. 1035 (2003).

<sup>215</sup> Scott E. Atkinson, Alan C. Marco & John L. Turner, *The Economics of Centralized Judiciary: Uniformity, Forum Shopping, and the Federal Circuit*, 52 J.L. & ECON. 411 (2009).

<sup>216</sup> 35 U.S.C. § 6.

<sup>217</sup> Arti K. Rai & Saurabh Vishnubhakat, *The USPTO’s Patent Trial and Appeals Board*, in RESEARCH HANDBOOK ON THE ECONOMICS OF INTELLECTUAL PROPERTY LAW, VOL. 2 (Ben Depporter, Peter Menell & David Schwartz, eds., 2021); *see also* *Oil States Energy Servs., LLC v. Greene’s Energy Grp.*, 138 S. Ct. 1365, 1371 (2018).

<sup>218</sup> Leahy-Smith America Invents Act of 2011, Pub. L. No. 112-29, 125 Stat. 284 (codified in scattered sections of 35 U.S.C.).

<sup>219</sup> The House Report on the AIA states that the Act intended to “convert[] *inter partes* reexamination from an examinational to an adjudicative proceeding” while establishing a new agency procedure known as post-grant review that “would take place in a court-like proceeding.” H.R. REP. NO. 112-98, pt. 1, at 46, 68 (2011).

Each proceeding provides third parties with a procedurally robust, streamlined way to contest the legitimacy of issued patents directly through the USPTO.

A third party must file a petition with the USPTO and pay a substantial fee, often in excess of \$40,000, if the proceeding is instituted.<sup>220</sup> Although a panel of APJs, acting under authority delegated by the Director, decides whether to institute the proceeding, the agency itself is not a party.<sup>221</sup> These proceedings typically involve two private parties (the challenger and the patentee) disputing the validity of a granted patent.<sup>222</sup>

The AIA provides that PTAB APJs oversee IPR and PGR proceedings.<sup>223</sup> Although each of these proceedings has different eligibility criteria detailing who may file, when a petition may be filed, and the grounds on which a patent can be challenged, they share a host of common features that make them viable alternatives to litigation in federal courts.<sup>224</sup> Perhaps most saliently, the AIA requires PTAB adjudication to take place in an adversarial, court-like hearing, in which parties are entitled to oral argument and discovery. The AIA also calls for the USPTO to promulgate regulations regarding other trial-type features, such as prescribing sanctions for attorney misconduct<sup>225</sup> and providing protective orders governing the exchange of confidential information.<sup>226</sup> A panel of at least three APJs with scientific expertise conducts the initial review of the patent and makes the trial-level determination.<sup>227</sup>

Many of the reasons for establishing the USPTO as a forum for reviewing the validity of granted patents would also apply to a small claims patent proceeding. First, the USPTO has the scientific and legal expertise to litigate patent claims. The USPTO employs over 200 APJs. APJs must maintain active bar membership in good standing; unlike District Judges, they must have legal and technical degrees and preferably 10–15 years of patent litigation or prosecution experience.<sup>228</sup>

Second, the agency already has substantial experience with and tested infrastructure for adjudicating patent matters in an adversarial proceeding that likely shares a host of features with a potential small claims patent proceeding. The new PTAB proceedings, especially IPR, have been popular among many stakeholders.<sup>229</sup>

Third, the USPTO has already demonstrated competency in developing and administering a new streamlined adjudicatory process. The new PTAB proceedings appear to have achieved the cost efficiencies for which they were designed. IPRs appear, on average, to be cheaper than district court litigation.<sup>230</sup> These efficiencies are achieved in part by having strict limits on discovery as well as the option for parties to request virtual hearings—features that policymakers should consider incorporating into a small claims patent proceeding. There is also some evidence that the overall accuracy of PTAB decisions, at least as measured by Federal Circuit

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<sup>220</sup> See 37 C.F.R. §§ 42.15(a)(1), (b)(2).

<sup>221</sup> 35 U.S.C. § 314(a) (providing that the standard for instituting an IPR proceeding is a “reasonable likelihood that the petitioner would prevail with respect to at least [one] of the claims challenged in the petition”); 35 U.S.C. § 324 (providing that the standard for instituting a PGR proceeding is “[demonstrating] that it is more likely than not that at least [one] of the claims challenged in the petition is unpatentable”).

<sup>222</sup> The federal government may be involved in a proceeding as a patent owner. The government may not, however, file a petition to institute an IPR or PGR proceeding. See *Return Mail, Inc. v. USPS*, 139 S. Ct. 1853 (2019).

<sup>223</sup> 35 U.S.C. §§ 257, 311–319, 321–329.

<sup>224</sup> Melissa F. Wasserman, *The Changing Guard of Patent Law: Chevron Deference for the PTO*, 54 WM. & MARY L. REV. 1959, 1969–70 (2013).

<sup>225</sup> 35 U.S.C. §§ 316(a)(6), 326(a)(6).

<sup>226</sup> 35 U.S.C. §§ 316(a)(7), 326(a)(7).

<sup>227</sup> 35 U.S.C. § 6(a)–(b)(1).

<sup>228</sup> See *Are You Interested in Becoming an Administrative Patent Judge?*, Brochure, USPTO, [https://www.uspto.gov/sites/default/files/documents/ptab\\_brochure\\_v2\\_4\\_10\\_14.pdf](https://www.uspto.gov/sites/default/files/documents/ptab_brochure_v2_4_10_14.pdf).

<sup>229</sup> Christopher J. Walker & Melissa F. Wasserman, *The New World of Agency Adjudication*, 107 CALIF. L. REV. 141, 160 (2019).

<sup>230</sup> AIPLA, 2022 REPORT OF THE ECONOMIC SURVEY 60-62 (2022). A precise comparison of litigation expenditures is difficult because PTAB cases don’t involve infringement questions.

reversals, is superior to that of the district courts.<sup>231</sup>

There are, however, several costs associated with locating a small claims patent court within the USPTO. First, although the USPTO has substantial experience with litigating patents, no unit in the USPTO, including the PTAB, has ever evaluated infringement. Whether small claims adjudication takes place within the PTAB or in some new USPTO subunit, new procedures for adjudicating infringement would need to be established. These costs may be lower than they first appear, however, as there are many parallels between making validity and infringement determinations. While validity decisions involve construing the patent claims and comparing the construction with the prior art, infringement decisions involve construing the patent claims and comparing the construction with the accused infringing device.

Second, and perhaps more importantly, no unit in the USPTO, including the PTAB, has ever decided claims for damages. To the extent that small claims patent decisions will involve some sort of monetary remedy, this skill would need to be developed within the USPTO, and new procedures would need to be developed to determine monetary remedies. It is likely that some subset of APJs have experience with monetary remedies, however, given that many have substantial patent litigation experience.

Third, while the PTAB has proved popular among many stakeholders, it has proven controversial among other stakeholders. Because many of the arguments in support of the AIA focused on the importance of addressing poor-quality patents, some have viewed the PTAB as having an anti-patent bias. US Inventor, for example, stated in its comment letter to ACUS that it believes the PTAB invalidates 84% of reviewed patents.<sup>232</sup> Patent owners skeptical of the PTAB point to the fact that challengers in IPR proceedings must prove invalidity only by a preponderance of the evidence,<sup>233</sup> while challengers in district court litigation must prove invalidity by clear and convincing evidence.<sup>234</sup> Others have claimed that three APJs, who must have scientific backgrounds, are more likely to find a patent obvious—that is, represent only a trivial advancement over the existing knowledge in the field—than a generalist judge or lay jury that lacks comparable scientific training.<sup>235</sup>

Small entities, in particular, may be skeptical of the PTAB. A 2015 USPTO study found that a higher percentage of patents owned by small entities were challenged at the PTAB compared to a random sample of all issued patents. The study also noted, however, that these results “are quite similar to those we found for litigation filings.”<sup>236</sup> While this is likely a natural consequence of the reality that small entity patents are disproportionately asserted in litigation, such data may make small entities wary of the PTAB.<sup>237</sup> By carefully designing a small claims patent proceeding within or outside the PTAB,

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<sup>231</sup> Jason Rantanen, *Federal Circuit Statistics Update – September 2020*, PATENTLY-O BLOG (Sept. 15, 2020)

<https://patentlyo.com/patent/2020/09/federal-statistics-september.html> (noting that the Federal Circuit has affirmed IPR decisions fully about 80% of the time and affirmed-in-part another 7% of the time, while it has affirmed district courts fully about 70% of the time and in part another 13% of the time). Reversal rate is not a perfect proxy for decisional accuracy given that the Federal Circuit’s standard of review for PTAB decisions may be more deferential than its review standard for district courts. Moreover, there are selection concerns that different types of patents may be litigated in federal district court than at the PTAB.

<sup>232</sup> USPTO reports that the PTAB fully invalidated only 12% of patents with proceedings ending in fiscal year 2022, representing less than 0.0004% of all live patents that year. See USPTO, PTAB TRIAL STATISTICS FY22 END OF YEAR OUTCOME ROUNDUP, [https://www.uspto.gov/sites/default/files/documents/ptab\\_\\_aia\\_fy2022\\_roundup.pdf](https://www.uspto.gov/sites/default/files/documents/ptab__aia_fy2022_roundup.pdf).

<sup>233</sup> 35 U.S.C. § 316(e).

<sup>234</sup> *Microsoft Corp. v. i4i Ltd. P’ship*, 564 U.S. 91 (2011).

<sup>235</sup> Some studies have found that, at least for the subset of patents litigated in the district courts that are also litigated at the PTAB, the PTAB and district courts invalidate patents at similar rates. See, e.g., Josh Landau, *A Little More Than Forty Percent: Outcomes at the PTAB, District Court, and the EPO*, Patent Progress (May 1, 2018), <https://www.patentprogress.org/2018/05/a-little-more-than-forty-percent/>.

<sup>236</sup> USPTO, PATENT LITIGATION AND USPTO TRIALS: IMPLICATIONS FOR PATENT EXAMINATION QUALITY 36–37 (2015), <https://www.uspto.gov/sites/default/files/documents/Patent%20litigation%20and%20USPTO%20trials%2020150130.pdf>.

<sup>237</sup> Ideally, we would have research assessing the factors that affect IPR filing conditional on assertion in litigation. To our knowledge, this research does not exist.

policymakers may be able to avoid perceptions of anti-patent or anti-small entity bias.

Finally, some have expressed concerns about lack of consistency and nontransparent agency influence over PTAB decision making.<sup>238</sup> While the Supreme Court’s recent decision in *United States v. Arthrex*<sup>239</sup> may have impacted transparency and consistency, the USPTO has taken several steps to bring more consistency to PTAB outcomes and make PTAB operations more transparent. These steps include implementing a transparent process for USPTO Director review of decisions and internal circulation and review of PTAB decisions,<sup>240</sup> as well as adopting public processes for designating PTAB decisions as precedential and selecting panels.<sup>241</sup> Improved consistency and transparency may inspire greater confidence in the PTAB among patent owners.<sup>242</sup>

#### ***The USPTO as a Potential Forum for a Small Claims Patent Proceeding***

In considering design options of a potential patent small claims court in the USPTO, one possibility might involve expanding the remit of PTAB APJs to address not only validity but infringement. As one option, APJs could be designated to hear only small claims. This would likely require expanding the number of APJs, to ensure that the PTAB maintains sufficient capacity to manage its existing caseload. APJs designated to hear small claims would also need to be trained to address questions of infringement and monetary remedies. Therefore, the costs of setting up PTAB judges to address small claims may not be substantially lower than that of creating a new unit within the USPTO and hiring new judges who can address both validity and infringement.

Regardless of whether a small claims patent proceeding is administered by the PTAB or a new subunit of the USPTO, Congress should consider requiring the USPTO to use notice-and-comment rulemaking when it establishes or refines procedures for a small claims patent proceeding. Stakeholders have routinely expressed a preference for the USPTO to utilize notice-and-comment rulemaking when setting PTAB procedures, and doing so with respect to a small claims patent proceeding may improve the quality and public perception of agency-adopted rules to administer it. As in the district courts, the USPTO could test out procedures through temporary pilots, instead of “trying to perfect a program on the first try.” Colleen Chien has suggested that procedures might be piloted “under the ambit of an Independent Office of the Small Inventor Advocate.”<sup>243</sup>

Currently, a panel of three APJs adjudicates IPR and PGR proceedings. A small claims patent court in the USPTO could be staffed by only one adjudicator, which would ease the administrative burden on the USPTO with respect to hiring additional adjudicators. However, Congress may decide the three-judge model is more appropriate because multiple adjudicators may enhance decision-making quality. A three-member panel may be particularly desirable because a small claims patent proceeding will likely feature abbreviated procedures for discovery and expert testimony, which often serve to educate the decisionmaker. (Congress opted for a three-member panel in establishing the CCB.<sup>244</sup>)

Once an initial decision is made, there is an open question as to whether there should be an opportunity for administrative review of decisions rendered through a small claims patent proceeding. Decisions could be made reviewable

<sup>238</sup> U.S. GOV’T ACCOUNTABILITY OFF., GAO-23-105336, PATENT TRIAL AND APPEAL BOARD: INCREASED TRANSPARENCY NEEDED IN OVERSIGHT OF JUDICIAL DECISION-MAKING (2022); *The Patent Trial and Appeal Board After 10 Years, Part II: Hearing Before the Subcomm. on Courts, Intell. Prop. & the Internet of the H. Comm. on the Judiciary*, 117th Cong. (2022); Christopher J. Walker & Melissa F. Wasserman, *The New World of Agency Adjudication*, 107 CALIF. L. REV. 141, 178–87 (2019); Stuart Minor Benjamin & Arti K. Rai, *Administrative Power in the Era of Patent Stare Decisis*, 65 DUKE L.J. 1563, 1589 (2016) (noting “complaints by the patent bar that PTAB panel opinions on a number of issues are inconsistent”).

<sup>239</sup> 141 S. Ct. 1970 (2021).

<sup>240</sup> 87 Fed. Reg. 43,249 (July 20, 2022).

<sup>241</sup> For more information, see PTAB Standard Operating Procedures 1 and 2.

<sup>242</sup> Christopher J. Walker & Melissa F. Wasserman, *The New World of Agency Adjudication*, 107 CALIF. L. REV. 141, 194–96 (2019).

<sup>243</sup> Colleen V. Chien, *The Inequalities of Invention*, 72 EMORY L.J. 1, 70 (2022).

<sup>244</sup> 17 U.S.C. § 1502(b)(1).

by the USPTO Director or another reviewing officer(s) appointed through presidential nomination and Senate confirmation. As discussed earlier, the Supreme Court’s opinion in *Arthrex* suggests that, under the constitutional separation-of-powers, the decisions of inferior officers (e.g., APJs) must, at least as a statutory matter, be reviewable by a principal officer within the same branch of government (e.g., the USPTO Director).<sup>245</sup> Review likely should be discretionary with the reviewing officer(s) rather than mandatory. This will preserve the capacity of the reviewing officer(s) to take speedy action in appropriate cases, particularly if a small claims patent proceeding proves popular. Following *Arthrex*, the USPTO instituted a system of discretionary Director review. Congress, or the reviewing official, could also consider creating an intermediate appellate board to review initial decisions in the first instance. This model has been adopted at many agencies that administer high-volume adjudication programs.<sup>246</sup>

Another outstanding question is how a small claims patent proceeding within the USPTO should be funded. The USPTO has been funded almost exclusively through user fees since 1991.<sup>247</sup> Fees for PTAB proceedings are set to cover the costs to the USPTO to conduct them. While there are benefits to this approach, small entities will be unable to take advantage of a small claims patent proceeding if fees are set too high. Policymakers should ensure that small entities can reasonably afford any fees associated with a small claims patent proceeding. Because the USPTO has statutory authority to set fees in order to “recover the aggregate estimated costs” of the services it provides,<sup>248</sup> the agency may have flexibility to set reduced fees for a small claims patent proceeding that are below the actual operational costs of the proceeding. Another option is to fund a small claims patent proceeding at least partially through tax revenue.

There also may be benefits to funding a small claims patent proceeding at least partially through tax revenue. Determining how a forum should be funded and setting optimal fee levels are ultimately policy questions that involve difficult tradeoffs.

## **U.S. INTERNATIONAL TRADE COMMISSION**

One commenter, UIA, proposed that the USITC be restructured as the “U.S. International Trade and Innovation Commission,” with jurisdiction to adjudicate patent infringement disputes that are initiated by independent inventors and not necessarily connected with unfair practices in import trade.

### ***About the USITC***

The USITC is an independent regulatory agency that, among its other duties, investigates and prosecutes unfair practices in import trade. Under section 337 of the Tariff Act, unfair practices include the importation into the United States, the sale for importation, or sale within the United States after importation of articles that infringe a valid and enforceable U.S. patent or are made using a process covered by the claims of a valid and enforceable U.S. patent.<sup>249</sup>

The Commission consists of six commissioners appointed by the President, by and with the advice and consent of the Senate. Commissioners must be U.S. citizens and, in the President’s judgment, be “possessed of qualifications requisite for developing expert knowledge of international trade problems and efficiency in administering the duties and functions of the Commission.” The Commission is also politically balanced. No more than three commissioners may be members of the same political party, and “in making appointments members of different

<sup>245</sup> See *supra* note 179.

<sup>246</sup> See Admin. Conf. of the U.S., Recommendation 2020-3, *Agency Appellate Systems*, 86 Fed. Reg. 6618 (Jan. 22, 2021); Admin. Conf. of the U.S., Recommendation 68-6, *Delegation of Final Decisional Authority Subject to Discretionary Review by the Agency*, 38 Fed. Reg. 19,783 (July 23, 1973).

<sup>247</sup> Omnibus Budget Reconciliation Act of 1990, Pub. L. No. 101-508, § 10101, 104 Stat. 1388, 1388–91 (1990).

<sup>248</sup> Pub. L. No. 112–29, § 10, 125 Stat. 284, 316 (2011), as amended by Pub. L. No. 115-273, § 4, 132 Stat. 4158, 4159 (2018).

<sup>249</sup> 19 U.S.C. § 1337(a)(1)(B).



political parties shall be appointed alternately as nearly as may be practicable.”<sup>250</sup>

Commissioners serve nine-year terms, and persons who serve as commissioners for more than five years are generally ineligible for reappointment. There is no explicit statutory provision limiting the President’s authority to remove commissioners from office.

Commission governance resembles governance at other multi-member agencies. Its organic statute provides for a Chairman and Vice Chairman designated by the President—although the Chairman and Vice Chairman must be from different political parties, and the Chairman must be from a different political party than his or her predecessor. The statute also establishes rules governing a quorum, voting, and the effect of a divided vote in certain cases. As an independent agency, the USITC has substantial control over the management and administration of its operations. The agency also has independent authority to “adopt such reasonable procedures and rules and regulations as it deems necessary to carry out its functions and duties.”<sup>251</sup>

The Commission typically acts as an appellate body in unfair import proceedings. Complaints of unfair import practices are filed with the Office of Unfair Import Investigations (OUII). The OUII reviews complaints, conducts preliminary investigations, and recommends to the Commission whether to institute section 337 investigations. If an investigation is instituted, the case proceeds to a formal proceeding before an ALJ. ALJ determinations are reviewable by the Commission. If the Commission determines there has been a section 337 violation, the President (through the U.S. Trade Representative) may, “for policy reasons,” disapprove the determination.<sup>252</sup> (There has been only one such disapproval in recent decades.<sup>253</sup>)

By statute, the USITC has its principal office in Washington, D.C., but is authorized to maintain an office in New York and may conduct proceedings elsewhere.<sup>254</sup>

### *Patent Adjudication at the USITC*

The process for adjudicating patent infringement cases at the USITC differs in several key respects from the current process used in the district courts. Fundamentally, district court proceedings serve to protect the rights of individual patentees and defendants, while USITC proceedings exist to protect the public interest in fair trade. While the public interest may align with the private interests of individual inventors and defendants, this different focus has several important consequences.

First, while individual patent owners enforce their rights in district court proceedings through a private right of action, the USITC acts as a gatekeeper in section 337 proceedings.<sup>255</sup> Although patent owners file complaints with the USITC, it is the Commission or its staff who investigates alleged violations and determines whether to institute formal administrative proceedings. The OUII also participates in proceedings representing the public interest. In its comment to ACUS, UIA proposed that gatekeeping might play a salutary role in administering a small claims patent proceeding.

Second, patent owners receive governmental support in USITC proceedings that they would not receive in district court proceedings. The OUII performs litigation activities in section 337 investigations, and interviews with USITC staff suggest that the agency has provided significant support to small business entities who participate as parties in USITC proceedings.<sup>256</sup>

Third, remedies under the Tariff Act exist primarily to protect the public interest. The USITC cannot order an infringing party to pay

<sup>250</sup> 19 U.S.C. § 1330(a).

<sup>251</sup> 19 U.S.C. §§ 1330, 1335.

<sup>252</sup> 19 U.S.C. § 1337(j).

<sup>253</sup> CHRISTOPHER T. ZIRPOLI, CONG. RSCH. SERV., IF12295, AN INTRODUCTION TO SECTION 337 INTELLECTUAL PROPERTY LITIGATION AT THE U.S. INTERNATIONAL TRADE COMMISSION (2022).

<sup>254</sup> 19 U.S.C. § 1331(d), (e).

<sup>255</sup> See generally David Freeman Engstrom, *Agencies as Litigation Gatekeepers*, 123 YALE L.J. 616 (2013).

<sup>256</sup> Interview with representatives from the U.S. Int’l. Trade Comm’n.

damages to a patent owner. The agency may order the payment of civil penalties to the government, order the Customs and Border Protection to exclude infringing articles from entry into the United States, or order the infringing party to cease and desist from engaging in the unfair methods or acts involved in the proceeding. But in all cases, the USITC may order a remedy only after considering the effects of a remedial order on the public interest, including information provided by public commenters.<sup>257</sup> As a result, in some situations, relief might be available in a district court but not at the USITC. Still, UIA's comment to ACUS indicates that some small inventors may find the limited forms of relief available in USITC proceedings satisfactory.<sup>258</sup> Specifically, UIA members were most interested in "remedies that provide an incentive for an infringer to enter into a commercial license with an independent inventor, rather than monetary damages." (At least one interviewee floated the possibility of a statutory licensing scheme for patents, as exists for copyrights, but that is outside the scope of this study.<sup>259</sup>)

There are other relevant structural differences between district court and USITC proceedings. First, because section 337 investigations involve a cause of action and remedies "unknown to the common law," there is no constitutional right to a jury trial,<sup>260</sup> and none is provided.

Second, the USITC was created, in part, to supply speedy resolution of disputes. USITC proceedings must comply with the APA's adjudication provisions, but the agency otherwise has relatively broad discretion to craft its own, streamlined procedures, and ALJs have considerable autonomy to schedule hearings and encourage settlement.<sup>261</sup> Speedy dispute

resolution is embedded in the statutory design. By statute, adjudicators must establish a target date for their final determination within 45 days after an investigation is formally initiated.<sup>262</sup> ALJs typically establish target dates of 16 months or less and issue an initial determination no later than four months before the target date.<sup>263</sup> While speedy resolution is efficient, it is not inexpensive. Still, the USITC's comparative speediness is central to UIA's proposal to establish the USITC as a forum for a small claims patent proceeding. UIA noted in its comment to ACUS that its members have "expressed interest in an expedient adjudication process" and emphasized that "proceedings before the ITC for patent infringement take less than 15 months, however, in certain cases, temporary exclusion orders have been issued before a final order is entered."

Third, the USITC, like the USPTO but unlike the district courts, provides a specialized forum. Unlike for APJs, there is no statutory requirement that ALJs have prior technical or scientific training or experience with patent law. Nonetheless, ALJs clearly specialize in patent adjudication once on the job; the vast majority of their dockets are patent cases. As a practical matter, it may be that attorneys with scientific or technical training or prior experience with patent law are likelier to apply for ALJ positions with the USITC than attorneys who lack such qualifications. The USITC has also indicated a preference for applicants with prior experience as an ALJ, an APJ, an attorney litigating IP and unfair competition disputes, or a clerk at a court that handles IP disputes.<sup>264</sup>

Finally, adjudicators in USITC proceedings are ALJs. Unlike District Judges, who are Article III judges appointed by the President with the advice

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<sup>257</sup> 19 U.S.C. § 1337(d)(1), (f)(1).

<sup>258</sup> Cf. Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 CORNELL L. REV. 1, 19 (2012) (discussing the flexibility of exclusion orders and their role in advancing the public interest).

<sup>259</sup> For more information, see JOHN R. THOMAS, CONG. RSCH. SERV., R43266, COMPULSORY LICENSING OF PATENTED INVENTIONS (2014).

<sup>260</sup> *Ninestar Tech. Co. v. USITC*, 667 F.3d 1373, 1384 (Fed. Cir. 2012).

<sup>261</sup> Interview with representatives from the U.S. Int'l Trade Comm'n.

<sup>262</sup> 19 U.S.C. § 1337(b)(1).

<sup>263</sup> USITC, PUB. NO. 4105, SECTION 337 INVESTIGATIONS ANSWERS TO FREQUENTLY ASKED QUESTIONS (2009),

[https://www.usitc.gov/intellectual\\_property/documents/337\\_faqs.pdf](https://www.usitc.gov/intellectual_property/documents/337_faqs.pdf).

<sup>264</sup> Ryan Davis, *ITC Has Eyes on IP Talent in Search for New Judges*, LAW360 (Apr. 2, 2021, 9:20 PM),

<https://www.law360.com/articles/1371948/itc-has-eyes-on-ip-talent-in-search-for-new-judge>.

and consent of the Senate, ALJs are executive-branch officers appointed by department heads. Like APJs, ALJs are members of the civil service selected according to merit system principles.

Like district judges, there are features in place to protect ALJs' decisional independence. But protections for ALJs are statutory rather than constitutional in nature, and they differ from district judges' protections in several key respects. ALJs also differ in key respects from APJs.

Although ALJs were traditionally considered part of the competitive service and thus recruited, examined, and certified for appointment by the Office of Personnel Management (OPM), since a 2018 executive order, they have formed Schedule E of the excepted service.<sup>265</sup> Candidates for ALJ positions must possess a professional license to practice law and be authorized to practice law under state or territorial law at the time of their application and appointment, and agencies must "follow the principle of veterans preference as far as administratively feasible" when selecting and appointing ALJs. But individual agencies, including the USITC, otherwise have substantial authority to craft their own processes for recruiting and selecting ALJs.

ALJs may not "be responsible to or subject to the supervision of" agency investigators or prosecutors. They may not perform "duties inconsistent with their duties and responsibilities" as ALJs and must be assigned to cases "in rotation so far as practicable." Unlike APJs, ALJs are not subject to performance appraisal by the agencies that employ them and are not eligible for awards or bonuses. A separate agency, OPM, fixes ALJs' salary according to statutory requirements. There are strict limitations on *ex parte* communications involving ALJs. And agencies may only discipline ALJs or remove them from office for good cause determined by a separate agency, the Merit Systems Protection Board (MSPB), after notice and an opportunity for an on-the-record hearing.<sup>266</sup>

### ***The USITC as a Potential Forum for a Small Claims Proceeding***

One benefit of establishing the USITC as a forum for a small claims patent proceeding is the fact that the agency already exists. "Rather than reinvent the wheel," UIA suggested, Congress should expand the jurisdiction of an existing institution—the USITC—to encompass small patent claims. Under UIA's proposal, small entities would have access to the existing USITC's system for adjudicating patent infringement disputes. An OUII attorney would perform a gatekeeping function by determining whether a petitioner is eligible to access the forum. Existing procedures—including a trial-like proceeding before an ALJ—would apply, and only existing remedies would be available. UIA writes:

A significant benefit to expanding the existing jurisdiction of the ITC to adjudicate independent inventor patent infringement claims is that it would require only modest additional appropriations for necessary OUII investigating attorneys, ITC ALJs, enforcement attorneys, Customs personnel, and supporting staff, which can be ascertained by ITC budget and [Congressional Budget Office] staff. The appointment, management, and oversight of these officials is established by existing law and regulation.

Establishing the USITC as a forum for a small claims patent proceeding would require legislative action. Congress would need to amend the agency's organic statute, and significantly expand its jurisdiction, to allow it to hear cases promoted by purely domestic disputes. More fundamentally, authorizing the USITC to administer a small claims patent proceeding would represent a substantial shift in the agency's purpose and operation. Unlike the USPTO and district courts in patent infringement cases, the USITC was designed principally to protect domestic injury rather than adjudicate IP disputes. As Sapna Kumar has written, section 337, as it exists currently, "reflected the lack of

<sup>265</sup> Exec. Order No. 13,843, 83 Fed. Reg. 32,755 (July 10, 2018).

<sup>266</sup> As discussed above, there have been challenges to the constitutionality of this system. *See supra* note 185.

input from IP scholars and practitioners.”<sup>267</sup> The goals underlying patent infringement adjudication at the USITC are therefore not the same as those underlying patent adjudication in the district courts and at the USPTO. Policymakers should carefully consider whether converting the USITC into a forum for resolving domestic cases of patent infringement might have unintended consequences for international trade or the patent system.

To be fair, those proposing that Congress situate a small claims proceeding within the USITC recognize the magnitude of their proposal. In its comment to ACUS, UIA proposed redefining the agency’s mission and rebranding it as the “U.S. International Trade and Innovation Commission.” One thing to keep in mind is that while some stakeholders view the PTAB as having an anti-patent bias, some stakeholders similarly view the USITC as being unfair to defendants or biased in favor of patent owners.<sup>268</sup> This perception may lead some potential defendants to reflexively opt out of a voluntary small claims patent proceeding. By carefully designing a small claims patent proceeding within the USITC, however, policymakers may be able to avoid perceptions of unfairness or bias.

## **NEW FEDERAL FORUM**

Consistent with the Senators’ request, the USPTO asked ACUS to consider the proper forum for a small claims patent proceeding, whether within an existing federal institution “or independently.” As discussed above, some commenters suggested establishing a new forum within an existing institution such as the USPTO. Congress opted for this approach in establishing a new forum to resolve small copyright claims (the CCB) within an existing institution (the USCO). Only a few stakeholders suggested establishing an entirely new forum independent of existing institutions. The PTAB Trials Committee of the PTAB Bar

Association, for example, proposed creating a new U.S. Patent Claims Commission modeled on the USITC. A consultative group member, Rochelle Dreyfuss, floated the idea of combining the CCB and a small claims patent court into a single institution, analogous to the IPEC in the court system of England and Wales.

In designing a new forum—or in selecting among existing forums, for that matter—policymakers will need to consider a number of institutional characteristics, including: (1) the appointment and supervision of adjudicators, (2) internal governance of the forum, (3) the resources available to the forum, and (4) the forum’s accessibility to parties. Each consideration is discussed in the following subsections.

As an initial matter, policymakers should consider the startup costs associated with operationalizing a new forum. As discussed below, CCB managers told ACUS that access to existing support services within the USCO simplified the process of implementing the new forum and allowed them to begin operations within 18 months after the CASE Act became law.

### ***Adjudicators***

#### **1. Appointment**

Courts are likely to find that officials who preside over small claims patent proceedings are “officers” for Appointments Clause purposes. Officers must be appointed through presidential nomination and Senate confirmation unless they are “inferior” officers whose appointment Congress may vest in the President alone, a court of law, or a department head.<sup>269</sup>

Many adjudicators are appointed by presidential nomination and Senate confirmation. These include Article III judges such as District Judges and CIT Judges,<sup>270</sup> as well as Article I judges such

<sup>267</sup> Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 FLA. L. REV. 529 (2009).

<sup>268</sup> See Colleen V. Chien, *Patent Protectionist: An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 WM. & MARY L. REV. 63 (2008); Robert W. Hahn & Hal J. Singer, *Assessing Bias in Patent Infringement Cases: A Review of International Trade Commission Decisions*, 21 HARV. J.L. & TECH. 457 (2008).

<sup>269</sup> As discussed above, both Article III and Article I courts may constitute “courts of law” for Appointments Clause purposes. A department head is the head (either a single individual or a multimember body) of a “freestanding component of the Executive Branch, not subordinate to or contained within any such component.” See text accompanying notes 176 and 177 *supra*.

<sup>270</sup> 28 U.S.C. §§ 133(a), 251(a).

as CFC Judges,<sup>271</sup> Tax Court Judges,<sup>272</sup> and Judges of the Court of Appeals for Veterans Claims.<sup>273</sup> Several other officials involved in adjudicating patent cases, including the USPTO Director and USITC Commissioners, are also appointed in this manner.<sup>274</sup>

Given the time involved in presidential nomination and Senate confirmation, there may be practical benefits to vesting the appointment of a new class of officials in either a court of law or a department head. This may be especially true if a large number of adjudicators would be needed to decide small patent claims in a timely manner or if a high rate of turnover is expected.

Many adjudicators are appointed by department heads, including ALJs (appointed by the agency that employs them),<sup>275</sup> APJs and Administrative Trademark Judges (ATJs) (appointed by the Secretary of Commerce),<sup>276</sup> and CCOs and CRJs (appointed by the Librarian of Congress).<sup>277</sup> Others are appointed by courts of law—either Article III or Article I courts—including Magistrate Judges (appointed by the judges of the relevant district),<sup>278</sup> Bankruptcy Judges (appointed by the judges of the relevant circuit),<sup>279</sup> Tax Court Special Trial Judges (appointed by the Chief Judge of the Tax Court),<sup>280</sup> and CFC special masters (appointed by the judges of the CFC).<sup>281</sup> Officers are typically appointed by an officer within the same branch of government; interbranch appointments are permitted but rare.<sup>282</sup>

Several commenters offered input on who should appoint adjudicators for a small claims patent court. The PTAB Trials Committee of the PTAB

Bar Association advocated the creation of new U.S. Patent Claims Commission, modeled on the USITC, whose commissioners would be appointed by presidential nomination and the advice and consent of the Senate. Front-line adjudicators would be APJs nominated by the PTAB. Presumably, the Patent Claims Commission would appoint these front-line adjudicators, just as the USITC appoints ALJs. Commenter David Boundy suggested that if an executive-branch agency is authorized to administer a small claims patent proceeding, adjudicators should be ALJs. ALJs are generally appointed by the agency that employs them, such as the USITC.<sup>283</sup>

It is important to note that there are structural consequences to appointing constitutional officers without presidential nomination and Senate confirmation. The work of such officers must be “directed and supervised at some level by others who were appointed by presidential nomination with the advice and consent of the Senate.”<sup>284</sup> For adjudicators, this may require that decisions be reviewable by one or more officials within the same branch of government who were appointed by presidential nomination and Senate confirmation.<sup>285</sup>

## 2. Recruitment and Selection

Adjudicators are recruited and selected through different methods. Some, like Article III judges and CFC Judges, are recruited and selected through essentially political processes. Others, like ALJs and APJs, obtain their positions through merit selection. Merit system principles require that appointing authorities recruit from “qualified individuals from appropriate sources in

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<sup>271</sup> 28 U.S.C. § 171(a).

<sup>272</sup> 26 U.S.C. § 7443(b).

<sup>273</sup> 38 U.S.C. § 7523(b).

<sup>274</sup> 19 U.S.C. § 1330(a); 35 U.S.C. § 3(a)(1).

<sup>275</sup> 5 U.S.C. § 3105; *see also* *Lucia v. SEC*, 138 S. Ct. 2044 (2018).

<sup>276</sup> 25 U.S.C. § 1067(b); 35 U.S.C. § 6(a).

<sup>277</sup> 17 U.S.C. §§ 802, 1502(b)(1).

<sup>278</sup> 28 U.S.C. § 631(a).

<sup>279</sup> 28 U.S.C. § 152(a)(1).

<sup>280</sup> 42 U.S.C. § 300aa-12(c).

<sup>281</sup> 26 U.S.C. § 7443A(a); *see also* *Freytag v. Comm’r*, 501 U.S. 868 (1991).

<sup>282</sup> *Morrison v. Olson*, 487 U.S. 654 (1988).

<sup>283</sup> 5 U.S.C. § 3105.

<sup>284</sup> *Edmond v. United States*, 520 U.S. 651, 662 (1997).

<sup>285</sup> *United States v. Arthrex, Inc.*, 141 S. Ct. 1970 (2021).

an endeavor to achieve a work force from all segments of society.”<sup>286</sup> Hiring announcements are typically posted online, for example on USAJOBS or an agency website, and publicized.

Merit system principles require that candidates be selected “solely on the basis of relative ability, knowledge, and skills, after fair and open competition which assures that all receive equal opportunity” and “without regard to political affiliation, race, color, religion, national origin, sex, marital status, age, or handicapping condition.”<sup>287</sup> For competitive service positions, OPM may also be involved in recruiting and selecting candidates. ALJs were selected through an OPM-administered process until 2018, when President Trump issued Executive Order 13,843 exempting ALJs from the competitive service.<sup>288</sup>

For several positions, Congress has required an appointing authority to consult with another official in selecting candidates. In appointing APJs and ATJs, for example, the Secretary of Commerce must consult with the USPTO Director.<sup>289</sup> And in appointing copyright claims officers, the Librarian of Congress must consult with the Register of Copyrights.

One model that may be instructive for this study is the process for recruiting and selecting Magistrate Judges. By statute, the Judicial Conference must promulgate standards and procedures for selecting Magistrate Judges that “contain provision for public notice of all vacancies in magistrate judge positions.”<sup>290</sup> District courts must also establish merit selection panels, made up of district residents, to assist them in identifying and recommending persons best qualified to fill vacant positions.<sup>291</sup> As a matter of practice, some appeals courts also use

merit panels to interview and rank applicants for Bankruptcy Judge positions and recommended candidates to the appointing authority.<sup>292</sup>

The European Unified Patent Court (UPC) uses a similar model. Vacancies are publicly advertised, and judges apply directly to the UPC. An Advisory Committee comprised of “patent judges and practitioners in patent law and patent litigation with the highest recognised competence” compiles a list of candidates it deems “most suitable.” The appointing body, a multi-member committee representing UPC member states, then appoints judges to the UPC based on the Advisory Committee’s list.<sup>293</sup>

For a U.S. small claims patent court, an advisory committee might be selected to review applications for vacant positions and recommend suitable candidates to the appointing official, whether a court or a department head. To promote trust in and voluntary use of a small claims patent court, members of the advisory committee should represent a diversity of interests, including those of potential plaintiffs (e.g., independent inventors, small- and medium-sized enterprises) and potential defendants (e.g., large manufacturers, large retailers).

### 3. Qualifications

Policymakers should consider whether adjudicators within a new forum should be required to have specialized training or experience. Congress sometimes has established minimum qualifications for adjudicator positions. Many adjudicators must be licensed attorneys, and some must have at least a certain number of years of legal experience. Some adjudicators must also have nonlegal qualifications. APJs must be “persons of competent legal knowledge and

<sup>286</sup> 5 U.S.C. § 2301; see also Admin. Conf. of the U.S., Recommendation 2019-2, *Agency Recruitment and Selection of Administrative Law Judges*, 84 Fed. Reg. 38,930 (Aug. 8, 2019); Admin. Conf. of the U.S., Recommendation 2019-9, *Recruiting and Hiring Agency Attorneys*, 84 Fed. Reg. 71,355 (Dec. 27, 2019).

<sup>287</sup> 5 U.S.C. § 2301; see also Admin. Conf. of the U.S., Recommendation 2019-2, *Agency Recruitment and Selection of Administrative Law Judges*, 84 Fed. Reg. 38,930 (Aug. 8, 2019); Admin. Conf. of the U.S., Recommendation 2019-9, *Recruiting and Hiring Agency Attorneys*, 84 Fed. Reg. 71,355 (Dec. 27, 2019).

<sup>288</sup> Exec. Order No. 13,843, 83 Fed. Reg. 32,755 (July 10, 2018).

<sup>289</sup> 15 U.S.C. § 1067(b); 35 U.S.C. § 6(a).

<sup>290</sup> 28 U.S.C. § 631(b)(5).

<sup>291</sup> 28 U.S.C. § 631(a), (b)(5).

<sup>292</sup> Craig A. Gargotta, *Who Are Bankruptcy Judges and How Did They Become Federal Judges?*, THE FED. LAW., April 2018, at 11 (describing the Fifth Circuit’s practice).

<sup>293</sup> 2013 J.O. (C 175), <https://www.unified-patent-court.org/sites/default/files/upc-agreement.pdf>.

scientific ability.”<sup>294</sup> At least one copyright royalty judge must have “significant knowledge of copyright law,” and another must have “significant knowledge of economics.”<sup>295</sup>

The question of qualifications arose in the course of studying a potential small claims copyright court. In its 2013 report to Congress, the USCO explained:

Throughout the Office’s review, commenting parties have emphasized the importance of copyright expertise to an alternative small copyright claims system. Almost universally, commenters and hearing participants voiced a preference for a tribunal or other system administered by lawyers or judges who were knowledgeable about copyright law. Copyright law is perceived by some to be ‘amazingly complex’ and ‘complicated’; one hearing participant observed that the requirement of copyright expertise was ‘critical’ because copyright ‘issues . . . can quickly get beyond the everyday knowledge of even the plaintiff to know what rights they may or may not have.’ The need for knowledgeable decisionmakers presumably would be accentuated in a streamlined proceeding, which would not typically involve extensive legal research or briefing by the parties. Moreover, the participants in such a proceeding—particularly if acting *pro se*—might need guidance in focusing their claims and defenses, making the adjudicators’ knowledge of applicable law that much more important.<sup>296</sup>

The USCO recommended that two of the three members of the CCB be “experienced in copyright infringement matters as attorneys or adjudicators” and between them have “handled matters involving both enforcement and

permissible uses, and counseled clients in protecting their rights as well as in defending against allegations of copyright infringement.” The USCO suggested that such qualifications “could ensure a balanced system sensitive to both sides of infringement claims.” The Office also recommended that one member have “meaningful experience” in ADR, who would be equipped to “undertake a holistic analysis of infringement claims with an eye toward the resourceful resolution of disputes.”<sup>297</sup> Congress ultimately adopted this model in establishing the CCB.<sup>298</sup>

Appointing officials may also require or emphasize additional qualifications beyond those required by law. As noted earlier, a 2021 job posting for an ALJ vacancy at the USITC indicated a preference for applicants that had prior experience as an ALJ, an APJ, an attorney litigating IP and unfair competition disputes, or a clerk at a court that handles IP disputes.<sup>299</sup>

An extensive literature analyzes whether it is desirable to require that adjudicators have specialized training or experience. On the one hand, having such qualifications might improve the accuracy, efficiency, and consistency of decision making. On the other hand, additional qualifications limit the pool of candidates and may favor insiders, who are likelier to have preexisting connections with litigants or preexisting perceptions about cases. Relying on an adjudicator’s technical or scientific knowledge as a source of evidence also alters the traditional dynamics of the adversarial system.<sup>300</sup>

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<sup>294</sup> 35 U.S.C. § 6(a).

<sup>295</sup> 17 U.S.C. § 802(a)(1).

<sup>296</sup> U.S. COPYRIGHT OFF., COPYRIGHT SMALL CLAIMS 98–99 (2013) (internal references omitted).

<sup>297</sup> *Id.* at 99–100.

<sup>298</sup> 17 U.S.C. § 1502(b)(3).

<sup>299</sup> Ryan Davis, *ITC Has Eyes on IP Talent in Search for New Judges*, LAW360 (Apr. 2, 2021, 9:20 PM), <https://www.law360.com/articles/1371948/itc-has-eyes-on-ip-talent-in-search-for-new-judge>.

<sup>300</sup> *See, e.g.*, LAWRENCE BAUM, SPECIALIZING THE COURTS (2011); Richard L. Revesz, *Specialized Courts and the Administrative Lawmaking System*, 138 U. PA. L. REV. 1111 (1990).

Given its complexity, patent litigation has long been considered a good candidate for a specialized judiciary. As Judge Friendly observed decades ago:

[C]ourts must . . . deal today with a great number of patents in the higher reaches of electronics, chemistry, biochemistry, pharmacology, optics, harmonics, and nuclear physics, which are quite beyond the ability of the usual judge to understand without the expenditure of an inordinate amount of educational effort by counsel and of attempted self-education by the judge, and in many instances, even with it.<sup>301</sup>

Scholars have analyzed at length the potential benefits and drawbacks of assigning patent dispute resolution to a class of adjudicators who, as a condition of taking office, must have specialized expertise either in patent law or technical or scientific matters.<sup>302</sup>

In the United States and internationally, many patent tribunals feature specially qualified adjudicators.<sup>303</sup> Congress explicitly established the PTAB to take advantage of adjudicators' expertise in technical or scientific fields other than law. Scientifically or technically qualified judges hear patent infringement cases in Austria, Denmark, Germany, Hungary, Sweden, and Switzerland, as well as in the new UPC, which is open to European Union member states.<sup>304</sup>

Many study participants commented that adjudicators who hear small patent claims should be required to have specialized technical or

scientific knowledge. Amazon commented that, to resolve cases more efficiently, a small claims patent court should employ “expert judges” with expertise in patent law and “deep knowledge” of technology and science, reasoning that such officials “are better equipped to understand the technology at issue and get to the merits of the case more quickly.” Commenter Richard Torczon agreed, stating that a “small-claims patent process by definition is a specialized practice, warranting specialized decision makers.” The PTAB Trials Committee of the PTAB Bar Association recommended that APJs, who by statute must be “persons of competent legal knowledge and scientific ability,” be appointed to hear small patent claims. Commenter Daniel P. Brown stated that “[t]he judges who decide these cases must be technically versed in the fields they are dealing with, as well as the new knowledge creation process.”

A joint comment from Engine Advocacy and PIPLI stated that adjudicators would “need to have a strong technical background and be able and willing to learn new technology quickly.” Additionally, they recommended that to “demonstrate balance and be able to take account of the views of both claimants respondents,” adjudicators “should have experience working with and representing the interests of both patent owners and accused infringers.”

<sup>301</sup> HENRY FRIENDLY, *FEDERAL JURISDICTION: A GENERAL VIEW* 156–57 (1973).

<sup>302</sup> Sapna Kumar, *Judging Patents*, 62 WM. & MARY L. REV. 871 (2021); Elizabeth Connors, Note, *Specializing District Courts for Patent Litigation*, 69 CASE W. RES. 771 (2019); Matthew G. Sipe, *Experts, Generalists, Laypeople—and the Federal Circuit*, 32 HARV. J. LAW & TECH. 575 (2019); Michael Goodman, *What’s So Special About Patent Law?*, 26 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 797 (2016); Jay P. Kesan & Gwendolyn G. Ball, *Judicial Experience and the Efficiency and Accuracy of Patent Adjudication: An Empirical Analysis of the Case for a Specialized Patent Trial Court*, 24 HARV. J.L. & TECH. 393 (2011); Eric B. Cheng, Note, *Alternatives to District Court Patent Litigation: Reform by Enhancing the Existing Administrative Options*, 83 S. CAL. L. REV. 1135 (2010); David L. Schwartz, *Courting Specialization: An Empirical Study of Claim Construction Comparing Patent Litigation Before Federal District Courts and the International Trade Commission*, 50 WM. & MARY L. REV. 1699 (2009); Judge James F. Holderman & Halley Guren, *The Patent Litigation Predicament in the United States*, 2007 U. ILL. J.L. TECH. & POL’Y 1 (2007); Judge James F. Goodman, *Judicial Patent Specialization: A View From the Bench*, 2002 U. ILL. J.L. TECH. & POL’Y 425 (2002); LeRoy L. Kondo, *Untangling the Tangled Web: Federal Court Reform Through Specialization for Internet Law and Other High Technology Cases*, 2002 UCLA J.L. & TECH. 1 (2002); Arti K. Rai, *Specialized Trial Courts: Concentrating Expertise on Fact*, 17 BERKELEY TECH. L.J. 877 (2002); Lawrence Baum, *Judicial Specialization, Litigant Influence, and Substantive Policy: The Court of Customs and Patent Appeals*, 11 L. & SOC’Y REV. 823 (1977).

<sup>303</sup> INT’L CHAMBER OF COMMERCE, *ADJUDICATING INTELLECTUAL PROPERTY DISPUTES* 16–17 (2016).

<sup>304</sup> Sapna Kumar, *Judging Patents*, 62 WM. & MARY L. REV. 871 (2021).



#### 4. Case Assignment

In forums where individual cases are not heard and decided by all members of a forum, policymakers must carefully consider how adjudicators should be assigned to cases. In many forums, random assignment is the norm. With respect to ALJs, for example, the APA requires that cases be assigned “in rotation so far as practicable.”<sup>305</sup> This provision is intended to avoid strategic assignment of cases to achieve desired substantive outcomes.

The Chief Judge of each district court has statutory responsibility for case assignments, but every district has developed a written plan for assigning cases. Most plans “use some variation of a random drawing.”<sup>306</sup> Even under the Patent Pilot Program, cases were randomly assigned to District Judges regardless of whether the Chief Judge of a district court had designated a particular judge to hear patent cases.<sup>307</sup>

The USPTO Director has statutory authority to designate three-member panels,<sup>308</sup> but the Director delegated that authority to the Chief Judge of the PTAB, who has issued a standard operating procedure for case assignments. That procedure provides detailed instructions on how panels should be designated, including consideration of such factors as judges’ adjudicative experience, technical expertise, prior experience with particular patents, potential conflicts, and pending caseload.<sup>309</sup>

A related issue is whether the decision maker in an individual case should be a single adjudicator or a multi-member panel (setting aside the possibility of a jury for factfinding in district court proceedings). Both models are currently used in IP litigation. District Judges, CFC Judges, and

USITC ALJs hear cases individually, while the PTAB, CCB, CRB, and TTAB hear cases in three-member panels. Internationally, IPEC proceedings take place before a single judge, while UPC proceedings will take place before three-member panels.

Both models have potential benefits and drawbacks. The primary benefit of using a single adjudicator is that it requires less expenditure of public resources and, without the need for consensus among multiple professionals, may result in quicker case processing. In an effort to explore approaches that might improve efficiencies, the USPTO proposed piloting a program in which a single APJ determined whether to institute an IPR at the PTAB.<sup>310</sup> The single-adjudicator model may be especially well suited for smaller claims or less complex cases. For this reason, presumably, Congress authorized the Register of Copyrights to establish procedures for a single copyright claims officer to consider and determine claims under \$5,000.<sup>311</sup>

Multi-member panels can be constituted to bring different areas of expertise or diverse perspectives to bear in deciding individual cases. Ensuring that diverse perspectives are represented on panels can also engender trust in decision making. Consider the CCB, for example. Two officers must have “substantial experience in the evaluation, litigation, or adjudication of copyright infringement claims” and, between them, “must have represented or presided over a diversity of copyright interests, including those of both owners and users of copyrighted works.” The third officer must have “substantial familiarity with copyright law and experience in the field of alternative dispute resolution, including the resolution of litigation matters through that

<sup>305</sup> 5 U.S.C. § 3105.

<sup>306</sup> *FAQs: How Are Judges Assigned to Cases?*, U.S. COURTS, <https://www.uscourts.gov/faqs-filing-case#faq-How-are-judges-assigned-to-cases?>.

<sup>307</sup> Patent Cases Pilot Program, Pub. L. No. 111-349, 124 Stat. 3674 (2011).

<sup>308</sup> 35 U.S.C. § 6(c).

<sup>309</sup> *Standard Operating Procedure: Assignment of Judges to Panels*, USPTO, <https://www.uspto.gov/sites/default/files/documents/SOP%201%20R15%20FINAL.pdf>.

<sup>310</sup> 80 Fed. Reg. 51,540 (Aug. 25, 2015). In view of public comments, the agency ultimately decided not to go forward with the pilot. 81 Fed. Reg. 18,750, 18,751 (Apr. 1, 2016). For example, the ABA Intellectual Property Law Section expressed a number of concerns with the program, including that the PTAB patent trials raise technical, legal and procedural issues that “are better handled by a three-judge panel which provides broader technical expertise, experience, and legal knowledge than a single judge” and that a decision rendered by a “three judge panel will be made with greater consistency and predictability.”

<sup>311</sup> 17 U.S.C. § 1506(z).

method of resolution.”<sup>312</sup> In proposing the panel requirements ultimately adopted for the CCB, the USCO explained that a panel constituted in this fashion “could help ensure a balanced system sensitive to both sides of infringement claims” and “should be able to undertake a holistic analysis of infringement claims with an eye toward the resourceful resolution of disputes.”<sup>313</sup> This may be beneficial in a voluntary proceeding, in which a potential plaintiff and a potential defendant would need to agree to participate.

Multi-member panels can also serve accuracy and efficiency goals, especially in streamlined proceedings in which traditional tools for educating the decision maker, such as discovery and expert testimony, are abbreviated. By requiring consensus among several experts, multi-member panels may also promote consistent decision making across a forum.

#### 5. Compensation

Adjudicator compensation is an important consideration in designing any tribunal. How much adjudicators are paid affects the composition of the bench and may affect adjudicators’ behavior.<sup>314</sup> In deciding whether to accept a position with a new small claims patent court, qualified applicants are likely to consider how their compensation would compare with the compensation of adjudicators at other tribunals that hear similar cases, especially the PTAB and the USITC. APJs currently earn between \$152,402 and \$187,300 per year and are eligible for monetary awards.<sup>315</sup> ALJs in the Washington metropolitan area earn between \$162,168 and \$195,000 per year and are statutorily ineligible for monetary awards.<sup>316</sup>

Policymakers should also consider who should be responsible for fixing adjudicators’ salaries. The

purpose of protecting Article III judges from diminution in salary is to safeguard their decisional independence. In some contexts, Congress has decided adjudicators’ salaries itself. In other contexts, as with APJs and copyright claims officers, Congress has assigned a supervisory official to decide adjudicators’ compensation given a salary floor, ceiling, or range. In still other contexts, Congress has assigned that decision to an independent federal entity. ALJ salaries, for example, are set by OPM. Alternatively, an advisory commission might make recommendations to officials formally responsible for setting adjudicators’ pay. The Citizens’ Commission on Public Service and Compensation, for example, recommends salary amounts for a range of offices, including circuit, district, and CFC judge positions and offices under the Executive Schedule.<sup>317</sup>

#### 6. Performance Appraisal and Performance Incentives

In designing a new forum, policymakers should consider whether adjudicators should be subject to performance appraisal. Article III judges are, of course, exempt from performance appraisal by a supervising officer. Most federal employees are by statute subject to performance appraisal, on the other hand, for reasons of efficiency, accountability, and sound public administration.<sup>318</sup> Some adjudicators are subject to performance appraisal, including APJs.<sup>319</sup> Other adjudicators, most notably ALJs, are statutorily exempt from performance appraisal, in order to insulate them from improper influence.<sup>320</sup>

In establishing the CCB, Congress opted for a third option: performance appraisal that is statutorily circumscribed to insulate adjudicators from improper influence. Under the CASE Act,

<sup>312</sup> 17 U.S.C. § 1502(b)(3).

<sup>313</sup> U.S. COPYRIGHT OFF., COPYRIGHT SMALL CLAIMS 100–01 (2013).

<sup>314</sup> James M. Anderson & Eric Helland, *How Much Should Judges Be Paid? An Empirical Study on the Effect of Judicial Pay on the State Bench*, 64 STAN. L. REV. 1277 (2012).

<sup>315</sup> *Administrative Patent Judge*, USAJOBS, <https://www.usajobs.gov/job/690925500>.

<sup>316</sup> *2023 Locality Rates of Pay: Administrative Law Judges*, U.S. OFF. PERS. & MGMT. (2023), [https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/salary-tables/pdf/2023/ALJ\\_LOC.pdf](https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/salary-tables/pdf/2023/ALJ_LOC.pdf).

<sup>317</sup> 2 U.S.C. ch. 11.

<sup>318</sup> 5 U.S.C. § 4031 *et seq.*

<sup>319</sup> See U.S. GOV’T ACCOUNTABILITY OFF., *supra* note 238, at 17–18.

<sup>320</sup> See 5 U.S.C. § 4301(2)(D).

performance appraisal of a copyright claims officer (or a CCB staff attorney) “may not consider the substantive result of any individual determination reached by the copyright claims board as a basis for appraisal except to the extent that the result may relate to any actual or alleged violation of an ethical standard of conduct.”<sup>321</sup>

Closely related to the question of performance appraisal is the question of performance incentives. Incentives, including awards and bonuses, are regulated by the civil service laws and are commonly used across the federal government to promote high performance. To provide insulation from improper influences, some adjudicators, including ALJs, are ineligible for awards and bonuses. Other adjudicators, including APJs, are eligible for awards and bonuses to encourage high-quality decision making and timely decision making. Although some have argued that performance incentives for APJs affect decisional outcomes, the Federal Circuit has rejected arguments that performance incentives for APJs violate parties’ due process rights.<sup>322</sup>

Asserting that performance incentives for APJs create “conflicts of interest,” commenter David Boundy suggested that if a small claims patent proceeding is administered by executive-branch adjudicators, “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.”

### 7. Tenure

Although Article III of the Constitution prevents Congress from limiting the tenure of judges who exercise the “judicial Power of the United States,”<sup>323</sup> Congress may impose tenure limits on most other adjudicator positions. An extensive literature examines the potential benefits and

drawbacks of limiting the tenure of adjudicators or requiring that they be periodically reappointed. The main argument favoring unlimited tenure is that it promotes decisional independence by insulating adjudicators from political actors. Arguments favoring term limits posit that unlimited tenure excessively insulates adjudicators from external influence, reducing public accountability; makes appointment decisions irregular and potentially more politically contentious; and encourages strategic retirement by adjudicators themselves.

Many adjudicators do not have statutory term limits. They include Article III judges, of course, as well as ALJs, APJs, and ATJs. Other adjudicators are subject to statutory term limits, with or without the potential for reappointment: CFC and Tax Court Judges serve 15-year terms.<sup>324</sup> Bankruptcy Judges serve 14-year terms.<sup>325</sup> Full-time Magistrate Judges serve eight-year, renewable terms, while part-time Magistrate Judges serve four-year, renewable terms.<sup>326</sup> USITC commissioners serve nine-year terms with no opportunity for reappointment after serving five years.<sup>327</sup> CRJs serve six-year terms, and Congress provided the same tenure for copyright claims officers in establishing the CCB.<sup>328</sup>

### 8. Discipline and Removal

Policymakers should carefully consider the circumstances under which adjudicators in a small claims patent court may be disciplined or removed, and the process for determining when those circumstances are satisfied.

While the Constitution provides that impeachment by the House of Representatives and conviction by the Senate provides the sole means for removing judges who exercise “the judicial Power of the United States,” discipline and removal of other adjudicators is largely unregulated by the Constitution.

<sup>321</sup> 17 U.S.C. § 1503(b)(3).

<sup>322</sup> *Mobility Workx, LLC v. Unified Patents, LLC*, 15 F.4th 1146 (Fed. Cir. 2021).

<sup>323</sup> *N. Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50 (1982).

<sup>324</sup> 26 U.S.C. § 7443(e); 28 U.S.C. § 172(b).

<sup>325</sup> 28 U.S.C. § 152(a)(1).

<sup>326</sup> 28 U.S.C. § 631(e).

<sup>327</sup> 19 U.S.C. § 1330(a)–(b).

<sup>328</sup> 17 U.S.C. §§ 802(c), 1502(b)(5).

To promote decisional independence and insulate adjudicators from improper influences, Congress has, on many occasions, imposed statutory restrictions on the discipline and removal of adjudicators. Such provisions typically set forth limited grounds for which discipline or removal from office may be appropriate. They typically also specify the official or body responsible for determining whether discipline or removal of a particular adjudicator is warranted and may set forth procedures for discipline or removal, such as requirements for notice and an opportunity for a hearing. As discussed earlier, however, the constitutional separation of powers imposes certain limits on Congress's ability to craft provisions governing the discipline and removal of officers outside the legislative branch.

By way of example, many officers—including CFC Judges, Tax Court Judges, Bankruptcy Judges, Magistrate Judges, CFC Special Masters, and CRJs—may be removed only for reasons such as incompetence, misconduct, neglect of duty, engaging in duties inconsistent with the position, inefficiency, malfeasance, or physical or mental disability.<sup>329</sup> Under the default standard for civil service employees, APJs and ATJs may be removed only “for such cause as will promote the efficiency of the [civil] service,” as defined in OPM rules.<sup>330</sup> ALJs may be removed only “for good cause.”<sup>331</sup> Removal of copyright claims officers must be consistent with statutory provisions governing their decision independence.<sup>332</sup>

As for who can remove officers and through what process, CFC Judges are removable by majority vote of the judges of the Court of Appeals for the Federal Circuit,<sup>333</sup> while Tax Court Judges are removable by the President.<sup>334</sup> Bankruptcy Judges are removable by the judicial council of the

relevant circuit,<sup>335</sup> while Magistrate Judges are removable by majority vote of the relevant district court.<sup>336</sup> For each of these positions, the removed officer is entitled to notice and an opportunity for a hearing. As noted earlier, agencies may remove ALJs only after a separate agency, the MSPB, has determined through an on-the-record proceeding that good cause exists.<sup>337</sup> The USPTO may remove APJs and ATJs, but removed offices have a right to appeal their removal to and a right to a hearing before the MSPB.<sup>338</sup> CRJs and CCOs are subject to removal by the Librarian of Congress, although CRJs may be removed only “after notice and opportunity for a hearing.”<sup>339</sup>

### 9. Procedural Integrity

To promote fair decision making and public confidence in a new forum, policymakers should consider adopting mechanisms to ensure the integrity of a small claims patent proceeding. It is important that a range of stakeholders, including potential plaintiffs and defendants, perceive a small claims patent proceeding—and the forum that administers it—to be fair and impartial, especially if participation in a small claims patent proceeding is voluntary. As discussed below, adjudicative forums typically employ a range of mechanisms to promote procedural integrity.

Two popular mechanisms for promoting procedural integrity are the adoption of standards of ethical conduct by which adjudicators and adjudicative staff should abide and the adoption of standards for determining when adjudicators should not decide cases due to concerns about their impartiality. Different classes of adjudicators are subject to different standards governing ethical conduct and for recusal or disqualification in individual cases. Circuit Judges, District Judges, CIT Judges, CFC Judges, and Magistrate Judges, for example, are subject

<sup>329</sup> 17 U.S.C. § 802(i); 26 U.S.C. § 7443(f); 28 U.S.C. §§ 152(a)(1), 631(i); 42 U.S.C. § 300aa-12(c)(2).

<sup>330</sup> 5 U.S.C. § 7513(a); 35 U.S.C. § 3(c).

<sup>331</sup> 5 U.S.C. § 7521(a).

<sup>332</sup> 17 U.S.C. § 1502(b)(7).

<sup>333</sup> 28 U.S.C. § 176(a)–(b).

<sup>334</sup> 26 U.S.C. § 7443(f).

<sup>335</sup> 28 U.S.C. § 152(e).

<sup>336</sup> 28 U.S.C. § 631(i).

<sup>337</sup> 5 U.S.C. § 7521(a).

<sup>338</sup> 5 U.S.C. § 7513(a); 35 U.S.C. § 3(c).

<sup>339</sup> 17 U.S.C. §§ 802(i), 1502(b)(7).

to statutory provisions governing disqualification<sup>340</sup> as well as the *Code of Conduct for United States Judges*, adopted by the Judicial Conference.<sup>341</sup> In establishing the CCB, the CASE Act makes reference to “ethical standard[s] of conduct” and provides that a copyright claims officer “shall recuse himself or herself from participation in any proceeding with respect to which the Copyright Claims Officer . . . has reason to believe that he or she has a conflict of interest.”<sup>342</sup> Most executive-branch officials are subject to rules established by the Office of Government Ethics. The formal hearing provisions of the APA (applicable to USITC hearings) provide for disqualification in individual cases. Agencies have also adopted their own ethics and impartiality rules to supplement statutory requirements.<sup>343</sup> PTAB procedures for assigning judges to panels discuss prohibited conflicts of interest,<sup>344</sup> for example, and the USITC had adopted rules governing adjudicators’ “moral character” and impartiality.<sup>345</sup> ACUS has recommended that agencies adopt recusal rules for administrative adjudicators.<sup>346</sup>

Other mechanisms for safeguarding procedural integrity are well known to students of civil procedure and administrative law. One mechanism policymakers should consider for a small claims patent proceeding is the requirement that decisions be based on an exclusive record. In other words, “decisionmakers should be limited to considering factual information presented in testimony or documents they received before, at, or after the hearing to

which all parties had access, and to matters officially noticed.”<sup>347</sup> The CCB, for example, is required to render decisions “on the basis of the records in the proceedings before it.”<sup>348</sup>

A second mechanism is a prohibition on “ex parte communications relevant to the merits of a case between persons outside the agency and agency decisionmakers or staff who are advising or assisting the decisionmaker.”<sup>349</sup> Prohibitions on ex parte communications are common in judicial and administrative proceedings. The CCB is representative in this respect. The CASE Act generally prohibits parties from engaging in ex parte communications with copyright claims officers and the Register of Copyrights “concerning the substance of any active or pending proceeding before the Copyright Claims Board.” Additionally, while copyright claims officers and staff attorneys are permitted to “consult with the Register of Copyrights on general issues of law,” they are generally prohibited from consulting the Register of Copyrights with respect to the facts of any particular pending matter or the application of law to the facts.<sup>350</sup>

A third mechanism is an internal separation between decisional and adversarial personnel in institutions that perform both adjudicative and prosecutorial functions.<sup>351</sup> Potential defendants are unlikely to agree to participate in a voluntary small claims patent proceeding in which the adjudicator reports to or works closely with

<sup>340</sup> 28 U.S.C. § 455.

<sup>341</sup> *Code of Conduct for United States Judges*, U.S. COURTS, <https://www.uscourts.gov/judges-judgeships/code-conduct-united-states-judges>.

<sup>342</sup> 17 U.S.C. § 1503(d)–(e).

<sup>343</sup> See Louis J. Virelli, III, *Administrative Recusal Rules: A Taxonomy and Study of Existing Recusal Standards for Agency Adjudicators* (May 14, 2020) (report to the Admin. Conf. of the U.S.).

<sup>344</sup> *Standard Operating Procedure: Assignment of Judges to Panels*, USPTO, <https://www.uspto.gov/sites/default/files/documents/SOP%2015%20FINAL.pdf>.

<sup>345</sup> 19 C.F.R. § 200.735-126(c).

<sup>346</sup> See Admin. Conf. of the U.S., Recommendation 2018-4, *Recusal Rules for Administrative Adjudicators*, 84 Fed. Reg. 2139 (Feb. 6, 2019); Admin. Conf. of the U.S., Recommendation 2016-4, *Evidentiary Hearings Not Required by the Administrative Procedure Act*, ¶ 5, 81 Fed. Reg. 94,314, 94,315 (Dec. 23, 2016).

<sup>347</sup> See Admin. Conf. of the U.S., Recommendation 2016-4, *Evidentiary Hearings Not Required by the Administrative Procedure Act*, ¶ 1, 81 Fed. Reg. 94,314, 94,315 (Dec. 23, 2016); see also 5 U.S.C. § 556(e).

<sup>348</sup> 17 U.S.C. § 1503(b)(1).

<sup>349</sup> See Admin. Conf. of the U.S., Recommendation 2016-4, *Evidentiary Hearings Not Required by the Administrative Procedure Act*, ¶ 2, 81 Fed. Reg. 94,314, 94,315 (Dec. 23, 2016); see also 5 U.S.C. §§ 554(d)(1), 557(d).

<sup>350</sup> 17 U.S.C. § 1503(b)(2), (f).

<sup>351</sup> See 5 U.S.C. § 554(d)(2); Admin. Conf. of the U.S., Recommendation 2016-4, *Evidentiary Hearings Not Required by the Administrative Procedure Act*, ¶¶ 3–4, 81 Fed. Reg. 94,314, 94,315 (Dec. 23, 2016).

personnel who lend meaningful assistance to potential plaintiffs.

Relatedly, adjudicators should not perform duties that are or are perceived to be in conflict with their duties as an adjudicator. ALJs “may not perform duties inconsistent with their duties and responsibilities as [ALJs],”<sup>352</sup> for example, and in establishing the CCB, Congress provided that a copyright claims officer “may not undertake any duty that conflicts with the duties of the Officer or Attorney in connection with the Copyright Claims Board.”<sup>353</sup>

### ***Internal Governance***

If Congress decides to establish a new forum for a small claims patent proceeding, it will need to consider how the forum should be administered. Congress must decide, for example, who is responsible for administering the forum: a single Chief Judge, a non-adjudicator Director, or a multi-member body. Congress will also need to consider how administrators are selected and what authorities they possess (e.g., case assignment, performance appraisal, issuance of binding directives, allocation of resources)?

Congress should also pay careful attention to the extent of the forum’s rulemaking authority and the process through which rules are adopted. Because some initial experimentation and specialized expertise by administrators may be needed to develop effective rules for a small claims patent proceeding, it may be prudent to give the new forum flexibility to amend its rules of practice as new procedural efficiencies and inefficiencies are identified and in response to public feedback. In establishing the CCB, for example, Congress established certain minimum procedural requirements but otherwise gave the Register of Copyrights broad authority to establish regulations governing CCB proceedings.<sup>354</sup> The CCB has undertaken

extensive rulemaking since 2021 to establish rules of practice.<sup>355</sup>

A related consideration is the forum’s autonomy to develop regulations independent of other institutions. The district courts and CFC, for example, are subject to the Rules Enabling Act, which gives the Supreme Court the power to craft general rules applicable in those forums.<sup>356</sup> Amending the federal rules can be a lengthy and cumbersome process. District courts have authority to set their own local rules, so long as they are not inconsistent with the federal rules. As discussed earlier, many have relied on this authority to establish local rules for use in patent cases. Among Article III courts, the CIT has comparatively broad authority to craft rules of practice, and it has used this power to establish a small claims process. Rulemaking by the PTAB and CCB is controlled by the USPTO and USCO, respectively. The USPTO may, in turn, be subject to White House oversight over executive-agency rulemaking. As an independent regulatory agency, the USITC has broad authority to set its own rules without White House intervention.<sup>357</sup>

Finally, policymakers should consider the process through which rules should be adopted. Though there is considerable variation as to the specifics, rulemaking within the judicial and executive branches often involves some form of public notice and some opportunity for public participation. Rulemaking by the USPTO, CCB, and USITC is subject to the APA.<sup>358</sup> As noted above, stakeholders have routinely expressed a preference for the USPTO to utilize notice-and-comment rulemaking when setting PTAB procedures. Incorporating regular and meaningful opportunities for public participation in the forum’s rulemaking process—through notice and comment, establishment of an advisory committee, ongoing solicitation of public input, and other means—may provide an avenue for potential plaintiffs and defendants to take part

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<sup>352</sup> 5 U.S.C. § 3105.

<sup>353</sup> 17 U.S.C. § 1503(d).

<sup>354</sup> 17 U.S.C. § 1506.

<sup>355</sup> *Copyright Alternative in Small-Claims Enforcement (CASE) Act of 2020 Rulemakings*, U.S. COPYRIGHT OFF., <https://www.copyright.gov/about/small-claims/related-rulemakings.html>.

<sup>356</sup> 28 U.S.C. § 2072.

<sup>357</sup> 19 U.S.C. § 1330(f).

<sup>358</sup> 5 U.S.C. § 553.

in designing the proceeding, promote confidence in its operation, and improve the effectiveness of a small claims patent proceeding.

### **Resources**

#### **1. Funding**

Funding for most federal institutions comes from tax revenue, user fees (often in the form of “filing fees”), or some combination of the two. As noted above, the USPTO is funded primarily through user fees, for example, while the federal courts are funded through a combination of user fees and tax revenue. Because a small claims patent court is designed to keep costs low, user fees should also be kept low. Many or most cases would involve parties who qualify for reduced fees in other contexts, for example at USPTO. By way of comparison, the CCB charges very low filing fees. It currently costs \$100 to file a claim before the CCB, for example, and \$300 to obtain review of a final determination by the Register of Copyrights.

One concern is that without fees paid by larger entities to subsidize proceedings for smaller entities, user fees alone may not provide funding adequate to cover the costs of an independent forum. (There may be other reasons to collect fees, of course, such as to discourage parties from bringing non-meritorious claims.) In establishing the CCB, Congress authorized the appropriation of such sums as may be necessary to pay the costs incurred by the USCO in administering the CCB, including the costs of establishing and maintaining the CCB and its facilities, that are not covered by user fees.<sup>359</sup>

One commenter proposed that although the forum should be “self-supporting,” funds might be supplemented, presumably by tax revenue.<sup>360</sup> Another commenter proposed that the costs of the forum “be borne by society as a whole” rather than individual litigants, because the “benefits [of such forum] for innovation—both for allowing patentees to enforce patents and for allowing

defendants to minimize costs and damages—will be gained by society as a whole.”<sup>361</sup> Policymakers will need to consider the funding required to operate an independent small claims patent court effectively and the best means for providing it.

Relatedly, policymakers should consider a new forum’s autonomy to request and allocate funding. The existing forums discussed in this report vary in the degree of their autonomy. For example, although the USPTO is structured as a subunit of the Department of Commerce, for example, and subject to the policy direction of the Secretary of Commerce, it “exercise[s] independent control of its budget allocations and expenditures.”<sup>362</sup> The Office of Management and Budget also provides budget oversight across the executive branch. The CCB is subject to the USCO’s financial oversight. As an independent regulatory agency, the USITC has greater autonomy over budget requests and allocation of available funds.<sup>363</sup> A centralized office within the judiciary handles budgeting and congressional communications for the district courts, CIT, and CFC.

#### **2. Support Services and Staffing**

In establishing a new forum, Congress should ensure forum administrators can access the support services needed to operate it, including human resources, information technology (IT), facilities management, and procurement. If Congress were to establish a small claims patent forum within an existing institution, officials charged with operationalizing the forum would have ready access to existing support networks. The new CCB, for example, was able to take advantage of existing support functions within the USCO. Indeed, the statute establishing the CCB directs the Register of Copyrights to provide the CCB with “necessary administrative support, including technological facilities” and office space.<sup>364</sup> Because the CCB was able to leverage existing support services, it was able to accept its first claims as early as 18 months after its

<sup>359</sup> 17 U.S.C. § 1511.

<sup>360</sup> Comment of Michael Barrett (Aug. 29, 2022).

<sup>361</sup> Comment of Michael Risch (May 5, 2022).

<sup>362</sup> 35 U.S.C. § 1(a).

<sup>363</sup> 19 U.S.C. § 1330(e)(4).

<sup>364</sup> 17 U.S.C. § 1502(b)(8)–(9).

statutory creation. Existing IT support was especially critical in establishing online services and electronic case management.<sup>365</sup>

Starting up a new, independent institution would likely entail more time and greater costs. To reduce the time and costs of startup, Congress might consider giving the new forum access to existing support functions. The Administrative Office of the U.S. Courts, for example, provides a wide range of support services to, among other institutions, the district courts, the CIT, and the CFC. Within the executive branch, shared services are widely available.<sup>366</sup>

Policymakers should also consider the personnel available to help adjudicators achieve the forum's core objective of efficient and cost-effective dispute resolution. Staff might include law clerks and paralegal professionals. In establishing the CCB, Congress provided that, to assist in the CCB's administration, the Register of Copyrights should hire at least two full-time copyright claims attorneys, each with at least three years of "substantial experience in copyright law" and compensated according to the General Schedule.<sup>367</sup> Hiring attorneys with scientific or technical qualifications provides one option for promoting expertise within the forum.<sup>368</sup>

In addition to legal and paralegal assistance, policymakers should also consider the role technical experts might play in a new forum. Subject to the federal rules, Article III judges have "inherent power" to appoint neutral experts—such as special masters, court-appointed experts, and technical advisors—to help them carry out their duties.<sup>369</sup> Technical experts may be

especially useful in the patent contexts, where cases can be especially complex and often require an understanding of scientific facts. The Federal Circuit has cautioned against judicial overreliance on technical advisors, however.<sup>370</sup>

An extensive literature analyzes the current and potential role of neutral experts in U.S. patent litigation.<sup>371</sup> Although courts typically employ technical advisors on a part-time basis, provision could be made for a small claims patent court to hire technically qualified staff. Many forums outside the U.S. rely on technical advisors for reasons of accuracy and efficiency, and some, including China and South Korea, employ full-time technical advisors.<sup>372</sup> Existing staff at administrative agencies might also provide a source of technical expertise in appropriate cases.<sup>373</sup> In all cases, policymakers will need to consider how best to employ technical advisors in individual cases while complying with any rules in place to promote procedural integrity, for example prohibitions on ex parte communications and requirements that decisions be based on an exclusive record.

Use of technically qualified personnel should be considered alongside other options for promoting expertise within a new forum, including specialized training for adjudicators. In the federal courts, for example, the FJC makes educational resources available to judges. Specialized training is available in many areas, including IP,<sup>374</sup> and the FJC publishes guides and manuals on topics including patent case management, patent mediation, and compensatory damages issues in patent

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<sup>365</sup> Interview with representatives from the Copyright Claims Bd.

<sup>366</sup> See *Shared Services*, U.S. GEN. SERVS. ADMIN., <https://ussm.gsa.gov/>.

<sup>367</sup> 17 U.S.C. § 1502(b).

<sup>368</sup> See Sapna Kumar, *Judging Patents*, 62 WM. & MARY L. REV. 871, 892–93 (2021).

<sup>369</sup> *In re Peterson*, 253 U.S. 300, 312–313 (1920).

<sup>370</sup> *TechSearch L.L.C. v. Intel Corp.*, 286 F.3d 1360 (Fed. Cir. 2002) (citing *Ass'n of Mexican Am. Educators v. California*, 231 F.3d 572, 591 (9th Cir. 2000)).

<sup>371</sup> See, e.g., Josh Hartman & Rachel Krevans, *Counsel Courts Keep: Judicial Reliance on Special Masters, Court-Appointed Experts, and Technical Advisors in Patent Cases*, 14 SEDONA CONF. J. 61 (2013); Sapna Kumar, *Judging Patents*, 62 WM. & MARY L. REV. 871, 893–902 (2021); Joshua R. Nightingale, *An Empirical Study on the Use of Technical Advisors in Patent Cases*, 93 J. PAT. & TRADEMARK OFF. SOC'Y 400 (2011).

<sup>372</sup> Sapna Kumar, *Judging Patents*, 62 WM. & MARY L. REV. 871, 922–23 (2021); INT'L CHAMBER OF COMMERCE, ADJUDICATING INTELLECTUAL PROPERTY DISPUTES 17–19 (2016).

<sup>373</sup> Cf. Jacob S. Sherkow, *Administrating Patent Litigation*, 90 WASH. L. REV. 205, 220–24 (2015).

<sup>374</sup> *Programs and Resources for Judges*, FED. JUD. CTR., <https://www.fjc.gov/education/programs-and-resources-judges>.



infringement cases.<sup>375</sup> The PTAB similarly provides training and resources for APJs.<sup>376</sup>

### **Accessibility**

Policymakers should carefully consider the location of a potential small claims patent court. Location may affect the tribunal's success in several ways. First, the forum's location may affect the quality and composition of the bench. More significantly, the forum's location—or where it chooses to conduct proceedings—will have a substantial impact on how accessible it is for proceedings.

Lateef Mtima suggested that siting the forums for a small claims proceeding around the country may make the system more accessible for small entities and diverse inventors,<sup>377</sup> while Michael Risch recommended that proceedings be conducted nationwide to minimize costs for parties.<sup>378</sup> This could be accomplished in several ways: (1) by establishing a network of small claims patent courts around the country, each with its own geographical jurisdiction; (2) by providing for adjudicators, stationed in Washington or elsewhere, to travel to locations convenient for the parties to a dispute; or (3) by providing options for parties and witnesses to participate remotely. Several forums that adjudicate IP matters have reported success with remote participation in recent years.

## **OTHER OPTIONS**

Two other forums—the CFC and the CIT—have been considered as a potential forum for a small claims patent proceeding. One commenter also suggested establishing a federally supervised system of private arbitration. Though none of these proposals appear to have substantial support at this time, we briefly address them in this section.

### **Court of Federal Claims**

The CFC is an Article I court established by Congress with nationwide jurisdiction to hear and decide monetary claims against the federal government, including suits in which a patent owner alleges that the government has used or manufactured his or her invention unlawfully.<sup>379</sup> In response to the USPTO's 2012 request for comments, several commenters, including AIPLA and the ABA-IP, proposed designating the CFC as a forum for a small claims patent proceeding due to its nationwide jurisdiction, docket capacity, expertise and experience, and limited injunctive authority.<sup>380</sup> During the present study, both AIPLA and Susan Braden, former Chief Judge of the CFC and Chair of the ABA-IP's task force on the creation of a small claims patent court in 2012, proposed other forums. In an interview, the CFC's liaison representative to ACUS, Judge Eleni Roumel, also expressed skepticism about expanding the CFC's jurisdiction to include suits between private parties as opposed to claims by private parties against the U.S. government. Only one commenter proposed authorizing the CFC to conduct small claims patent proceedings.<sup>381</sup>

### **Court of International Trade**

The CIT is an Article III trial court with nationwide, exclusive jurisdiction over civil actions arising out of customs and international trade laws, excluding patent infringement cases under section 337 of the Tariff Act which are decided by the USITC.

John Pegram proposed in 1995 and 2000 that the CIT be granted jurisdiction to hear patent disputes broadly. Although the CIT's patent jurisdiction would not, in his proposal, be limited to small claims, he suggested that a concentration of patent cases in a single court, coupled with the CIT's comparatively broad rulemaking authority,

<sup>375</sup> *Manuals, Monographs, & Guides*, FED. JUD. CTR., <https://www.fjc.gov/education/manuals-monographs-guides>.

<sup>376</sup> USPTO, *Training and Resources for Administrative Patent Judges at the Patent Trial and Appeal Board (PTAB)*, YOUTUBE (Feb. 13, 2015), [https://www.youtube.com/watch?v=I\\_BD-H112tQ](https://www.youtube.com/watch?v=I_BD-H112tQ).

<sup>377</sup> Interview with Lateef Mtima, Howard University School of Law.

<sup>378</sup> Comment of Michael Risch (May 5, 2022).

<sup>379</sup> 28 U.S.C. §§ 1491, 1498.

<sup>380</sup> AM. BAR ASS'N, *Comments on December 18, 2012 Federal Register Notice, 77 Fed. Reg. 243 "Patent Small Claims Proceeding in the United States"* (Apr. 25, 2013), USPTO, [https://www.uspto.gov/sites/default/files/ip/global/patents/comments/aba-ipl\\_comments\\_to\\_uspto\\_on\\_patent\\_small\\_claims\\_court.pdf](https://www.uspto.gov/sites/default/files/ip/global/patents/comments/aba-ipl_comments_to_uspto_on_patent_small_claims_court.pdf).

<sup>381</sup> Comment of Lee A. Hollaar (July 2, 2022).

would “simplify experimentation with different procedures” and allow the court to “develop effective management procedures for patent cases, including small claims.” (Indeed, the CIT developed and implemented a small claims pilot for cases within its jurisdiction in 2016.) Pegram also suggested that although it was “not at all clear that there is a patent ‘small claims’ problem which would justify imposing a special procedure on every district . . . such a procedure might be more readily adopted—if justified—in a single court having a patent specialization.”<sup>382</sup>

Pegram’s proposal was endorsed by at least one judge—Judge James F. Holderman, later Chief Judge of the U.S. District Court for the Northern District of Illinois<sup>383</sup>—and considered by the House Judiciary Committee, Subcommittee on Courts, the Internet, and IP during the 109th Congress.<sup>384</sup> No commenter or interviewee suggested that the CIT administer a small claims patent proceeding, however.

#### ***Federally Supervised Private Dispute Resolution***

Several mechanisms are already in place for the private resolution of patent disputes. Although patent disputes were originally excluded from the Federal Arbitration Act, Congress amended the Act in 1982 to permit and provide judicial enforcement of voluntary arbitration agreements that resolved patent disputes.<sup>385</sup> Around this time, there was also a movement toward using nonbinding ADR procedures, such as mediation, to resolve patent disputes more efficiently.<sup>386</sup>

The World Intellectual Property Organization (WIPO) established its Arbitration and Mediation Center in 1994, which offers ADR options

(mediation, arbitration, expedited arbitration, and expert determination) for the resolution of domestic and cross-border commercial disputes, including noncontractual disputes such as patent infringement.<sup>387</sup> WIPO collaborates with more than IP offices and court systems around the world to raise awareness about the use of ADR and resolve IP disputes.<sup>388</sup>

In 1998, in-house counsel at several large corporations met to discuss an idea for a National Patent Board (NPB) modeled on advertising industry dispute resolution bodies. The NPB was intended to be a member organization run by a member-elected board of directors and funded by dues and user fees. To avoid the perception that the NPB was captured by corporate members, the NPB was encouraged to “make membership affordable and worthwhile to all patent holders and potential patent challengers.” Hearings in individual cases would be conducted by three patent attorneys admitted to practice before the USPTO, approved by the NPB board of directors, included on an approved list of panelists, and subject to impartiality rules. Procedures would be rigid and limited to keep costs low. Panelists would issue published, written decisions with no right to appeal. Enforcement of NPB decisions would depend heavily on fee shifting and “the weight of public pressure.”<sup>389</sup>

The NPB was formed and soon after acquired by the AAA.<sup>390</sup> Today, the AAA maintains supplementary arbitration rules for the resolution of patent disputes.<sup>391</sup> The Sedona Conference and International Institute for Conflict Prevention & Resolution’s Patent Mediation Task Force issued Effective Practices Protocol also developed best

<sup>382</sup> John B. Pegram, *Should the U.S. Court of International Trade Be Given Patent Jurisdiction Concurrent with That of the District Courts?*, 32 HOUS. L. REV. 67, 114–15, 132 (1995); see also John B. Pegram, *Should There Be a U.S. Trial Court With a Specialization in Patent Litigation?*, 82 J. PAT. & TRADEMARK OFF. SOC’Y 765, 796 (2000).

<sup>383</sup> Judge James F. Holderman, *Judicial Patent Specialization: A View from the Trial Bench*, 2002 U. ILL. J.L. TECH. & POL’Y 425, 431 (2002).

<sup>384</sup> Improving Federal Court Adjudication of Patent Cases: Hearing Before the Subcomm. on Courts, the Internet, and Intell. Prop., 109th Cong. (2005).

<sup>385</sup> 35 U.S.C. § 294.

<sup>386</sup> Kevin R. Casey, *Alternative Dispute Resolution and Patent Law*, 3 FED. CIR. B.J. 1 (1993).

<sup>387</sup> *Alternative Dispute Resolution*, WORLD INTELL. PROP. ORG., <https://www.wipo.int/amc/en/>.

<sup>388</sup> WORLD INTELL. PROP. OFF., WIPO ALTERNATIVE DISPUTE RESOLUTION OPTIONS: A GUIDE FOR IP OFFICES AND COURTS (2022).

<sup>389</sup> Richard P. Cusick et al., *A Critical Analysis of the Proposed National Patent Board*, 13 OHIO ST. J. DISP. RESOL. 461, 478–86 (1998).

<sup>390</sup> M. Scott, Donahay, *Settling Disputes the NPB Way*, DISP. RESOL. J., Aug.–Oct. 2002, at 76.

<sup>391</sup> AM. ARB. ASS’N, RESOLUTION OF PATENT DISPUTES: SUPPLEMENTARY RULES (2006), <https://www.adr.org/sites/default/files/Resolution%20of%20Patent%20Disputes%20Supplementary%20Rules.pdf>.

practices for patent mediation.<sup>392</sup> JAMS (formerly known as Judicial and Arbitration and Mediation Services, Inc.) offers IP mediation and arbitration services.<sup>393</sup> Additionally, two online marketplaces—Amazon and eBay—have established dispute resolution procedures.

Policymakers might consider providing federal support for private-sector dispute resolution, for example by certifying nonfederal neutrals qualified to help parties resolve small claims patent disputes or by providing funding for private-sector dispute resolution services.

One commenter, Shalom Wertsberger, proposed establishing a voluntary specialized patent arbitration system instead of, or in addition to, a small claims patent proceeding. Under this system, the USPTO would certify private-sector arbitrators “who are versed in patent law and the technology area.” Standard arbitration practices, including those regarding parties’ costs, would apply. Mr. Wertsberger further proposed that Congress amend the law to authorize courts to “draw inferences” based on the results of an

arbitration as well as parties’ willingness to engage in arbitration. Mr. Wertsberger believed this would “[r]educe the time and effort required by courts to determine patent cases” by providing courts with “a cadre of unbiased experts in both the specific field and in patent law, who studied the merits of the patent and the infringing act, and provide the court with their written and reasoned consideration.”

Other commenters opposed implementing a system for private ADR. The Boston Patent Law Association commented that a small claims proceeding should be meaningfully different from available mechanisms for dispute resolution such as binding arbitration. Roderick Whitfield commented that an ADR process similar to arbitration—binding on the parties, who would relinquish their rights to appeal in federal district court—would be harmful to small entities. And Curt Evans commented that ADR is becoming less effective in settling cases and that the quicker an Article III court can move toward a jury trial, the more likely a settlement will occur.

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<sup>392</sup> SEDONA CONF., COMMENTARY ON PATENT LITIGATION BEST PRACTICES: PATENT MEDIATION CHAPTER (2017), [https://thesedonaconference.org/publication/Commentary\\_on\\_Patent\\_Litigation\\_Best\\_Practices\\_Patent\\_Mediation\\_Chapter;\\_Intellectual\\_Property\\_Disputes\\_Committee](https://thesedonaconference.org/publication/Commentary_on_Patent_Litigation_Best_Practices_Patent_Mediation_Chapter;_Intellectual_Property_Disputes_Committee), INT’L INST. FOR CONFLICT PREVENTION & RESOLUTION, <https://www.cpradr.org/intellectual-property-disputes-committee>.

<sup>393</sup> *Intellectual Property (IP) Mediators & Arbitrators*, JAMS, <https://www.jamsadr.com/intellectual-property>.

# THE PROCEEDING

**R**ules of practice, procedure, and evidence currently in use clearly contribute to the high costs and long duration of patent infringement litigation. Policymakers will need to carefully consider options for making proceedings more efficient and cost-effective—and therefore more accessible to small entities—while ensuring proceedings remain fair and accurate. In this Part, we consider how more than a dozen procedural aspects of patent infringement litigation might impose barriers to access for small entities and assess potential strategies for making them more efficient and cost-effective.

One preliminary question is whether there should be a single dispute resolution process for small patent claims or whether it would be preferable to offer different tracks depending on the nature or value of a claim. The IPEC, for example, offers two streamlined processes for small IP claims: a default “multi-track” (MT) and a “small claims track” (SCT) better suited for “cases of a simpler nature with a claim for a lower level of damages.”<sup>394</sup> Although the focus of the SCT is on non-patent disputes, it might be possible to design an even more streamlined process for the smallest patent claims. The CCB has similar authority to establish a process for adjudicating “smaller claims” in which damages sought do not exceed \$5,000.<sup>395</sup>

## CONSTITUTIONAL QUESTIONS

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Due process is the most significant constitutional question that arises when considering the design of a small claims patent proceeding. Under the Fifth Amendment’s Due Process Clause, a person may not be deprived of a property interest without “due process of law.”<sup>396</sup> Patents are property for purposes of the Due Process Clause.<sup>397</sup> Due process fundamentally requires that a party have an opportunity to be heard “at a meaningful time and in a meaningful manner” before being deprived of a protected interest in life, liberty, or property. What constitutes due process depends heavily on context, including the interests at stake in a dispute and the effectiveness of the procedures used to resolve it.<sup>398</sup> Because a small claims proceeding is likely to offer abbreviated procedures, parties may question whether those procedures provide adequate process.

If patent owners can choose between bringing an action against an alleged infringer in an Article III forum or a non-Article III forum, defendants may argue that the decision to bring an action against them in the non-Article III forum deprives them of the equal protection of the laws, in violation of the Due Process Clause. Respondents have (so far unsuccessfully) made similar arguments in cases brought against them by the Securities and Exchange Commission, which has discretion to pursue enforcement

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<sup>394</sup> HM COURTS & TRIBUNAL SERVICE, GUIDE TO THE INTELLECTUAL PROPERTY ENTERPRISE COURT (IPEC) (2022).

<sup>395</sup> 17 U.S.C. § 1506(z).

<sup>396</sup> U.S. CONST. amend. V.

<sup>397</sup> Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627 (1999); *see also* Oil States Energy Servs., LLC v. Greene’s Energy Group, 138 S. Ct. 1365 (2018) (“our decision should not be misconstrued as suggesting that patents are not property for purposes of the Due Process Clause or the Takings Clause”).

<sup>398</sup> Mathews v. Eldridge, 424 U.S. 319, 333 (1976).

actions in federal district court or before an ALJ.<sup>399</sup>

It is worth noting, however, that parties can waive or be found to have waived rights under the Due Process Clause. As the USCO noted in its 2013 report on small copyright claims, lower federal and state courts “generally have held that by choosing to litigate in small claims court, plaintiffs effectively waive any due process right that may be provided for in the abbreviated forum.”<sup>400</sup> The same logic would presumably apply to defendants who consent to participating in a small claims patent proceeding. Policymakers should ensure that the procedures for providing consent are consistent with due process.

### AVAILABILITY OF THE PROCEEDING

An important preliminary question in designing a small claims patent proceeding is when the proceeding should be available. Here, there is a significant split. Some stakeholders insist that the proceeding should be limited to “small claims,” defined as claims valued at less than a particular dollar amount. Alternatively, the proceeding might offer only limited damages or other relief, allowing parties to determine whether it would be advantageous to use the proceeding for a particular claim. The CCB operates in this manner, capping damages at between \$7,500 and \$30,000, depending on the claims at issue. Much higher amounts would be needed for small *patent* claims, of course. Amounts ranging from \$1 million up to \$10 million were suggested to ACUS in the course of this study.

Other study participants insist that the proceeding should be limited to “small entities.” Different definitions for “small entities” have been proposed. Various definitions of small entities exist, including those administered by the

SBA and the USPTO. In its comment to ACUS, US Inventor proposed that, to qualify as a small entity, an individual or business must have fewer than 500 employees and revenue not exceeding 500 million.<sup>401</sup> UIA proposed that an eligible petitioner must be “a U.S. small business, as determined by [SBA] regulations” and “an owner of a patent issued by the USPTO that is reduced to practice.” Notably, this definition would exclude PAEs. Many study participants expressed concerns that PAEs might use a small claims patent proceeding against small entities and other potential defendants, exacerbating existing problems and facilitating new, abusive tactics.<sup>402</sup> Jeffrey Sears proposed that jurisdiction be based on both the size of the entity (using SBA’s definition) and the alleged damages (\$10 million or less).<sup>403</sup>

If a small claims or small entity patent proceeding is mandatory—that is, the proceeding is used whenever certain conditions are met—it will be important to precisely define the preconditions for using the proceeding and establish a process for determining when they are met. Limiting use of a small claims patent proceeding to appropriate circumstances may also be important if excessive use of the procedure would present resource issues for the forum. In such cases, some sort of gatekeeping may be beneficial. In proposing the USITC as a forum for a small claims patent proceeding, UIA proposed that a USITC staff attorney would determine whether the preconditions for use of the proceeding are appropriate in a given case.<sup>404</sup> At the CCB, a staff attorney similarly reviews claims for compliance with the statutory regime before a small claims copyright proceeding may commence.<sup>405</sup>

If the proceeding is voluntary and resource issues are of less concern, it may be less important to police the jurisdiction of a small claims patent

<sup>399</sup> See, e.g., *Jarkesy v. SEC*, 34 F.4th 446, 450 (5th Cir. 2022); *Jarkesy v. SEC*, 803 F.3d 9, 14 (D.C. Cir. 2015); *Bebo v. SEC*, 799 F.3d 765, 768 (7th Cir. 2015).

<sup>400</sup> U.S. COPYRIGHT OFF., COPYRIGHT SMALL CLAIMS 48 (2013) (citing *Fox v. Cal. Franchise Tax Bd.*, 443 Fed. Appx. 354, 361 (10th Cir. 2011); *Keefe v. Tax Appeals Tribunal*, 627 N.Y.S.2d 851, 853 (1995)).

<sup>401</sup> Comment of US Inventor (Aug. 26, 2022).

<sup>402</sup> See, e.g., Comment of Engine Advocacy & PIPLI (July 5, 2022); Comment of United for Patent Reform (Aug. 26, 2022); Interview with representatives from Microsoft; see also Colleen V. Chien, *The Inequalities of Innovation*, 72 EMORY L.J. 1, 69 (2022).

<sup>403</sup> Comment of Jeffrey Sears (Aug. 4, 2022).

<sup>404</sup> Comment of United Inventors Association (July 1, 2022).

<sup>405</sup> 17 U.S.C. § 1506(f).

proceeding; presumably, plaintiffs and defendants will simply use the proceeding when they consider it advantageous to do so.

## **VOLUNTARINESS**

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Parties' participation in a small claims patent proceeding could be mandatory when certain preconditions are met, or it could be voluntary. As described earlier and as many stakeholders noted, there may be significant constitutional concerns under Article III and the Seventh Amendment if the proceeding is made mandatory.<sup>406</sup> In establishing the CCB, Congress determined that a voluntary procedure is likelier to pass constitutional muster. There may also be good policy reasons to establish a voluntary process.

There are two models for securing parties' consent to a voluntary process. Under the "opt-in" model, the defendant would need to agree to participate in the proceeding. Under the "opt-out" model, the proceeding would take place unless the defendant states within a specified time frame that he or she does not wish to participate in the proceeding. The opt-out model offers distinct benefits for a small claims proceeding because it would incentivize alleged infringers to respond in a timely manner or be subjected to the proceeding—or face a default judgment. Under the opt-in model, alleged infringers might simply withhold agreement as a delay tactic.

To avoid due process concerns, policymakers should carefully consider how to administer an opt-out process. Alleged infringers should receive notice that clearly describes the nature of the claims against them, the nature of the small claims patent proceeding, instructions for opting out of the proceeding (including the deadline for responding), and the consequences of not providing a timely response. The method for serving the notice on alleged infringers should be reliable. The process for alleged infringers to opt out of the proceeding should be straightforward,

and the deadline for providing a response should provide alleged infringers a reasonable time to make an informed decision.<sup>407</sup>

In establishing the CCB, Congress required that the CCB use an opt-out process. Notice must "adhere to a prescribed form," describe the nature of the CCB and the small claims copyright proceeding, describe the respondent's right to opt out, and include:

- a prominent statement that, by not opting out within 60 days after receiving the notice, the respondent (A) loses the opportunity to have the dispute decided by a court created under article III of the Constitution of the United States; and (B) waives the right to a jury trial regarding the dispute.

Service takes place as set forth in regulations adopted by the Register of Copyrights.<sup>408</sup> The statute also requires the CCB to establish regulations allowing certain classes of potential respondents—libraries and archives—to preemptively opt out of proceedings before the CCB.<sup>409</sup>

Some commenters indicated their support for an opt-out procedure. United For Patent Reform suggested the CCB's opt-out process as a model for a small claims patent proceeding. Amazon proposed that there be a standardized opt-out form and suggested that if an alleged infringer opts out, the forum should dismiss the case, allowing the patent owner to decide whether to file in federal court. Amazon also proposed providing a mechanism by which potential defendants might categorically opt out of any future small claims patent proceeding. Engine Advocacy and PIPLI, on the other hand, cited the CCB's model as a cautionary example. Both criticized the CCB model, stating that it does not provide a truly voluntary process.

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<sup>406</sup> See, e.g., Comment of Amazon (July 5, 2022); Comment of AIPLA (July 5, 2022); Comment of Boston Patent Law Association (July 5, 2022); Comment of Computer & Communications Industry Association (July 5, 2022).

<sup>407</sup> Accord Comment of Amazon (July 5, 2022).

<sup>408</sup> 17 U.S.C. § 1506(g).

<sup>409</sup> 17 U.S.C. § 1506(aa).

## **EFFECT ON OTHER PENDING PROCEEDINGS**

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Parties can pursue patent claims in multiple forums, which can present challenges. One problematic feature of PTAB proceedings, for example, is that stays of district court litigation are not mandatory. There can therefore be simultaneous litigation of the validity of a patent before the PTAB and in federal district court. This redundancy is likely not optimal. In establishing a small claims patent proceeding, Congress should ensure that the proceeding is not redundant of litigation elsewhere.

One option is to provide for a stay of related proceedings in all other forums while a small claims patent proceeding is pending. In cases in which a defendant wishes to assert an invalidity defense in a small claims patent proceeding, for example, it would simplify the proceedings and reduce costs to bar the defendant from simultaneously challenging the patent's validity before the USPTO. The CCB statute states that claims or counterclaims that are pending before a court of competent jurisdiction are not subject to determination by the CCB "unless that court has granted a stay to permit that claim or counterclaim to proceed before the CCB."<sup>410</sup>

Another option is to provide that by consenting to use of a small claims patent proceeding, parties waive any rights to pursue related claims elsewhere. In its comment to ACUS, UIA proposed that once a case is initiated, a petitioner "would be barred from initiating or intervening in any other federal administrative tribunal or federal court regarding the patent being enforced."<sup>411</sup>

## **COMPLAINT AND RESPONSE**

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The FRCP governs pleadings in district court proceedings, including in patent infringement litigation, and local rules and standing orders supplement the FRCP in some districts. The form of a pleading is simple, requiring a caption,

numbered paragraphs, and the signature of an attorney of record or an unrepresented party. As to its substance, a complaint generally must contain (1) "a short and plain statement of the grounds for the court's jurisdiction," (2) "a short and plain statement of the claim showing that the pleader is entitled to relief," and (3) "a demand for the relief sought." To survive a motion that a complaint fails to state a claim upon which relief can be granted, a pleading must provide factual allegations to demonstrate that its legal conclusions are plausible.<sup>412</sup>

A responsive pleading must (1) "state in short and plain terms its defenses to each claim asserted against it," and (2) "admit or deny the allegations asserted against it." Denials must "fairly respond to the substance of the allegation." A responsive pleading might also include counterclaims or crossclaims, discussed in the next section. Unless it has timely waived service, parties must serve answers within 21 days after being served with a pleading.<sup>413</sup>

By way of comparison, IPEC rules prescribe an even quicker process: First, the patentee must file a Claim Form, which the court seals and stamps, and serve it on the defendant within four months of the date of issue (unless the form is to be served outside the jurisdiction). The patentee must serve the defendant with a Particulars of the Claim document within 14 days after deemed service of the Claim Form. The defendant must respond with its defenses and counterclaims within 14 days of deemed service of the Particulars of the Claim. If the defendant needs more time or wants to contest the IPEC's jurisdiction, the defendant must file and serve an Acknowledgement of Service document within 14 days of deemed service of the Particulars of the Claim.<sup>414</sup> The patentee then has 28 days to file a response to any defenses.<sup>415</sup>

Most of the cost and time associated with pleadings is in their preparation. Between 1938 and 2015, the FRCP contained Form 18, which

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<sup>410</sup> 17 U.S.C. § 1504(d).

<sup>411</sup> Comment of United Inventors Association (July 1, 2022).

<sup>412</sup> *Ashcroft v. Iqbal*, 556 U.S. 662 (2009); *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007).

<sup>413</sup> FED. R. CIV. P. 8–13.

<sup>414</sup> *Id.* at 8.

<sup>415</sup> HM COURTS & TRIBUNAL SERVICE, GUIDE TO THE INTELLECTUAL PROPERTY ENTERPRISE COURT (IPEC) 8, 12 (2022).

provided an exemplary patent infringement complaint that plaintiffs could use to avoid a motion for failure to state a claim upon which relief can be ground. Form 18 was simple—just a few paragraphs long. Given its simplicity, many stakeholders perceived it to be plaintiff-friendly, and, in 2015, it was removed from the FRCP. Since then, district courts have reached different conclusions regarding pleading requirements for patent cases. Overall, though, the pleading requirement is now higher than it was when Form 18 was in effect. Some courts require plaintiffs to contain “factual allegations that the accused product practices every element of at least one exemplary claim.”<sup>416</sup> Popular courts for patent suits require that plaintiffs link the elements of the asserted patent claims to the accused infringing devices, meaning a complaint must specify which particular patent claims are infringed.<sup>417</sup>

Initial pleadings may also contain disclosures.<sup>418</sup> Some study participants suggested that plaintiffs in a small claims patent proceeding should be required to disclose whether they are receiving litigation funding from a third party, and, if so, identify the third party.<sup>419</sup> Through local rules or standing orders, some district courts require plaintiffs to disclose this information to the court or opposing parties. In an interview, a representative from Microsoft suggested that requiring such disclosures would help defendants make tactical decisions regarding litigation and settlement.<sup>420</sup> To the extent that participation in a small claims patent proceeding is voluntary, such a disclosure might induce defendants to agree to participate. On the other hand, requiring disclosures might lengthen discovery, provide a better-resourced defendant with a tactical

advantage, or harm small entities who rely on third-party funding to enforce their patents.<sup>421</sup>

More broadly, many study participants expressed concern about how third-party litigation financiers as well as PAEs and large entities (through subsidiaries or shell corporations) might take advantage of a small claims patent proceeding contrary to its intended purpose.<sup>422</sup>

## CLAIMS, COUNTERCLAIMS, AND DEFENSES

Claims, counterclaims, and defenses in district court proceedings are governed by the FRCP and the Patent Act.<sup>423</sup> A patent holder may allege direct or indirect infringement of their patent. In response, a defendant may assert counterclaims and defenses, including that the defendant did not infringe the plaintiff’s patent, that the plaintiff’s patent is invalid, or that the plaintiff infringed the defendant’s patent. If the counterclaim includes an assertion of invalidity, simultaneous proceedings can then be sought at the USPTO in the form of IPR or some other form of PGR. In these instances, it is common for the defendant to request a stay at the district court.

In district court, there are no limitations on claims, counterclaims, and defenses, which can lead to prolonged proceedings and increased costs. One option for a small claims patent proceeding is to limit the type and number of claims, counterclaims, and defenses that can be raised. Such limitations may help ensure that the parties’ dispute is resolved in an efficient and cost-effective manner, which may be attractive not only to resource-constrained small patent owners but also to any plaintiff or defendant that wanted to secure low-cost adjudication of a lower-value patent dispute. Limitations on the type and number of claims and counterclaims

<sup>416</sup> *Novitaz, Inc. v. inMarket Media, LLC*, No. 16-cv-06795-EJD, 2017 U.S. Dist. LEXIS 81491, at \*7 (N.D. Cal. May 26, 2017).

<sup>417</sup> Jeffrey T. Castellano & Nathan R. Hoeschen, *Form 18, I Just Don’t Know What I Want: How the Abrogation of Form 18 Has Changed Pleading Standards*, 10 LANDSLIDE (A.B.A.) (Sept.-Oct. 2017), at 23, [https://www.americanbar.org/groups/intellectual\\_property\\_law/publications/landslide/2017-18/september-october/form-18-i-just-dont-know-what-i-want/](https://www.americanbar.org/groups/intellectual_property_law/publications/landslide/2017-18/september-october/form-18-i-just-dont-know-what-i-want/).

<sup>418</sup> See FED. R. CIV. P. 7.1.

<sup>419</sup> See, e.g., Comment of United for Patent Reform (Aug. 26, 2022).

<sup>420</sup> Interview with representatives from Microsoft.

<sup>421</sup> KEVIN M. LEWIS, CONG. RSCH. SERV., LSB10145, FOLLOWING THE MONEY: SHOULD FEDERAL LAW REQUIRE LITIGANTS TO DISCLOSE LITIGATION FUNDING AGREEMENTS? (May 31, 2018).

<sup>422</sup> See, e.g., Comment of Engine & PIPLI (July 5, 2022).

<sup>423</sup> FED. R. CIV. P. 7, 8, 12, 13; 35 U.S.C. chs. 28, 29.



available in a small claims court could be imposed either through statutory language or through rulemaking by the forum.

Several stakeholders suggested limiting or barring claims for willful infringement in a small patent claims forum.<sup>424</sup> Under the theory of willful infringement, a court may increase “damages up to three times the amount found or assessed” after finding a defendant to have willfully infringed.<sup>425</sup> The Supreme Court found that “culpability is generally measured against the knowledge of the actor at the time of the challenged conduct” and that “the subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless.”<sup>426</sup> Given the subjective nature of this inquiry, the Sedona Conference suggested that barring willful infringement claims from a small claims patent proceeding would eliminate costly and time-consuming disputes over the production of opinions of counsel, the scope of any waiver of the attorney-client privilege, and analysis of whether the court should enhance damages.<sup>427</sup>

Another option is to limit claims to those against manufacturers, excluding claims against “customers, downstream innovators, or users of technology.” Engine Advocacy and PIPLI suggested such a limitation might “stem abuse and enhance efficiency.”<sup>428</sup>

The two most common counterclaims are noninfringement and invalidity. Some commenters suggested limiting counterclaims and defenses to noninfringement only and

directing invalidity contentions to the PTAB.<sup>429</sup> This proposal would harness the expertise of PTAB and arguably limit the burdens on any non-PTAB forum that administers a small patent claims proceeding. The need to coordinate activities across two forums could cause delays, however, and might create redundancy, especially if both forums construed the meaning of patent claims. Other stakeholders argued that, in order to induce defendants to participate in a voluntary small claims patent proceeding, the proceeding would need to allow alleged infringers to assert both noninfringement and invalidity counterclaims and defenses.<sup>430</sup>

Even if counterclaims on invalidity can be raised, policymakers should consider the grounds on which defendants should be able to challenge a patent’s validity. Parties to an IPR proceeding before the PTAB can challenge the validity of a patent only on the grounds that it is not novel or not nonobvious and only on the basis of existing prior art consisting of printed publications and patents.<sup>431</sup> Even given these limitations, IPR proceedings have proven immensely popular.<sup>432</sup> It is not clear, however, that such limitations would be desirable in a small claims patent proceeding. PTAB, for example, has struggled with addressing indefinite claims during IPR proceedings.<sup>433</sup> Because an adjudicator must construe the claims to determine the validity under any patentability requirement, serious consideration should be given to including indefiniteness as a ground for invalidity.

There is also disagreement as to whether unenforceability of the patent due to inequitable conduct should be limited or barred as a defense.

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<sup>424</sup> See, e.g., Comment of Amazon (July 5, 2022); Comment of PTAB Trials Committee, PTAB Bar Association (July 5, 2022).

<sup>425</sup> 35 U.S.C. § 284; *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007).

<sup>426</sup> *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 579 U.S. 93, 105 (2016).

<sup>427</sup> SEDONA CONF., COMMENTARY ON PATENT LITIGATION BEST PRACTICES: STREAMLINING LOWER-VALUE PATENT CASES 9 (Matthew Powers et al. eds., 2022), [https://thesedonaconference.org/sites/default/files/publications/Streamlining\\_Lower-Value\\_Patent\\_Cases\\_PCV\\_September\\_2022\\_0.pdf](https://thesedonaconference.org/sites/default/files/publications/Streamlining_Lower-Value_Patent_Cases_PCV_September_2022_0.pdf).

<sup>428</sup> See Comment of Engine Advocacy & PIPLI (July 5, 2022).

<sup>429</sup> Comment of United for Patent Reform, at 3 (Aug. 26, 2022); Comment of Computer & Communications Industry Association (July 5, 2022).

<sup>430</sup> See, e.g., Comment of Michael Risch (May 5, 2022); Comment of Engine Advocacy & PIPLI (July 5, 2022).

<sup>431</sup> 35 U.S.C. § 311(b).

<sup>432</sup> Christopher J. Walker & Melissa F. Wasserman, *The New World of Agency Adjudication*, 107 CALIF. L. REV. 141, 160–61 (2019) (documenting the popularity of IPR proceedings).

<sup>433</sup> *Samsung Elecs. Am., Inc. v. Prisia Eng’g Corp.*, 948 F.3d 1342, 1350 (Fed. Cir. 2020) (holding that PTAB cannot cancel claims under indefiniteness but that the PTAB could evaluate indefinite claims for anticipation or obviousness determinations).

Inequitable conduct is a breach of the applicant's duty of candor and good faith during patent prosecution by misrepresenting or omitting material information with the specific intent to deceive the USPTO.<sup>434</sup> Inequitable conduct, like willful infringement, depends in part on a party's subjective intent. Thus, this defense also tends to be costly and time-consuming, and it is unclear whether the benefits of allowing such a claim would outweigh its costs in a small claims proceeding.<sup>435</sup>

The Sedona Conference argued that other counterclaims that sometimes arise—such as antitrust or unfair competition violations, or counterclaims against the plaintiff for infringement of defendant's patents—may introduce too much complexity and hence may not be suitable for resolution in a small claims patent court.<sup>436</sup>

Other factors that frequently drive up the cost of patent litigation are the number of asserted patent claims and the number of asserted prior art references and prior-art-based defenses. Limiting the number of asserted claims and prior art reference might help streamline proceedings and reduce costs. The Sedona Conference noted that, in practice, plaintiffs frequently assert numerous claims, only to drop claims as the case progresses, leaving only a handful of claims actually tried. It also noted that defendants frequently identify many dozens of prior art references, generating hundreds or even thousands of pages of invalidity charts when they typically rely only a few references at trial. As a solution, the Sedona Conference proposed limiting the total number of patent claims that the plaintiff may assert to five, regardless of the number of asserted patents, and the total number of prior art references that a defendant may rely on across all of its claims to seven.<sup>437</sup>

## CASE MANAGEMENT

Active case management is critical to an efficient and cost-effective proceeding. To facilitate case management, the FRCP generally requires the parties to arrange a conference “as soon as possible—and in any event at least 21 days before a scheduling conference is to be held or a scheduling order is due.” At the conference, the parties must “consider the nature and basis of their claims and defenses and the possibilities for promptly settling or resolving the case; make or arrange for [required disclosure]; discuss any issues about preserving discoverable information; and develop a proposed discovery plan.” A written report outlining the discovery plan is due to the court within 14 days after the conference.<sup>438</sup>

Because small entities may be unrepresented and given the power imbalance that may exist between parties in a small claims patent proceeding, it may be helpful for adjudicators or forum staff to be actively involved in case management on an ongoing basis. Such involvement might be particularly useful in encouraging settlement, identifying issues that can be resolved without a formal hearing, resolving motions and discovery disputes, and identifying ways to streamline proceedings. Case management communications could be handled informally—by email, through an electronic case management system, or through telephone or virtual meetings.

Active involvement by an adjudicator or forum staff through informal means is a common efficiency measure in administrative proceedings.<sup>439</sup> The APA, for example, authorizes ALJs to “hold conferences for the settlement or simplification of the issues by consent of the parties or by use of alternative means of dispute

<sup>434</sup> *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011).

<sup>435</sup> Christopher A. Cotropia, *Modernizing Patent Law's Inequitable Conduct Doctrine*, 24 BERKELEY TECH. L.J. 723, 740 (2009).

<sup>436</sup> SEDONA CONF., COMMENTARY ON PATENT LITIGATION BEST PRACTICES: STREAMLINING LOWER-VALUE PATENT CASES 10–11 (Matthew Powers et al. eds., 2022), [https://thesedonaconference.org/sites/default/files/publications/Streamlining\\_Lower-Value\\_Patent\\_Cases\\_PCV\\_September\\_2022\\_0.pdf](https://thesedonaconference.org/sites/default/files/publications/Streamlining_Lower-Value_Patent_Cases_PCV_September_2022_0.pdf).

<sup>437</sup> SEDONA CONF., COMMENTARY ON PATENT LITIGATION BEST PRACTICES: STREAMLINING LOWER-VALUE PATENT CASES 9–10 (Matthew Powers et al. eds., 2022), [https://thesedonaconference.org/sites/default/files/publications/Streamlining\\_Lower-Value\\_Patent\\_Cases\\_PCV\\_September\\_2022\\_0.pdf](https://thesedonaconference.org/sites/default/files/publications/Streamlining_Lower-Value_Patent_Cases_PCV_September_2022_0.pdf).

<sup>438</sup> FED. R. CIV. P. 26(f).

<sup>439</sup> Admin. Conf. of the U.S., Recommendation 86-7, *Case Management as a Tool for Improving Agency Adjudication*, 51 Fed. Reg. 46,989 (Dec. 30, 1986).

resolution,”<sup>440</sup> and ACUS has recommended that adjudicators who preside over proceedings not subject to the APA should have “discretion to require parties to participate in a pretrial conference if the decisionmaker believes the conference would simplify the hearing or promote settlement.”<sup>441</sup> The IPEC-MT also includes a mandatory case management conference (CMC). The CMC is a preliminary hearing that gives the judge the opportunity to manage the conduct of the case, ensuring that the proceedings move forward in an efficient manner.<sup>442</sup> UPC rules give judges autonomy to encourage settlement, mediation, or streamlined proceedings, which may provide much-needed flexibility to tailor procedures to the needs of individual litigants and the circumstances of specific cases.<sup>443</sup>

One option is to simply impose a timeline on proceedings or set a target deadline for the conclusion. With careful, early planning, the USITC is able to conclude most proceedings within about 16 months. Representatives from US Inventor suggested that district courts should be able to decide claims within about 18 months. The Sedona Conference has proposed a small claims patent proceeding that would take an average of 13 months. NAPP suggested that a PTAB small claims process should be due within 12 months of institution. Such timelines may pose problems, however. First, small business owners may need an even faster process than a forum can realistically provide. Matthew Nuccio, a small business owner and board member of the United Inventors Association, stated that, as a toy manufacturer, even a year-long process would impede his product cycle due to the swiftness of the industry’s cycle.<sup>444</sup> Second, while a compressed timeline may be efficient, it may not

be cost-effective or fair. Patent litigation is already complicated, and a compressed timeline might be difficult for parties and representatives to navigate effectively and may even require increased expenditures.

## **INITIAL DISCLOSURES AND CONTENTIONS**

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Many local rules require that parties submit initial disclosures within a certain amount of time after service of the defendant’s response and initial infringement contentions within a set time after an initial scheduling conference. The infringement contentions must identify each claim of each patent that has allegedly been infringed and the applicable subsection of 35 U.S.C. § 271 (defining direct and indirect infringement claims) and explain in detail the nature of the alleged infringing activity.<sup>445</sup>

After submitting initial infringement contentions, the parties generally are responsible for submitting any initial noninfringement, unenforceability, and invalidity contentions. These contentions must describe in detail the nature of the noninfringement, unenforceability, or invalidity. Invalidity contentions, for example, must identify each item of prior art that allegedly anticipates each asserted claim and whether each item of prior art anticipates each asserted claim or renders the disputed claim obvious.<sup>446</sup>

This multi-stage briefing process can be complex, time-consuming, and costly. Many public commenters provided suggestions for streamlining this complex process, such as adopting standard forms and requiring parties to provide detailed, plain-language explanations of their claims, arguments, and evidence as early as possible in the proceeding.<sup>447</sup> Consolidating

<sup>440</sup> 5 U.S.C. § 556(c)(6).

<sup>441</sup> Admin. Conf. of the U.S., Recommendation 2016-4, *Evidentiary Hearings Not Required by the Administrative Procedure Act*, ¶ 8, 81 Fed. Reg. 94,314 (Dec. 23, 2016). For more information on the use of prehearing conferences in a variety of administrative programs, see MICHAEL ASIMOW, ADMIN. CONF. OF THE U.S., FEDERAL ADMINISTRATIVE ADJUDICATION OUTSIDE THE ADMINISTRATIVE PROCEDURE ACT (2019).

<sup>442</sup> HM COURTS & TRIBUNAL SERVICE, GUIDE TO THE INTELLECTUAL PROPERTY ENTERPRISE COURT 14–17 (IPEC) (2022).

<sup>443</sup> Interview with Esther van Zimmeren, University of Antwerp.

<sup>444</sup> Interview with representatives from the United Inventors Ass’n.

<sup>445</sup> See, e.g., N.D. Cal. Pat. Loc. R. 3.1; D. Kan. Pat. Loc. R. 3.1; D.N.J. Pat. Loc. R. 3.1.

<sup>446</sup> See, e.g., D.N.J. Pat. Loc. R. 3.1, 3.4.

<sup>447</sup> See, e.g., Comment of Amazon (July 5, 2022); Comment of National Association of Patent Practitioners (Aug. 26, 2022); Comment of PTAB Trials Committee, PTAB Bar Association (July 5, 2022); Comment of Engine Advocacy & PIPLI (July 5, 2022); Comment of Theodore Essex (Aug. 26, 2022).

briefings may also be helpful in streamlining this process. For example, the IPEC aims to simplify the responsive pleading process by having the parties prepare a single statement of the case that includes both parties' positions in full and the facts and arguments upon which they intend to rely.<sup>448</sup>

## CLAIM CONSTRUCTION

A written patent has two key components: (1) the specification, which describes the invention, the manner and process of making and using it, and the best mode contemplated by the inventor of carrying it out, and (2) the claims, which describe the subject matter of the patent.<sup>449</sup> A distinct part of patent adjudication in district courts, at PTAB, and before the USITC is claim construction, by which an adjudicator determines the claims' meaning and scope.

To aid an adjudicator in construing the claims, the parties might first exchange and discuss the claim terms that are likely to be in a dispute.<sup>450</sup> Generally, the parties would then submit a joint claim construction chart and prehearing statement identifying those terms for which the parties agree on a construction and those terms for which the construction is in dispute. For disputed terms, the parties supply proposed constructions based on the specification, the prosecution history (i.e., communications between a patent applicant and the USPTO examiner), and any other relevant extrinsic evidence including expert opinions.

Following the submission of the joint claim construction chart and prehearing statement, the parties will submit claim construction briefs summarizing their construction of a claim and any supporting evidence and each may then submit response briefs.

After service of the response briefs, the adjudicator may decide a hearing—called a *Markman* hearing<sup>451</sup>—is necessary to construe the claims. Depending on local rules and individual adjudicator preferences, the hearing might include a technology tutorial to instruct the forum on a patent's scientific or technical background, visual aids such as presentations or videos, oral arguments, and live expert testimony. The claim construction process results in a ruling by the adjudicator construing the claims.

Stakeholders have proposed strategies to streamline claim construction, such as holding claim construction hearings by video, limiting the time for claim construction hearings, limiting claim construction hearings altogether, limiting the number of claims to be construed, limiting briefing on disputed claims, and construing disputed terms early in the proceeding.

In designing a streamlined program for resolving lower-value patent cases, the Sedona Conference, for example, has proposed requiring parties to exchange their identification of claim terms, proposed constructions, and supporting evidence within 10 weeks after entering the program. Parties would be limited to proposing five disputed terms for construction. As a general matter, the court would hold a claim construction hearing within 17 weeks, and the hearing would take place by video and last no more than two hours. The court would then provide its constructions immediately following the hearing or shortly thereafter.<sup>452</sup>

In its comment to ACUS, AIPLA recommended eliminating separate claim construction hearings, which “would instead be consolidated with the final submissions.” Under the AIPLA's proposal, the parties would file simultaneous final written submissions on which they bear the burden of proof, with one response brief. This briefing, which would “be limited by word-count on a per-

<sup>448</sup> HM COURTS & TRIBUNAL SERVICE, GUIDE TO THE INTELLECTUAL PROPERTY ENTERPRISE COURT SMALL CLAIMS TRACK (IPEC-SCT) 8 (2018).

<sup>449</sup> 35 U.S.C. § 112.

<sup>450</sup> See, e.g., N.D. Cal. Pat. Loc. R. 4.1–4.5.

<sup>451</sup> *Markman v. Westview*, 517 U.S. 370 (1996).

<sup>452</sup> THE SEDONA CONFERENCE, COMMENTARY ON PATENT LITIGATION BEST PRACTICES: STREAMLINING LOWER-VALUE PATENT CASES CHAPTER, PUBLIC COMMENT VERSION 16 (Matthew Powers et al. eds., 2022), [https://thesedonaconference.org/sites/default/files/publications/Streamlining\\_Lower-Value\\_Patent\\_Cases\\_PCV\\_September\\_2022\\_0.pdf](https://thesedonaconference.org/sites/default/files/publications/Streamlining_Lower-Value_Patent_Cases_PCV_September_2022_0.pdf)

asserted-claim basis,” would include any claim construction issues to be decided by the court. Testimony would generally be presented in written or other recorded form.

NAPP similarly suggested limiting the number of claim construction charts that the parties to a dispute can exchange. Specifically, NAPP proposed that patent owners would file detailed claims charts, including evidence, with their complaints, and defendants would have an opportunity to respond to claims charts. Several interviewees also proposed imposing a limit on the number of claim construction charts that the parties could exchange.<sup>453</sup>

## DISCOVERY

Numerous study participants noted, and data from multiple AIPLA economic surveys indicate, that discovery is one of the costliest components of patent litigation. Given the high costs that discovery imposes on small entities, streamlining discovery will be critical to the effectiveness of a small claims patent proceeding. Streamlined discovery alternatives might also be attractive to potential defendants.

The FRCP provides for extensive pretrial discovery in district court proceedings, granting parties access to virtually all relevant information that opposing parties have in their possession or under their control. As a general matter, parties must disclose certain information and relevant, nonprivileged records to each other early in the proceeding without awaiting a specific discovery request.<sup>454</sup> Common discovery devices for obtaining other materials include interrogatories to parties, requests for production of documents, requests for admissions, depositions by oral examination, and depositions by written questions. Subpoenas are also available in the

district courts to compel testimony or production of evidence by nonparties.

Discovery is also critical in USITC and USPTO proceedings. The USITC has adopted discovery rules that largely mirror the FRCP.<sup>455</sup> For IPR proceedings, PTAB regulations provide for mandatory initial disclosures and routine discovery; additional discovery is available upon agreement of the parties or when a moving party shows that additional discovery is “in the interest of justice.”<sup>456</sup> (Additional discovery is more limited in post-grant reviews.<sup>457</sup>) Unlike the district courts, PTAB does not have subpoena authority and can only compel a party to testify or provide records through a district court order. (If Congress situates a small claim patent proceeding within the USPTO, it should consider giving the agency subpoena authority with respect to small patent claims.)

An important limitation on discovery is the principle that discovery must be “proportional to the needs of the case.”<sup>458</sup> The FRCP gives judges flexibility to limit discovery when the burdens of discovery would outweigh its usefulness to the litigation. USITC and PTAB adjudicators have similar flexibilities.<sup>459</sup>

Many stakeholders proposed strategies for streamlining discovery.<sup>460</sup> One strategy is to require parties in a small claims patent proceeding to produce certain key documents shortly after initiating the proceeding. For the plaintiff, these might include patents, file histories, and documents concerning the accused products or processes. For the defendant, key documents might include manuals showing the operation of the accused products or processes and any license agreements. Because source code is often the subject of discovery disputes, a plaintiff that believed a defendant’s source code

<sup>453</sup> Interview with representatives from Microsoft and U.S. MADE.

<sup>454</sup> FED. R. CIV. P. 26

<sup>455</sup> 19 C.F.R. §§ 210.27–210.34.

<sup>456</sup> 37 C.F.R. § 42.51; *see also* 35 U.S.C. § 316(a)(5) (“[D]iscovery shall be limited to . . . what is otherwise necessary in the interest of justice[.]”).

<sup>457</sup> 35 U.S.C. § 326(a)(5).

<sup>458</sup> FED. R. CIV. P. 26.

<sup>459</sup> 19 C.F.R. § 210.27(d); 37 C.F.R. § 42.51.

<sup>460</sup> *See, e.g.*, Comment of AIPLA (July 5, 2022); Comment of PTAB Trials Committee, PTAB Bar Association (July 5, 2022); Comment of National Association of Patent Practitioners (Aug. 26, 2022).

was necessary might be required to raise the issue early, to provide sufficient time to issue protective orders and arrange the mechanics of production.<sup>461</sup>

A second strategy is for the forum that administers a small claims patent proceeding to develop and post on its website standard forms that parties could use to make discovery requests. These forms would provide a framework for a basic set of discovery requests, such as requests to ascertain critical facts surrounding infringement, validity, and damages. Several study participants also suggested that the forum develop a standard protective order to facilitate discovery involving information that might be considered confidential.<sup>462</sup> By way of example, the CCB provides standard discovery forms on its website.<sup>463</sup> The federal courts also piloted the use of a pattern discovery protocol in adverse action employment discrimination cases.<sup>464</sup>

Although some study participants believed limiting discovery might raise concerns about due process or fairness, particularly for small entities,<sup>465</sup> one strategy for keeping discovery from becoming unduly burdensome is to impose strict limits on particularly time-consuming and costly discovery features such as email discovery, large numbers of interrogatories, document production requests, requests for admissions, subpoenas, depositions, and expert discovery.

Indeed, with respect to expert discovery, AIPLA recommended replacing expert discovery with an independent technical advisor who would be appointed by the adjudicator and agreed to by all parties and who would not be permitted to engage in ex parte communications with the

adjudicator. AIPLA suggested that the parties could jointly pay for the technical advisor, along the lines of procedures used by many district courts. Whether or not AIPLA's recommendation would reduce costs or cost-effectively improve accuracy is unclear, but a court-appointed technical advisor is likely to be appropriate in at least some cases.<sup>466</sup> Another option is for the forum itself to employ technical staff on a full-time, part-time, or contract basis. As noted above, forums in China and South Korea employ full-time technical advisors.<sup>467</sup>

A fourth strategy is to place strict time limits on discovery requests. In an IPR proceeding before the PTAB, for example, each party typically gets a three-month window for discovery.<sup>468</sup> Time limits may help parties focus on the key issues for which discovery is most necessary.

A fifth strategy is active case management. As described above, good case management is crucial to an efficient and cost-effective proceeding and is especially key to streamlining discovery. Parties should be encouraged to develop a good discovery plan. It may be beneficial for the forum to develop and post on its website a model discovery plan that parties can consult. Informal involvement by the adjudicator or forum staff may also be particularly useful in resolving discovery disputes. Of course, as the Supreme Court has noted in another context, active case management alone may not be enough to control discovery.<sup>469</sup>

Finally, limiting issues that can be litigated through a small claims patent proceeding would have the effect of limiting discovery. By limiting claims to direct, literal infringement and

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<sup>461</sup> SEDONA CONF., COMMENTARY ON PATENT LITIGATION BEST PRACTICES: STREAMLINING LOWER-VALUE PATENT CASES 13 (Matthew Powers et al. eds., 2022), [https://thesedonaconference.org/sites/default/files/publications/Streamlining\\_Lower-Value\\_Patent\\_Cases\\_PCV\\_September\\_2022\\_0.pdf](https://thesedonaconference.org/sites/default/files/publications/Streamlining_Lower-Value_Patent_Cases_PCV_September_2022_0.pdf).

<sup>462</sup> See, e.g., Comment of Engine Advocacy & PIPLI (July 5, 2022); Comment of National Association of Patent Practitioners (Aug. 26, 2022).

<sup>463</sup> CCB *Proceeding Phases*, COPYRIGHT CLAIMS BD., <https://ccb.gov/proceedings/>.

<sup>464</sup> See Emery G. Lee & Jason A. Cantone, *Pilot Project on Discovery Protocols for Employment Cases Alleging Adverse Action*, JUDICATURE, Spring 2016, at 6.

<sup>465</sup> Comment of Boston Patent Law Association (July 5, 2022); Comment of Curt Evans (Aug. 26, 2022).

<sup>466</sup> Comment of AIPLA (July 5, 2022).

<sup>467</sup> Sapna Kumar, *Judging Patents*, 62 WM. & MARY L. REV. 871, 922–23 (2021).

<sup>468</sup> 37 C.F.R. § 42.120(b); USPTO, PATENT TRIAL AND APPEAL BOARD CONSOLIDATED TRIAL PRACTICE GUIDE 6 (2019).

<sup>469</sup> Cf. *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 559 (2007) (citing Frank H. Easterbrook, *Discovery as Abuse*, 69 B.U. L. Rev. 635, 638 (1989)). *But see* Steven S. Gensler, *Judicial Case Management: Caught in the Crossfire*, 60 DUKE L.J. 669 (2010).

damages, for example, discovery-intensive subjects like inequitable conduct, indirect infringement, and willfulness would not be addressed.

The role of invalidity challenges by defendants poses an important question in its own right and also has significant implications for discovery. While allowing invalidity challenges would presumably make defendants more willing to participate, prior-art based invalidity challenges are often discovery-intensive. Thus, for example, the Sedona Conference proposal for a small claims tribunal suggests limiting the number of prior-art invalidity grounds a defendant may raise to three and the total number of prior-art references to seven.<sup>470</sup> Such limitations, or potentially a complete bar on prior-art based challenges, would certainly make discovery quicker and less expensive.

## MOTION PRACTICE

Several study participants noted that streamlining motion practice is a key element to the effectiveness of a small claims patent proceeding. If motion practice is not sufficiently streamlined, costs will remain high and fail to incentivize participation by either plaintiffs or defendants. Of course, motion practice interacts with a number of other aspects of the potential small claims patent court, including discovery and evidentiary rules, and policymakers should carefully consider the effects of streamlining motion practice on other aspects of the proceeding.

There are several options for streamlining motion practice. As several study participants noted, options include limiting pretrial motions altogether, limiting the number of motions a party can make, imposing strict deadlines for

filing motions, requiring a party to make all motions at a single document, setting word counts for motions briefing, handling some or all motions issues during a case management conference, standardizing motions forms, or prohibiting motions after a certain point in the proceeding.<sup>471</sup>

Amazon recommended that formal motions practice be restricted to case management and discovery issues.<sup>472</sup> AIPLA recommended “limiting, or eliminating, all pre-trial motions practice after discovery is provided and any disputes regarding that discovery are resolved.”<sup>473</sup> US Inventor recommended that each party be limited to a certain number of motions, observing that better-resourced parties commonly use “[e]xcessive motion practice . . . to drive up costs for the party least able to afford the cost increase.”<sup>474</sup>

Some study participants recommended limiting motions for summary judgment. Summary judgement can be an effective case management tool, however, providing a mechanism for parties and adjudicators to avoid delays and unnecessary costs by “eliminating unnecessary evidentiary hearings where no genuine issue of material fact exists.”<sup>475</sup>

Finally, some study participants recommended limiting or barring *Daubert* motions, which are filed before or during trial to exclude the testimony of an expert witness because the expert is unqualified or their methodology is invalid.<sup>476</sup> The Sedona Conference argued that *Daubert* motions are unnecessary when a professional adjudicator, rather than a lay jury, is responsible for assessing the evidence. Issues regarding expert testimony, and many other issues, could likely be handled more efficiently through pretrial conferences.<sup>477</sup>

<sup>470</sup> SEDONA CONF., COMMENTARY ON PATENT LITIGATION BEST PRACTICES: STREAMLINING LOWER-VALUE PATENT CASES 10 (Matthew Powers et al. eds., 2022), [https://thesedonaconference.org/sites/default/files/publications/Streamlining\\_Lower-Value\\_Patent\\_Cases\\_PCV\\_September\\_2022\\_0.pdf](https://thesedonaconference.org/sites/default/files/publications/Streamlining_Lower-Value_Patent_Cases_PCV_September_2022_0.pdf).

<sup>471</sup> See Comment of AIPLA (July 5, 2022); Comment of Amazon (July 5, 2022); Comment of US Inventor (Aug. 26, 2022).

<sup>472</sup> Comment of Amazon (July 5, 2022).

<sup>473</sup> Comment of AIPLA (July 5, 2022).

<sup>474</sup> Comment of US Inventor (Aug. 26, 2022).

<sup>475</sup> Admin. Conf. of the U.S., Recommendation 70-3, *Summary Decision in Agency Adjudication*, 38 Fed. Reg. 19,785 (July 23, 1973).

<sup>476</sup> *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579 (1993).

<sup>477</sup> SEDONA CONF., COMMENTARY ON PATENT LITIGATION BEST PRACTICES: STREAMLINING LOWER-VALUE PATENT CASES 16 (Matthew Powers et al. eds., 2022), [https://thesedonaconference.org/sites/default/files/publications/Streamlining\\_Lower-Value\\_Patent\\_Cases\\_PCV\\_September\\_2022\\_0.pdf](https://thesedonaconference.org/sites/default/files/publications/Streamlining_Lower-Value_Patent_Cases_PCV_September_2022_0.pdf).

## ALTERNATIVE DISPUTE RESOLUTION

In a sense, a small claims patent proceeding would itself serve as a form of ADR, especially if participation is voluntary. The CCB, for example, has been described as functioning essentially as a “government-sponsored arbitration process,”<sup>478</sup> and at least one copyright claims officer must have “experience in the field of alternative dispute resolution, including the resolution of litigation matters through that method of resolution.”<sup>479</sup>

But a small claims patent proceeding might also provide additional opportunities for alternative methods of dispute resolution. In addition to adjudicating claims, for example, the CCB has authority to “facilitate the settlement by the parties of claims and counterclaims.”<sup>480</sup> By providing sufficient flexibility to tailor procedures to the needs of individual litigants and the circumstances of specific cases, ADR options may promote equity and efficiency.

There are many ADR modalities, including mediation, early neutral evaluation, facilitation, conciliation, minitrials, and arbitration.<sup>481</sup> Mediation and arbitration are the most commonly used to resolve patent disputes. In mediation, a third-party neutral helps the parties negotiate an agreement but does not issue a binding decision. Mediation is useful in cases in which settlement on contested issues seems likely. The federal courts and USITC both offer opportunities for mediation.<sup>482</sup> In arbitration, a third-party neutral decides the issues and issues a binding decision after reviewing the evidence and hearing arguments from all parties. Arbitration is

useful in cases in which settlement on contested issues is unlikely. As noted earlier, several private-sector organizations have developed patent arbitration rules or offer patent arbitration services.

Although several study participants raised concerns about the effectiveness of ADR in resolving patent disputes,<sup>483</sup> others suggested it would be beneficial to encourage mediation and arbitration as part of any small claims patent proceeding.<sup>484</sup> AIPLA recommended, for example, that “mandatory, time-limited mediation before a neutral, without assessing costs to the parties” take place “after discovery and before filing final written submissions.” AIPLA suggested that a magistrate judge, district judge, or volunteer attorney serve as the neutral.<sup>485</sup>

Some stakeholders suggested that mediation or arbitration may be especially effective for claims that involve a member of an underrepresented group and a lower-value claim of alleged damages. The USPTO might maintain a roster of third-party neutral evaluators available to serve as mediators or arbitrators, and mediation or arbitration could be conducted remotely or at a location convenient to the parties, such as a USPTO satellite office.<sup>486</sup>

Several public- and private-sector systems for arbitrating or mediating IP disputes may provide a model for ADR in a small claims patent proceeding. As noted earlier, the AAA maintains supplementary arbitration rules for the resolution of patent disputes,<sup>487</sup> the Sedona Conference has developed best practices for patent mediation,<sup>488</sup> and two online marketplaces—Amazon and

<sup>478</sup> Riddhi Setty, *New Copyright Venue Fields Hundreds of Claims, Evoking Optimism*, BLOOMBERG LAW (Jan. 13, 2023, 5:05 AM), <https://news.bloomberglaw.com/ip-law/new-copyright-venue-fields-hundreds-of-claims-evoking-optimism>.

<sup>479</sup> 17 U.S.C. § 1502(b)(3)(A)(iii).

<sup>480</sup> 17 U.S.C. § 1503(a)(1)(E).

<sup>481</sup> *See generally* Kristin Blankley, Kathleen Claussen & Judith Starr, *Alternative Dispute Resolution in Agency Administrative Programs* 12 (2021) (report to the Admin. Conf. of the U.S.).

<sup>482</sup> KATHI VIDAL ET AL., FED. JUDICIAL CTR., *PATENT MEDIATION GUIDE* (2018); USITC, *SECTION 337 MEDIATION PROGRAM* (2021).

<sup>483</sup> *See* Comment of Curt Evans (Aug. 26, 2022).

<sup>484</sup> *See* Comment of AIPLA (July 5, 2022); Comment of Amazon (July 5, 2022).

<sup>485</sup> Comment of AIPLA (July 5, 2022).

<sup>486</sup> *See, e.g.*, Interview with David Kappos, Cravath, Swaine & Moore LLP and former USPTO Director; Interview with Lateef Matima, Howard University School of Law.

<sup>487</sup> *See* AM. ARB. ASS'N, *RESOLUTION OF PATENT DISPUTES: SUPPLEMENTARY RULES* (2006), <https://www.adr.org/sites/default/files/Resolution%20of%20Patent%20Disputes%20Supplementary%20Rules.pdf>.

<sup>488</sup> SEDONA CONF., *COMMENTARY ON PATENT LITIGATION BEST PRACTICES: PATENT MEDIATION CHAPTER* (2017), [https://thesedonaconference.org/publication/Commentary\\_on\\_Patent\\_Litigation\\_Best\\_Practices\\_Patent\\_Mediation\\_Chapter](https://thesedonaconference.org/publication/Commentary_on_Patent_Litigation_Best_Practices_Patent_Mediation_Chapter).



eBay—have established dispute resolution procedures.

At the IPEC, parties who use both the IPEC-MT and the IPEC-SCT are encouraged to use ADR, and parties may settle a case at any time before the court decides it.<sup>489</sup> In the IPEC-MT proceeding, parties are required to consider ADR before the case management conference. The IPEC-SCT offers a Small Claims Mediation Service—a free service provided by His Majesty’s Courts and Tribunals Service—which is accessible after a claim has been filed. The Small Claims Mediation Service allows parties to mediate in a confidential, one-hour appointment organized by a third-party mediator. The parties may continue to a final hearing if mediation is unsuccessful.

The UPC Agreement establishes a Patent Mediation and Arbitration Center with offices in Ljubljana and Lisbon. The Center, which operates independently of other UPC components, is directed to establish mediation and arbitration rules, maintain a list of mediators and arbitrators, and provide facilities for mediation and arbitration of patent disputes.<sup>490</sup> The Center also has substantial autonomy to promote the use of ADR to resolve patent disputes, train neutrals, conduct informational events, and develop educational materials.<sup>491</sup> UPC rules also provide individual judges significant autonomy to make different modes of decision making available to parties, including mediation, and encourage their use.

The Amazon Patent Evaluation Program (APEX), formerly the Utility Patent Neutral Evaluation Procedure (UPNEP),<sup>492</sup> is a “quasi-judicial process” that allows the owner of a registered utility patent holder who sells its product on Amazon to submit a notification against an infringing seller and its product, requesting that the accused infringing product be taken off Amazon’s marketplace.<sup>493</sup>

The owner of the utility patent initiates the procedure by alleging to Amazon that the patent has been infringed by another seller and submitting a signed agreement to participate in APEX. Amazon then notifies the alleged infringing seller of the claim. If the alleged infringing seller agrees to submit to the process, it must return an identical agreement to Amazon within 21 days. In its response, the alleged infringing seller may raise three defenses to the claimed infringement: (1) that there is no infringement, (2) that the patent is invalid or unenforceable, or (3) that the accused product was on sale at least one year before the asserted patent’s effective filing date with accompanying evidence.

If the alleged infringing sellers does not return the agreement to participate in APEX, fails to contest the infringement allegation within 21 days, or fails to submit the deposit, Amazon will remove the alleged infringing listing and return the utility patent owner’s deposit.

The utility patent owner and the alleged infringing seller must each submit a deposit of \$4,000 to Amazon. The deposits are held in escrow during the APEX process. Upon submission of the agreements, information, and deposits, Amazon selects a qualified IP attorney to serve as a neutral evaluator. The parties then participate in “compact briefing,” in which they may each submit a single written statement that is no more than 15 pages in length. This can take place over a roughly two-month period, after which the neutral evaluator will issue a decision. There is no discovery, oral arguments, depositions, document requests, or hearings, which keeps costs low. The entire process generally takes no longer than four months. Although the parties may not speak independently with the evaluator, they may speak with each other to settle their differences. If an

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<sup>489</sup> HM COURTS & TRIBUNAL SERVICE, GUIDE TO THE INTELLECTUAL PROPERTY ENTERPRISE COURT (IPEC) 16, 19 (2022).

<sup>490</sup> Agreement on a Unified Patent Court, Feb. 19, 2013, art. 35, 2013 O.J. (C 175) 1, 11.

<sup>491</sup> Rules of Operation of the Mediation and Arbitration Centre of the Unified Patent Court (2022), [https://www.unified-patent-court.org/sites/default/files/upc\\_documents/ac\\_06\\_08072022\\_rules\\_of\\_operation\\_mediation\\_arbitration\\_centre\\_en\\_final\\_for\\_publication.pdf](https://www.unified-patent-court.org/sites/default/files/upc_documents/ac_06_08072022_rules_of_operation_mediation_arbitration_centre_en_final_for_publication.pdf).

<sup>492</sup> BAKER BOTTS L.L.P., *Amazon Formally Adopts Neutral Evaluation Process for Enforcing Utility Patents* (Sep. 1, 2022), <https://www.bakerbotts.com/thought-leadership/publications/2022/september/amazon-formally-adopts-neutral-evaluation-process-for-enforcing-utility-patents>.

<sup>493</sup> APEX does not apply to Amazon’s private-label merchandise.

agreement is reached, the evaluator may keep up to \$1,000 of the deposit from each party for work completed; the remaining balance is returned to the parties.

If the evaluator finds infringement, Amazon will remove the product from its website. If the evaluator does not find infringement, Amazon will maintain both sellers' listings. The prevailing party receives its \$4,000 deposit, while the evaluator retains the other party's \$4,000 deposit. There is no process for appealing an evaluator's decision, but Amazon does not foreclose parties who participate in APEX from pursuing relief in other forums.<sup>494</sup>

Amazon's APEX program has several benefits. First, APEX proceedings are relatively accessible because fees are low. Second, evaluators have substantial flexibility to tailor proceedings in ways that foster speedy resolution. One possible limitation of the model is its lack of transparency. Decisions are made through a nonpublic process and are not made publicly available. (On the other hand, the nonpublic nature of proceedings might promote candor and encourage speedy resolution.) Further, the program's design offers no clear mechanism for public participation.

Another model is the Uniform Domain Name Dispute Resolution Policy (UDRP), which the World Intellectual Property Organization (WIPO) uses to hear disputes regarding whether an internet domain name "is identical or confusingly similar to a trademark or service mark in which the complainant had rights," whether a party has "no rights or legitimate interests in respect of the domain name," and whether the domain name "has been registered and is being used in bad faith."<sup>495</sup>

A domain name dispute proceeding is initiated by a complaint from a person or entity that alleges a violation of the UDRP. The potential infringer has 20 days to respond to the complaint. Once the

response is submitted, a one- or three-person panel is established from a list of panelists maintained by WIPO. The panel then reviews submissions and conducts remote proceedings related to the dispute. The complainant is responsible for an initial fixed fee at the time of the complaint; the respondent is responsible for reimbursing half of that fee if the respondent requests a three-person panel. Additional fees may be assessed on both parties if an in-person hearing is requested.<sup>496</sup> One limitation of this model is that domain name disputes are less complicated and involve a narrower range of substantive issues than most patent disputes.

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<sup>494</sup> John DiGiacomo, *Amazon's Patent Neutral Evaluation Procedure: What You Need to Know*, REVISION LEGAL (May 13, 2019), <https://revisionlegal.com/amazon/patent-neutral-evaluation-procedure/>; Kaity Y. Emerson, *From Amazon's Domination of E-Commerce to Its Foray into Patent Litigation: Will Amazon Succeed as the District of Amazon Federal Court*, 21 N.C. J.L. & TECH. 71 (2019).

<sup>495</sup> *Uniform Domain Name Dispute Resolution Policy* ¶ 4, ICANN (Oct. 24, 1999), <https://www.icann.org/resources/pages/policy-2012-02-25-en>.

<sup>496</sup> *Rules for Uniform Domain Dispute Resolution Policy*, ICANN (Sept. 28, 2013), <https://www.icann.org/resources/pages/udrp-rules-2015-03-11-en>.

## FORM OF HEARING

Oral, in-person hearings take time and require travel and are therefore a potential source of costs in patent litigation. Several options have been proposed to reduce costs associated with oral hearings, including: (1) conducting oral hearings in offices located around the country, (2) funding adjudicator travel to a hearing location that is most convenient for the parties to a dispute, (3) permitting or compelling parties and witnesses to participate remotely in oral hearings (e.g., virtually), (4) limiting the duration of oral hearings, or (5) forgoing oral hearings in favor of deciding cases based on written submissions.

Some of these options are used in contexts relevant to this study. Many administrative agencies have made effective use of remote, particularly virtual, proceedings. Although remote hearings may not be appropriate in all contexts, ACUS has recognized that virtual hearings “have the potential to expand access to justice for individuals who belong to certain underserved communities.”<sup>497</sup> The PTAB and USITC have made extensive use of written testimony and remote proceedings, and the CCB statute establishes a “centralized process” in which proceedings shall:

- (1) be conducted at the offices of the Copyright Claims Board without the requirement of appearances by parties or others; and
- (2) take place by means of written submissions, hearings, and conferences carried out through internet-based applications and other telecommunications facilities, except that, in cases in which physical or other nontestimonial evidence material to a proceeding cannot be

furnished to the Copyright Claims Board through available telecommunications facilities, the Copyright Claims Board may make alternative arrangements for the submission of such evidence that do not prejudice any other party to the proceeding.<sup>498</sup>

Two commenters recommended that a small claims patent court maintain offices around the country rather than requiring participants to travel to Washington, D.C., or another central location.<sup>499</sup> In its 2013 comment to the USPTO, AIPLA suggested that, contingent on available funding, adjudicators could “travel to appropriate venues” convenient to the parties.<sup>500</sup> In its comment to ACUS, AIPLA stated that “[t]o 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.”<sup>501</sup> Engine Advocacy and PIPLI also noted that proceedings “could be virtual, removing geographic barriers to participation.”<sup>502</sup>

Two commenters suggested that, as an alternative to having oral hearings, adjudicators should generally decide cases based on written submissions. AIPLA recommended that cases be decided based “on written submissions rather than live testimony at trial.”<sup>503</sup> The NAPP recommended that parties be permitted a “single, optional, limited time oral hearing,” but that cases would otherwise be decided “on the papers.”<sup>504</sup> One way to ensure proceedings are conducted efficiently is to determine early on what issues, arguments, and evidence can be developed adequately without live testimony through the submission of affidavits and deposition testimony. Indeed, discovery provides

<sup>497</sup> Admin. Conf. of the U.S., Recommendation 2021-4, *Virtual Hearings in Agency Adjudication*, 86 Fed. Reg. 36,083 (July 8, 2021); see also Admin. Conf. of the U.S., Recommendation 2014-7, *Best Practices for Using Video Teleconferencing for Hearings*, 79 Fed. Reg. 75,114 (Dec. 17, 2014); Admin. Conf. of the U.S., Recommendation 2011-4, *Agency Use of Video Hearings: Best Practices and Possibilities for Expansion*, 76 Fed. Reg. 48,795 (Aug. 9, 2011).

<sup>498</sup> 17 U.S.C. § 1506(c).

<sup>499</sup> Comment of Michael Risch (May 5, 2022); Comment of PTAB Trials Committee, PTAB Bar Association (July 5, 2022).

<sup>500</sup> Comment of AIPLA (Apr. 30, 2013), [https://www.uspto.gov/sites/default/files/ip/global/patents/comments/aipla\\_comment\\_letter\\_on\\_small\\_patent\\_claims\\_4-30-2013.pdf](https://www.uspto.gov/sites/default/files/ip/global/patents/comments/aipla_comment_letter_on_small_patent_claims_4-30-2013.pdf).

<sup>501</sup> Comment of AIPLA (July 5, 2022).

<sup>502</sup> Comment of Engine Advocacy & PIPLI (July 5, 2022).

<sup>503</sup> Comment of AIPLA (July 5, 2022).

<sup>504</sup> Comment of National Association of Patent Practitioners (Aug. 26, 2022).

the primary means for developing the evidentiary record in PTAB proceedings,<sup>505</sup> and expert testimony is typically provided in affidavit form.<sup>506</sup> Similarly, under the IPEC-SCT, expert witnesses may not give evidence at the final hearing without the court’s permission.<sup>507</sup> UPC proceedings will also be conducted primarily through written hearings. Commenter David Boundy disagreed, commenting that “[l]ive trial will be essential” and “will have to be far more substantial than today’s one hour hearings for IPRs and PGRs.”<sup>508</sup>

In an interview, representatives from Amazon noted that they have experienced issues with fully remote proceedings in managing the company’s patent infringement dispute resolution process—namely, that patent disputes often involve physical objects that can be difficult to assess remotely. A potential model, the CCB statute seems to account for this scenario, providing adjudicators flexibility to make alternative arrangements for the submission of evidence “in cases in which physical or other nontestimonial evidence material to a proceeding cannot be furnished to the Copyright Claims Board through available telecommunications facilities.”<sup>509</sup>

## CONDUCT OF ORAL HEARING

If a small claims proceeding includes an opportunity for an oral hearing, policymakers should consider ways to ensure oral hearings are conducted efficiently. One option is for adjudicators to carefully identify the “factual and legal ambiguities in each side’s case” through careful study of the documentation submitted by the parties in a case and “structure a prehearing conference or hearing as a forum for addressing

these ambiguities by seeking responses to carefully formulated questions and providing appropriate opportunity for rebuttal.” In this way, adjudicators “focus parties’ attention on key issues and deflect unproductive procedural maneuvers.”<sup>510</sup> The rules for the new UPC similarly provide that “[o]ral testimony at the oral hearing or at any separate hearing shall be limited to issues identified by the judge-rapporteur or the presiding judge as having to be decided on the basis of oral evidence,” and that the presiding judge “may, after consulting the panel, limit a party’s oral submissions if the panel is sufficiently informed.”<sup>511</sup>

A second way to streamline hearings is for the adjudicator, when warranted, to take part in questioning parties, their representatives, and witnesses. Under the IPEC-SCT, for example, the judge may question witnesses herself and even limit cross-examination of witnesses by others.<sup>512</sup> Although seemingly at odds with the adversarial system, “active adjudication,” as it is called in some quarters, exists in some administrative systems—particularly where parties are regularly self-represented—and is more common internationally.

Finally, policymakers and adjudicators might consider setting time limits or goals for oral hearings. UPC rules provide, for example, that the presiding judge “shall endeavour to complete the oral hearing within one day” and “may set time limits for parties’ oral submissions in advance of the oral hearing.”<sup>513</sup> At the PTAB, oral hearings in IPR case are even shorter: generally, one hour of argument per side for a single proceeding.<sup>514</sup>

<sup>505</sup> Michael Asimow, *Best Practices for Evidentiary Hearings Outside the Administrative Procedure Act*, 26 GEO. MASON L. REV. 923, 955 (2019).

<sup>506</sup> 37 C.F.R. § 42.65.

<sup>507</sup> HM COURTS & TRIBUNAL SERVICE, GUIDE TO THE INTELLECTUAL PROPERTY ENTERPRISE COURT (IPEC) (2022).

<sup>508</sup> Comment of David Boundy (Sept. 1, 2022).

<sup>509</sup> 17 U.S.C. § 1506(c).

<sup>510</sup> Admin. Conf. of the U.S., *Case Management as a Tool for Improving Agency Adjudication*, ¶ 7(b), 51 Fed. Reg. 46,989 (Dec. 30, 1986).

<sup>511</sup> RULES OF PROCEDURE OF THE UNIFIED PATENT COURT § 113 (2022), [https://www.unified-patent-court.org/sites/default/files/upc\\_documents/rop\\_en\\_25\\_july\\_2022\\_final\\_consolidated\\_published\\_on\\_website.pdf](https://www.unified-patent-court.org/sites/default/files/upc_documents/rop_en_25_july_2022_final_consolidated_published_on_website.pdf).

<sup>512</sup> HM COURTS & TRIBUNAL SERVICE, GUIDE TO THE INTELLECTUAL PROPERTY ENTERPRISE COURT (IPEC) (2022).

<sup>513</sup> RULES OF PROCEDURE OF THE UNIFIED PATENT COURT § 113 (2022), [https://www.unified-patent-court.org/sites/default/files/upc\\_documents/rop\\_en\\_25\\_july\\_2022\\_final\\_consolidated\\_published\\_on\\_website.pdf](https://www.unified-patent-court.org/sites/default/files/upc_documents/rop_en_25_july_2022_final_consolidated_published_on_website.pdf).

<sup>514</sup> USPTO, THE PATENT TRIAL AND APPEAL BOARD: GUIDE TO THE ADMINISTRATION OF ORAL HEARINGS BEFORE THE PATENT TRIAL AND APPEAL BOARD 17 (2020).

## EVIDENCE

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The FRE apply in district court proceedings and also generally apply to proceedings before the PTAB.<sup>515</sup> While useful in jury trials, the FRE may be unduly burdensome in proceedings heard and decided by a professional adjudicator. As Richard Pierce noted in a 1986 report to ACUS on the subject: “Most of the exclusionary provisions of the FRE, such as the hearsay rule and its many exceptions, were promulgated to control factfinding by lay jurors; application of these rules directly in agency adjudications is unnecessary, inappropriate and counterproductive.”<sup>516</sup>

For this reason, many administrative proceedings use less formal rules of evidence. The APA, for example, provides that agencies may receive any oral or documentary evidence but shall, as a matter of policy, “provide for the exclusion of irrelevant, immaterial, or unduly repetitious evidence.”<sup>517</sup> The USITC has adopted this standard in its regulations.<sup>518</sup> By statute, the CCB is similarly permitted to admit “relevant” evidence “without application of formal rules of evidence.”<sup>519</sup> To promote efficiency, ACUS has recommended that agencies also give adjudicators

discretion to exclude unreliable evidence and to use the weighted balancing test in Rule 403 of the Federal Rules of Evidence, which allows exclusion of evidence the probative value of which is substantially outweighed by other factors, including its potential for undue consumption of time.<sup>520</sup>

Aside from whether it is advisable to use the FRE, policymakers should consider the role expert evidence should play in a small claims patent proceeding. Experts offered by the parties play a central role in patent litigation given the complex

scientific and technical questions underlying most patent disputes. Experts are expensive, however, and because both parties to a suit typically retain their own experts, reliance on party-provided experts can be duplicative and time-consuming. Policymakers should consider possible alternatives, including, as discussed earlier, the use of neutral experts such as technical advisors or special masters,<sup>521</sup> technically qualified adjudicators, or technically qualified staff.

Another option is to simply limit the number of witnesses each party can designate for testimonial evidence. AIPLA suggested, for example, that parties should be limited to designating at most a single witness on each of infringement, validity, and damages.

## DECISION

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Decisions issued through trial-like proceedings, whether judicial or administrative in nature, typically contain certain basic features. First, they are written or, if delivered orally, are at least transcribable. Second, except in jury trials, decisions document the adjudicator’s factual findings and legal conclusions, often accompanied by some explanation.<sup>522</sup> Finally, they identify any relief provided to the parties. These features promote transparency, accountability, and public confidence and may also facilitate any opportunities for administrative or judicial review.

Decisions issued following a small claims patent proceeding should be recorded; include factual findings and legal conclusions material to the final determination, along with some explanation; and identify any relief provided to

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<sup>515</sup> 37 C.F.R. § 42.62.

<sup>516</sup> Richard J. Pierce, *Use of the Federal Rules of Evidence in Federal Agency Adjudications*, 39 ADMIN. L. REV. 1 (1987).

<sup>517</sup> 5 U.S.C. § 556(d).

<sup>518</sup> 19 C.F.R. § 210.37(b).

<sup>519</sup> 17 U.S.C. § 1506(o).

<sup>520</sup> Admin. Conf. of the U.S., Recommendation 86-2, *Use of Federal Rules of Evidence in Federal Agency Adjudications*, 51 Fed. Reg. 25,642 (July 16, 1986).

<sup>521</sup> Comment of AIPLA (July 5, 2022).

<sup>522</sup> See 5 U.S.C. § 557(c); Admin. Conf. of the U.S., Recommendation 2016-4, *Evidentiary Hearings Not Required by the Administrative Procedure Act*, ¶ 5, 81 Fed. Reg. 94,314, 94,316 (Dec. 23, 2016).

the parties.<sup>523</sup> To promote efficiency, however, policymakers should consider ways to streamline the drafting of decisions, for example by developing templates and standard language for use by adjudicators in appropriate circumstances. Decisions can perhaps also be briefer than those provided in district court proceedings, particularly if appellate review is limited and decisions will not be treated as precedent in the same or another forum.

## REMEDIES

Current law provides a variety of remedies in cases of patent infringement.<sup>524</sup> District courts can award damages, equitable remedies, and declaratory relief. Damages must be “adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs.” Treble damages are available in some cases.<sup>525</sup> In “exceptional cases,” courts may award reasonable attorney’s fees to the prevailing party.<sup>526</sup> Courts may also award court costs, an infringers’ profits, a patentholder’s losses, or reasonable royalties.

Courts may provide injunctive relief “in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”<sup>527</sup> The Supreme Court has held that, under current law, there is no general rule in favor of “permanent injunctive relief.” Instead, applying “well-established principles of equity,” a court may grant a permanent injunction only when the plaintiff demonstrates:

- (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate

to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.<sup>528</sup>

Several stakeholders asserted that this holding has adverse consequences for small inventors who might prefer injunctive relief (and thus “leverage to obtain a license”) rather than damages in cases of infringement.<sup>529</sup>

Relief available in USITC proceedings include orders directing infringers to pay civil penalties to the government, directing CBP to exclude infringing articles from entry into the United States, and directing infringers to cease and desist infringing activity.<sup>530</sup>

Stakeholders who participated in this study are split as to whether a small claims patent proceeding should offer solely damages, solely injunctive relief, or both. Several stakeholders argued that injunctive relief or a declaratory judgment should be available in addition to or instead of damages, in order to help small entities or increase the likelihood of settlement.<sup>531</sup> Consultative group member Susan Braden stated that the aim of a small claims patent proceeding should be injunctive relief rather than damages. What small inventors need, she said, is not damages but rather the ability to license their inventions.<sup>532</sup> Similarly, US Inventor commented that injunctive relief should be the “default remedy,” reasoning that “[i]njunctive relief drives settlements” and that “[i]njunctive relief brings a market value for the infringement because damages would be negotiated in a free market by [a] willing buyer and a willing seller.” One commenter who supported injunctive relief stated

<sup>523</sup> Cf. 17 U.S.C. § 1506(t) (requiring the same for CCB decisions).

<sup>524</sup> See generally JOHN R. THOMAS, CONG. RSCH. SERV., R44904, REMEDIES FOR PATENT INFRINGEMENT (July 18, 2017).

<sup>525</sup> 35 U.S.C. § 284.

<sup>526</sup> 35 U.S.C. § 285.

<sup>527</sup> 35 U.S.C. § 283.

<sup>528</sup> eBay Inc. v. MercExchange, LLC, 547 U.S. 388 (2006).

<sup>529</sup> Comment of Susan Braden (Aug. 4, 2022); see also Comment of US Inventor (Aug. 26, 2022).

<sup>530</sup> 19 U.S.C. § 1337.

<sup>531</sup> See, e.g., Comment of US Inventor (Aug. 26, 2022); Comment of David Boundy (Sept. 2, 2022); Comments of Larry Glaser (May 11, 2022); Comment of PTAB Trials Committee, PTAB Bar Association (July 5, 2022); Comment of Lee Hollaar (July 2, 2022); Comment of Michael Barrett (Aug. 29, 2022).

<sup>532</sup> Minutes of Consultative Group Meeting #1 (Aug. 3, 2022).

that eliminating damages assessments would streamline proceedings and reduce costs by eliminating the need for economic damages expert witnesses.<sup>533</sup>

Other stakeholders strongly preferred that injunctive relief not be made available through a small claims patent proceeding. To the extent that participation in such a proceeding is voluntary, several stakeholders suggested that the availability of injunctive relief would likely limit defendants' willingness to participate. Defendants would likely fear attempts by plaintiffs to leverage the threat of injunctive relief into a settlement payment that was larger than reasonable damages.<sup>534</sup>

Policymakers should also consider the availability of enhanced remedies such as punitive damages and attorney's fees. One commenter stated that there will need to be different types of remedies for different types of claims, suggesting that, for example, in an infringement case, recovery of actual damages or a reasonable royalty may be appropriate; in a case of bad faith patent assertion, actual damages, attorneys' fees, or exemplary damages may be appropriate; for inventorship and ownership, it may be that there are no damages, but an order to correct ownership information.<sup>535</sup> Another stated that Congress should consider making willful patent infringement a sufficient finding for enhanced damages, as well as making treble the amount of a reasonable royalty the measure for damages where the infringer has in the past been found to have engaged in willful patent infringement.<sup>536</sup> Because collateral procedural activity, including discovery, around exemplary damages and attorney's fees can be quite expensive, such enhancements might not be appropriate in the typical small claims case. Indeed, willfulness enhancements should likely be ruled out entirely, and attorney's fees and costs might be made available only if the adjudicator determines on its motion that particular activity was undertaken in bad faith.

Even if damages are the only remedy available, disagreement over what constitutes reasonable damages is likely. For this reason, many defendants are likely to view a clear ex ante cap on damages exposure as important to their voluntary participation. How the cap should be determined is not necessarily obvious, however, and the appropriate figure is difficult to determine with certainty. Stakeholders suggested damages cap possibilities ranging from \$1–2 million (AIPLA, Amazon) to \$5 million (NAPP) to \$10 million (Sedona Conference Report).

One option might be to grant the forum explicit authority to establish and adjust a cap by regulation. Such a broad delegation of authority might raise constitutional questions. To address constitutional concerns, the delegation should clearly set forth the goals Congress wants to accomplish through the cap. The rulemaking process should also be transparent and provide opportunities for meaningful public input, such as a notice-and-comment process or the establishment of a public advisory committee representing the full range of stakeholders. Such participatory mechanisms may be particularly useful in promoting equity.

In addition to establishing a damages cap, a damages floor might be useful for potential plaintiffs and their counsel regarding whether the reduced expenditures associated with a small claims patent proceeding might still exceed the expected value of their claim. Depending on the volume of demand for the proceeding, establishing a floor might also help allocate the forum's scarce resources more efficiently.

Policymakers must consider how the need to prove and calculate damages will affect the overall expense and duration of a small claims patent proceeding. As currently practiced, the damages phase of patent infringement cases can involve extensive discovery and expert testimony.<sup>537</sup>

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<sup>533</sup> Comment of BrainThrob Labs (Aug. 29, 2022).

<sup>534</sup> Comment of AIPLA (July 5, 2022); Comment of ACT | The App Association (July 5, 2022); Comment of Amazon (July 5, 2022); Comment of Michael Risch (May 5, 2022); Comment of National Association of Patent Practitioners (Aug. 26, 2022).

<sup>535</sup> Comment of Engine Advocacy & PIPLI (July 5, 2022).

<sup>536</sup> Comment of Curt Evans (Aug. 26, 2022).

<sup>537</sup> See generally WILLIAM C. ROOKLIDGE ET AL., FED. JUD. CTR., COMPENSATORY DAMAGES ISSUES IN PATENT INFRINGEMENT CASES (2d ed. 2017).

## APPEAL

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The availability of any form of administrative or judicial review should balance the goals of error correction and procedural fairness against the goal of creating a streamlined and cost-effective adjudicative process.

One option is to eliminate any right to appeal. Consider, for example, the statute governing the Tax Court, which establishes a voluntary, streamlined process for resolving disputes involving \$50,000 or less. By law, a decision entered in any case in which that process is used “shall not be reviewed in any other court.”<sup>538</sup> AIPLA commented that judicial review might be “eliminat[ed]” or, as discussed below, “substantially limit[ed].”<sup>539</sup> Amazon similarly recommended that “parties should waive substantive appellate review.”<sup>540</sup> Some commenters, however, including Amazon, noted that a lack of appellate or judicial review might also raise constitutional problems.<sup>541</sup> As discussed earlier, there might be Appointments Clause concerns if decisions rendered by adjudicators not appointed through presidential nomination and Senate confirmation are not reviewable by officers so appointed.<sup>542</sup> If a small claims patent proceeding is administered by non-Article III judges, the absence of an opportunity for review by an Article III judge might also raise constitutional concerns.<sup>543</sup>

Aside from constitutional concerns, several commenters believed that some form of appeal would be beneficial. Engine Advocacy and PIPLI commented:

Appeals can bring important value to a legal system. They can promote uniformity and coherence in the law and consistency in a court’s decisions. They can be useful to identify and correct imbalances that emerge (for example,

incorrect interpretations of the law that favor one class of litigants). Access to appeal can also help weed out bad actors looking to abuse or game a legal system, by providing additional checks on those problematic behaviors.<sup>544</sup>

These considerations weigh in favor of providing some ability to challenge and correct an erroneous small claims court decision, especially given the potential remedies at stake. If injunctive relief or large damage amounts are available, then judicial review may increase the likelihood that defendants will agree to the voluntary nature of the tribunal.

As to the tribunal that would hear appeals from a small claims patent court, federal law currently provides that the U.S. Court of Appeals for the Federal Circuit has exclusive jurisdiction of all appeals in cases involving patents decided by the district courts, the CIT, the CFC, the USITC, and the USPTO. Absent legislative changes, decisions issued through a small claims patent proceeding in any of these forums would presumably be reviewable by the Federal Circuit. Most study participants who addressed the issue assumed that decisions would be subject to review by the Federal Circuit.<sup>545</sup>

While appeal might be directly to the Federal Circuit, other officials might review decisions in the first instance. One potential model is that used by the bankruptcy courts. District judges have jurisdiction to hear appeals from final judgments, orders, and decrees and certain interlocutory orders and decrees. Assuming small claims patent proceedings would be conducted by adjudicators who, like bankruptcy judges, would be housed within district courts, commenter Michael Risch opined that district courts should review decisions “in the same way they review bankruptcy court decisions.”<sup>546</sup> The judicial

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<sup>538</sup> 26 U.S.C. § 7463(b).

<sup>539</sup> Comment of AIPLA (July 5, 2022).

<sup>540</sup> Comment of Amazon (July 5, 2022).

<sup>541</sup> Comment of Engine Advocacy & PIPLI (July 5, 2022); Comment of Amazon (July 5, 2022); Comment of ACT | The App Association (July 5, 2022); Comment of Richard Torczon (Aug. 29, 2022).

<sup>542</sup> *United States v. Arthrex*, 141 S. Ct. 1970 (2021).

<sup>543</sup> *See supra* notes 142 and 143.

<sup>544</sup> Comment of Engine Advocacy & PIPLI (July 5, 2022).

<sup>545</sup> *See, e.g.*, Comment of United Inventors Association (July 1, 2022).

<sup>546</sup> Comment of Michael Risch (May 5, 2022).



council of each circuit may also establish a bankruptcy appellate panel composed of bankruptcy judges to hear and determine, with the consent of all parties, appeals of bankruptcy court decisions.<sup>547</sup> If a specialized cadre of adjudicators conducts small claims patent proceedings, panels of cadre adjudicators could be convened to hear and determine appeals in the first instance.

Policymakers must also consider the design of the appellate process, including the scope and standard of review, any limits on submission of additional evidence, and any opportunities for oral argument. Regarding the scope and standard of review, some commenters suggested that there be an opportunity for *de novo* review by a District Judge.<sup>548</sup> Several stakeholders noted, however, that the benefits of a streamlined system may be severely diminished if a decision resulting from small claims patent proceeding could be extensively reconsidered. Losing parties, especially those with substantial resources, could essentially seek to relitigate the matter on appeal. David Boundy commented that *de novo* review would be “entirely counterproductive if the goal is low cost resolution to disputes,” for instance, and Norman Hedges, on behalf of six IP law clinic faculty, noted that a “robust appellate process . . . runs the risk of driving up costs to litigants and may defeat the intended goal of reducing cost.”<sup>549</sup> To “maintain[] a streamlined and cost-effective adjudicative process” and “minimiz[e] the burden on any reviewing body,” AIPLA recommended “eliminating or substantially limiting judicial review to circumstances under which relief from judgment could be sought under [FRCP Rule] 60.”<sup>550</sup> FRCP Rule 60 permits courts to provide relief from a final judgment, order, or proceeding for reasons including “mistake, inadvertence, surprise, or excusable neglect,” “newly discovered evidence that, with reasonable diligence, could not have been discovered in time for a new trial,”

and “fraud . . . , misrepresentation, or misconduct by an opposing party.”

The CCB provides one possible model. Decisions of the CCB are reviewable by the Register of Copyrights following denial of a request for reconsideration by the Board. The Register’s review is “limited to consideration of whether the Copyright Claims Board abused its discretion in denying reconsideration of the determination.”<sup>551</sup> District courts may vacate, modify, or correct a determination of the CCB only if (1) “the decision was issued as result of fraud, corruption, misrepresentation, or other misconduct;” (2) the CCB “exceeded its authority or failed to render a final determination concerning the subject matter at issue,” or (3) “[i]n the case of a default determination or determination based on a failure to prosecute, if it is established that the default or failure was due to excusable neglect.”<sup>552</sup> These grounds are similar to those set forth in the Federal Arbitration Act for appeals of arbitral awards.<sup>553</sup>

If an administrative agency, such as the USPTO or USITC, is selected as the forum for a small claims patent proceeding, policymakers should consider what role, if any, the government should play on judicial review. The agency could be a necessary party in any judicial proceeding in which a court reviews a decision of the agency involving a small patent claim, or the agency could be given the opportunity to intervene in any such proceeding. Questions regarding the agency’s role in judicial review may be particularly important when a small-claims plaintiff is unable to defend the agency’s decision or has settled out of the case.

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<sup>547</sup> 28 U.S.C. § 158(b).

<sup>548</sup> Comment of National Association of Patent Practitioners (Aug. 26, 2022).

<sup>549</sup> Comment of Norman Hedges et al. (July 5, 2022).

<sup>550</sup> Comment of AIPLA, at 6 (July 5, 2022).

<sup>551</sup> 17 U.S.C. § 1506(x).

<sup>552</sup> 17 U.S.C. § 1508(c)(1).

<sup>553</sup> *See* 9 U.S.C. §§ 10, 11.

## ENFORCEMENT OF JUDGMENTS

Given the costs involved, it can be challenging for under-resourced parties to obtain enforcement of judgments in their favor. As the USCO noted in its report on small copyright claims, “[a] persistent complaint with respect to small claims courts is the difficulty in collecting on judgments.” Some states have developed solutions in the form of enforcement assistance and streamlined processes for requesting enforcement.<sup>554</sup>

In establishing the CCB, Congress provided a relatively straightforward process. In cases in which a party has failed to comply with the CCB’s determination, the aggrieved party may apply to the U.S. District Court for the District of Columbia or any other appropriate district court “for an order confirming the relief awarded in the final determination and reducing such award to judgment.” The application consists of a certified copy of the CCB’s determination along with a simple declaration under penalty of perjury. The court must grant the order and direct entry of the judgment “unless the determination is or has been vacated, modified, or corrected” on the limited grounds for challenging a CCB determination discussed in the previous section. The aggrieved party is also entitled to reasonable fees, including attorney’s fees.<sup>555</sup>

## EFFECT OF DECISIONS

Policymakers should consider the effect of decisions rendered through a small claims patent proceeding. Given the number of forums in which patents can already be litigated—district courts, the PTAB, and the USITC—determining the legal effect of a decision is particularly important. Failure to think through this issue fully could lead to increased, rather than reduced, costs for parties. Careful consideration should be given to any preclusive or precedential effect of decisions.

As a general rule, the decision should bind the parties who participated in a small claims patent proceeding, and the parties should be precluded from litigating the same claims and counterclaims against each other in the same or a different forum.<sup>556</sup> This is consistent with the statute governing the CCB, which provides generally that a final decision by the CCB shall, solely with respect to the parties to such determination, preclude relitigation before any court or tribunal, or before the Copyright Claims Board, of the claims and counterclaims asserted and finally determined by the Board, and may be relied upon for such purpose in a future action or proceeding arising from the same specific activity or activities . . . .<sup>557</sup>

A more challenging question is whether a decision should preclude the parties from relitigating any claims and counterclaims that they could have raised or only those claims and counterclaims that they actually litigated. The statute governing the CCB offers one model, precluding litigation and relitigation only of claims and counterclaims actually raised.<sup>558</sup> The AIA offers another model: a petitioner who challenges a patent’s validity at the PTAB is precluded from using other forums to challenge the patents not only on grounds they actually raised, but also on grounds they “reasonably could have raised.”<sup>559</sup> Even though “reasonably could have raised” preclusion is arguably quite broad, it does not appear to have deterred use of the PTAB. Part of the reason may be that invalidity challenges at the PTAB are limited to prior art. So, the breadth of PTAB preclusion may be more apparent than real. Similarly, if the scope of claims, counterclaims, and defenses that could be raised in a small claims forum were narrow, “reasonably could have raised” preclusion could be relatively narrow in that context as well. If participants in a small claims patent proceeding were not allowed to challenge a patent’s validity

<sup>554</sup> U.S. Copyright Off., Copyright Small Claims 60 (2013).

<sup>555</sup> 17 U.S.C. § 1508(b).

<sup>556</sup> *Accord* Comment of Amazon (July 5, 2022); Comment of AIPLA (July 5, 2022); Comment of Michael Risch (May 5, 2022); Comment of Michael Barrett (Aug. 29, 2022).

<sup>557</sup> 17 U.S.C. § 1507(a).

<sup>558</sup> 17 U.S.C. § 1507(a)(1).

<sup>559</sup> 35 U.S.C. § 315(e).

based on 35 U.S.C. § 112 disclosure, for example, a defendant could not reasonably be precluded from challenging the patent on disclosure grounds in another forum. This limited preclusive effect would presumably also incentivize participation by defendants.

Given the necessarily abbreviated nature of a small claims patent proceeding, a decision generally should not preclude third parties who did not participate in the proceeding from litigating or relitigating claims or issues, whether they were raised or not.<sup>560</sup> A finding that a particular defendant has infringed a patent should not bind future decision makers with respect to how they adjudicate infringement claims against third-party users, for example, and a finding that a patent claim was not invalid should not bind other potential defendants.

A challenging question involves what legal force a small claims tribunal's finding that a patent is invalid should have with respect to the patent's validity more generally—that is, with respect to third parties. In *Blonder-Tongue Laboratories v. University of Illinois*, the Supreme Court applied preclusion broadly, holding that patentees that lose on invalidity grounds in the Article III courts are estopped from ever asserting the patent claims at issue again, against any other potential defendants.<sup>561</sup> Similarly, when the PTAB invalidates a patent, and the Federal Circuit affirms the PTAB's decision, the patentee cannot

assert the patent claims again. Plaintiffs might be reluctant to use a small claims patent proceeding if, under the rules of *Blonder Tongue*-type preclusion, an invalidity determination extinguished its patent entirely. Patentee concerns might be particularly acute if appeal to an Article III court was not allowed. Accordingly, in drafting legislation creating a small claims proceeding, Congress should explicitly determine what type of preclusion, if any, applies to the decision of the small claims tribunal. On the other hand, allowing patent assertions that risk only the cost of litigation if the patentee loses is itself not necessarily an attractive proposition.

Finally, given the abbreviated nature of a small claims patent proceeding, several study participants suggested that decisions should not be relied upon as legal precedent in the same or any other forum.<sup>562</sup> Precedential decision making can be useful in many contexts,<sup>563</sup> but there are concerns that a small claims patent proceeding that entails truncated discovery, limited briefing, and speedy decision making may not be conducive to the development of reliable precedent. The USCO reached this same conclusion in its report on small copyright claims,<sup>564</sup> and Congress adopted this approach when it established the CCB. The CASE Act provides that CCB decisions “may not be cited or relied upon as legal precedent in any other action or proceeding before any court or tribunal, including the Copyright Claims Board.”<sup>565</sup>

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<sup>560</sup> *Accord* Comment of Amazon (July 5, 2022); Comment of AIPLA (July 5, 2022); Comment of Michael Risch (May 5, 2022); Comment of Michael Barrett (Aug. 29, 2022).

<sup>561</sup> 402 U.S. 313 (1971).

<sup>562</sup> *See, e.g.*, Comment of Amazon (July 5, 2022); Comment of AIPLA (July 5, 2022); Comment of Michael Risch (May 5, 2022); Comment of Michael Barrett (Aug. 29, 2022).

<sup>563</sup> *See* Admin. Conf. of the U.S., Recommendation 2022-4, *Precedential Decision Making in Agency Adjudication*, 88 Fed. Reg. 2312 (Jan. 13, 2023).

<sup>564</sup> U.S. COPYRIGHT OFF., COPYRIGHT SMALL CLAIMS 130 (2013).

<sup>565</sup> 17 U.S.C. § 1507(a)(3).

# LITIGANT SUPPORT

Patent infringement litigation is costly, time-consuming, and complex. As discussed in the previous Part, a small claims patent proceeding might go a long way toward reducing the high cost, duration, and complexity of patent proceedings. To promote the effectiveness of such a proceeding, policymakers should consider mechanisms for providing additional support to small entities who take advantage of it.

## REPRESENTATION

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To keep proceedings brief and inexpensive, some state small claims systems prohibit attorneys from representing parties. No study participants suggested that there should be a ban on attorney representation in a potential small claims patent proceeding, however. Indeed, as discussed later in this report, many study participants suggested that it was important to consider ways to expand access to affordable representation for small entities.<sup>566</sup>

In its report on small copyright claims, the USCO offered several reasons why parties should have a right to be represented by counsel;<sup>567</sup> many apply equally to a hypothetical small claims patent proceeding. First, there is “a strong tradition—buttressed by considerations of due process—of allowing parties to be assisted by counsel if they so choose.” Under the APA, for example, parties are “entitled to appear in person by or with counsel” in agency proceedings.<sup>568</sup>

Second, given the complexity of patent law and litigation procedure, “[l]ess sophisticated parties may need assistance.” Indeed, a right to representation may promote equity by helping to level the playing field for small entities who allege infringement by better-resourced opposing

parties. Relatedly, attorneys may play a useful role in educating adjudicators on the facts and law relevant to a particular case and thereby improve substantive accuracy and promote administrative efficiency.<sup>569</sup>

Third, attorneys may also play a useful gatekeeping function in “screening out nonmeritorious claims and defenses.” Fourth, “[c]orporate respondents may be dissuaded from participating in an alternative system if they are deprived of representation of the attorneys who ordinarily perform this role.” (Large corporations are also likelier to employ in-house lawyers.) Finally, even if attorneys are barred from conferences and hearings, it would be difficult as a practical matter to prevent attorneys from “preparing the written submissions that likely will be decisive in many cases.”

In addition to permitting attorneys to represent parties in a small claims patent proceeding, policymakers should consider whether nonattorney representation should also be permitted. As discussed in the next section, permitting certain qualified nonattorney representatives to practice before the forum might expand access to representation for small entities and thereby promote equity.

## EXPANDING ACCESS TO REPRESENTATION AND RESOURCES

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A major problem small entities face in seeking to enforce their patents is the fact that contingency fee arrangements are fairly rare in patent litigation, which can make obtaining counsel difficult. Small entities often lack sufficient capital upfront to cover attorney costs, and contingency fee arrangements have been posited

<sup>566</sup> See, e.g., Comment of Engine & PIPLI (July 5, 2022).

<sup>567</sup> U.S. COPYRIGHT OFF., COPYRIGHT SMALL CLAIMS 120 (2013).

<sup>568</sup> 5 U.S.C. § 555(b).

<sup>569</sup> Admin. Conf. of the U.S., Recommendation 86-1, *Nonlawyer Assistance and Representation*, 51 Fed. Reg. 25,641 (July 16, 1986).

as an option for reducing out-of-pocket costs for patentees seeking to enforce their rights. In their comment to ACUS, Engine Advocacy and PIPLI noted the issue of unequal access to contingency counsel as a potential area of study.

As previously discussed, patent litigation is an expensive process that can involve complex fact patterns, broad discovery, extensive briefing, and scientific and economic evidence. By taking a patent infringement case on a contingency basis, an attorney often must incur large upfront costs and may need to take out a loan to cover costs the client would otherwise pay for on an hourly basis. Attorneys also carry all financial risk if no damages are awarded or damages are insufficient to cover litigation costs. (Contingency fee arrangements are also impractical in proceedings in which the only available relief is injunctive in nature.) Small entities would certainly benefit from greater access to contingency fee arrangements, but many attorneys unsurprisingly are reticent to take on patent cases on that basis.<sup>570</sup> It is unclear how the federal government could directly incentivize patent attorneys to represent clients on a contingency fee basis. By lowering litigation costs, however, a small claims patent proceeding might make contingency fee agreements more palatable.

Policymakers should consider several potential options to make affordable representation more accessible to small entities. A first option is to expand programs that connect small entities with free or low-cost legal assistance. Pro bono programs are well established in patent law. The AIA directs the USPTO Director to “work with and support intellectual property law associations across the country in the establishment of pro bono programs designed to assist financially under-resourced independent inventors and small businesses.”<sup>571</sup> Under the USPTO’s current Patent Pro Bono Program, inventors and small businesses that meet certain financial

requirements may obtain free legal assistance in preparing and filing patent applications.<sup>572</sup> In addition, the USPTO and the PTAB Bar Association have established a pro bono program to help financially under-resourced inventors in ex parte appeals at PTAB and have plans to expand the program to IPR and PGR proceedings in 2023.<sup>573</sup>

One option is to expand the program to include assistance in small claims patent proceedings. However, small claims patent proceedings might be more complicated, more expensive, and more time-consuming than the process for preparing and filing patent applications, and pro bono programs might lack the capacity to represent parties effectively in small claims patent proceedings. Alternatively, some stakeholders suggested that inventor associations or trade groups work with state and voluntary bar associations to develop a roster of patent attorneys who would be available to represent small entities in a small claims patent proceeding on a pro bono basis.

A second option is to permit qualified nonattorneys to represent parties in a small claims patent proceeding. By expanding the number of eligible practitioners, permitting nonlawyers to represent parties presents another option for expanding access to representation for small entities. As permitted by the APA,<sup>574</sup> qualified nonattorneys play a critical role in expanding access to justice in many administrative programs. This includes the USPTO, which licenses nonattorney patent agents authorized to practice before the agency and is currently considering ways to expand the number of practitioners.<sup>575</sup> Policymakers should consider whether it would benefit small entities to permit qualified nonattorney professionals, such as patent agents licensed to practice before the

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<sup>570</sup> Bruce L. Beron & Jason E. Kinsella, *David vs. Goliath Patent Cases: A Search for the Most Practical Mechanism of Third Party Litigation Financing for Small Plaintiffs*, 38 N. KY. L. REV. 605 (2011).

<sup>571</sup> 35 U.S.C. § 2 note.

<sup>572</sup> *Patent Pro Bono Program for Independent Inventors and Small Businesses*, USPTO, <https://www.uspto.gov/patents/basics/using-legal-services/pro-bono/patent-pro-bono-program> (last modified Oct. 19, 2022).

<sup>573</sup> *Patent Trial and Appeal Board Pro Bono Program for Independent Inventors*, USPTO, <https://www.uspto.gov/patents/patent-trial-and-appeal-board/patent-trial-and-appeal-board-pro-bono-program-independent>.

<sup>574</sup> 5 U.S.C. § 555(b).

<sup>575</sup> 87 Fed. Reg. 63,047; 87 Fed. Reg. 63,044.

USPTO, to represent parties in a small claims patent proceeding.

Law students form another group of nonattorneys who might represent parties in a small claims patent proceeding. The USPTO administers the Law School Clinic Certification Program, which includes over 60 participating law school clinics that provide pro bono legal assistance in patent and trademark matters.<sup>576</sup> Under the supervision of a clinical faculty supervisor, law students conduct prior art searches, prepare patent applications, assist in responding to patent examiners, and otherwise assist independent inventors and small businesses before the USPTO. While infringement matters are outside the USPTO's jurisdiction, some participating law school clinics provide counseling on patent infringement issues. It is unclear to what extent law school clinics represent or assist clients in patent infringement litigation, however. Still, law school clinics might play a useful role in representing small entities in a small claims patent proceeding. In establishing the CCB, for example, Congress permitted one category of nonattorneys to represent parties in CCB proceedings: "a law student who is qualified under applicable law governing representation by law students of parties in legal proceedings and who provides such representation on a pro bono basis."<sup>577</sup> Although the new CCB has yet to see a law student representative, some law school clinics advertise that students may practice before the CCB.<sup>578</sup>

A third option is to provide public funding, perhaps through a USPTO- or SBA-administered grant program, to organizations that help small entities navigate small claims patent proceedings or patent infringement matters more generally. This model exists in some contexts, primarily to assist low-income people. Congress created the Legal Services Corporation, for example, to distribute grants to legal aid providers who assist low-income Americans in a variety of contexts,

including in proceedings before administrative and judicial bodies. In the tax system, Congress similarly has authorized the Treasury Secretary to provide grants to qualified low-income taxpayer clinics.<sup>579</sup>

The availability of attorney's fees and litigation costs provides another mechanism for improving access to representation as well as defraying litigation costs. As discussed in the previous Part, there are pros and cons to allowing attorney's fees in a small claims patent proceeding. One downside is the fact that the need for unsuccessful small entities to pay the fees and costs incurred by prevailing defendants may disincentive plaintiffs from using a small claims patent proceeding.

To avoid such concerns, the government might award expenses to small entities in certain circumstances. A bill introduced in the last Congress by Senator Patrick Leahy (D-VT) with Senators John Cornyn (R-TX) and Thom Tillis (R-NC) provides one model. Specifically, the bill would have provided support for small and micro entities in IPR and PGR proceedings by directing the USPTO to, regardless of the outcome of any proceeding,

pay to the owner of a covered patent all of the reasonable expenses of the proceeding actually incurred by the patent owner (and not expenses incurred by a third party funding the proceeding), including reasonable expert witness fees and reasonable attorney fees, for defending the inter partes review or post-grant review.<sup>580</sup>

Policymakers should, of course, consider the role that third-party litigation financing (TPLF) plays in patent litigation. Although the common law forbade TPLF arrangements under the principles of maintenance and champerty, many states have relaxed these prohibitions, at least in some cases as a means to reduce barriers that under-resourced parties face in obtaining counsel and accessing justice. TPLF financing has become

<sup>576</sup> *Law School Clinic Certification Program*, USPTO, <https://www.uspto.gov/learning-and-resources/ip-policy/public-information-about-practitioners/law-school-clinic-1> (last modified Jan. 24, 2023).

<sup>577</sup> 17 U.S.C. § 1506(d)(2).

<sup>578</sup> See, e.g., *Intellectual Property & Technology Law Clinic*, GEO. WASH. UNIV. L. SCH., <https://www.law.gwu.edu/intellectual-property-technology-law-clinic-0>.

<sup>579</sup> 26 U.S.C. § 7526.

<sup>580</sup> Patent Trial and Appeal Board Reform Act of 2022, S.4417, 117th Cong.

especially prevalent in patent infringement suits. According to a recent Government Accountability Office study, TPLF may help provide “underfunded plaintiffs resources to litigate cases against well-funded defendants” and allow them to transfer litigation risk to third parties. On the other hand, TPLF “can be costly to plaintiffs and defendants, and may create incentives for parties not to reach settlement.”<sup>581</sup> Several stakeholders expressed concerns about TPLF and the possibility that third-party funders might abuse a small claims patent proceeding.

Other structures that might be set up to enhance support for small entities include patent litigation insurance and patent defense unions. Patent litigation insurance is available for defense and abatement, reimbursing policyholders for policy-specific litigation expenses. While this provides support for a litigant during the costly process of litigation, it has several drawbacks. In the case of patent abatement (used for assisting patentees in protecting their patent through enforcement proceedings), the policy must be purchased before any infringement is known to have occurred and, like defensive patent insurance, requires upfront and premium costs to maintain.<sup>582</sup>

The idea of financially-intimidating lawsuits facing small entities also led European researchers to develop an idea of a “Voluntary Patent Pool” in the form of a Patent Defence Union. The Patent Defence Union could then assist members with enforcement litigation either financially or by becoming a party to the suit itself. This would provide small entities with both

the financial and experiential support needed to pursue enforcement.<sup>583</sup>

## IMPROVING SUPPORT FOR SELF-REPRESENTED PARTIES

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In addition to considering ways to improve access to representation, reduce litigation costs, and simplify procedures, policymakers should consider ways the forum that administers a small claims patent proceeding might itself be set up to provide support for parties, particularly those who cannot or choose not to obtain representation.

Many administrative tribunals, including the USPTO through its Pro Se Assistance Program,<sup>584</sup> provide information and some degree of assistance to self-represented parties. Materials that may be especially useful for self-represented parties include educational materials about the purpose, availability, and operation of the small claims patent proceeding; guidance on the rules of practice; standard forms; and model pleadings.<sup>585</sup> For maximum utility, all materials should be written in plain-language and made readily accessible on a user-friendly website.<sup>586</sup>

Staff attorneys or nonattorney navigators might also be made available to answer questions and help self-represented parties to complete forms. In establishing the CCB, for example, Congress explicitly authorized staff attorneys to “provide assistance to members of the public with respect to the procedures and requirements of the Copyright Claims Board.”

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<sup>581</sup> U.S. GOV’N’T ACCOUNTABILITY OFF., GAO-23-105210, THIRD-PARTY LITIGATION FINANCING: MARKET CHARACTERISTICS, DATA, AND TRENDS (2022).

<sup>582</sup> Bernhard Ganglmair, Christian Helmers & Brian J. Love, *The Effect of Patent Litigation Insurance: Theory and Evidence from NPEs*, 38 J.L. ECON. & ORG. 741, 742 n.4 (2022); Kevin P. Kalinich & Laura J. Grabouski, *Evolution of Insurance Coverage for Intellectual Property Litigation*, AM. BAR ASS’N (Feb. 20, 2020), <https://www.americanbar.org/groups/litigation/committees/insurance-coverage/articles/2020/insurance-intellectual-property-litigation/>; Bruce L. Beron & Jason E. Kinsella, *David vs. Goliath Patent Cases: A Search for the Most Practical Mechanism of Third Party Litigation Financing for Small Plaintiffs*, 38 N. KY. L. REV. 605 (2011).

<sup>583</sup> Katarina Lundblad Pinnekamp, Bo Heiden & Morten Landsgård, *Nordic PDU: A Nordic Patent Defence Union*, NORDIC INNOVATION CTR. (2008); William Kingston, *Protecting the Inventions of Smaller High-Tech Firms*, 2 INT’L J. ENTREPRENEURSHIP & INNOVATION 5 (2001).

<sup>584</sup> *Filing a Patent Application on Your Own*, USPTO, <https://www.uspto.gov/patents/basics/using-legal-services/pro-se-assistance-program> (last modified Dec. 21, 2022).

<sup>585</sup> *Accord Comment of Engine & PIPLI* (July 5, 2022).

<sup>586</sup> Admin. Conf. of the U.S., Recommendation 2016-6, *Self-Represented Parties in Administrative Proceedings*, 81 Fed. Reg. 94,319 (Dec. 23, 2016); see also Connie Vogelmann, *Self-Represented Parties in Administrative Hearings* (Oct. 28, 2016) (report to the Admin. Conf. of the U.S.).

# CONCLUSION

Patent infringement litigation is expensive and time-intensive, and many patent owners simply lack the resources and time required to successfully enforce their patents against infringement and, in the Constitution’s words, secure for themselves the exclusive right to their discoveries. This situation harms independent inventors, innovative startups, and small- and medium-sized enterprises—particularly firms and enterprises owned by people of color, women, and other under-represented groups—who rely on patented inventions for their economic wellbeing. By promising inventors a temporary, exclusive right to their inventions, patents are also the “lifeblood of innovation”; a system in which patents are practically unenforceable risks harm to society at large. On these points, nearly all study participants agreed.

There is disagreement as to the solution, however. Some study participants strongly believed that the availability of a small claims patent proceeding, alone or in combination with other reforms, would result in real benefits both to small entities and society at large. Others were skeptical that a small claims patent proceeding would solve existing problems; indeed, some thought it might even exacerbate existing problems and open doors to new ones. Unfortunately, data demonstrating the likely performance of a potential small claims patent proceeding are largely unavailable at this time.

If policymakers decide that a small claims patent proceeding offers a viable solution to existing problems, this report catalogs the institutional and procedural features they will need to consider in establishing it. As we have described, there are many options for establishing a small claims patent proceeding. Options range from relatively

modest (e.g., approximating a small claims process in the district courts through local rules, standing orders, and case management) to ambitious (e.g., establishing a new federal institution to administer a novel process).

Given so many unknowns, flexibility and experimentation will be critical in establishing a successful small claims patent proceeding. Flexibility and experimentation can be achieved in at least two ways. First, policymakers—whether in Congress or in a forum with existing authority to adjudicate patent infringement disputes—may consider establishing a pilot program to test the performance of a small claims patent proceeding. Some study participants suggested that policymakers should initially set up a small claims patent proceeding as a pilot.<sup>587</sup>

Second, if Congress chooses to establish a small claims patent proceeding by statute, it may consider leaving many of the proceeding’s specifics to the forum it chooses to administer the proceeding. Some reforms would need to be made through legislation—for example, authorizing the USPTO to adjudicate patent infringement disputes and award damages or expanding the jurisdiction of the USITC to hear wholly domestic disputes. Other decisions could be delegated to executive- or judicial-branch decisionmakers. In this way, the system will have sufficient flexibility to adapt as beneficial and undesired features are identified.<sup>588</sup>

Evidence-building will be essential to identify beneficial and undesired features. As one commenter noted, “policymakers should collect and make data available so that they, researchers, and the public can understand who uses the court, how, and whether it is meeting its intended

<sup>587</sup> Colleen V. Chien, *The Inequalities of Invention*, 72 EMORY L.J. 1, 70 (2022); Comment of Engine & PIPLI (July 5, 2022).

<sup>588</sup> Cf. U.S. COPYRIGHT OFF., COPYRIGHT SMALL CLAIMS 132 (2013).



purpose.”<sup>589</sup> Data should be captured to study, among other subjects, the entities that make use of the small claims patent proceeding, particularly if it is voluntary; costs incurred by parties at each stage of the proceeding; the duration of each stage of the proceeding; claims, counterclaims, and defenses asserted; settlement rates; relief awarded to parties; impacts on small entities; and barriers faced by small entities, including those owned by people of color, women, and other underrepresented groups.

Input by and feedback from affected stakeholders will also serve as an important source of evidence. Interested persons should be encouraged to participate in developing and assessing the rules for a small claims patent proceeding, and the forum that administers it should strive to keep open lines of communication with a range of stakeholders, especially small entities, to identify problems and ensure the forum satisfies its objective. Through evidence-building and continuous evaluation, and the flexibility to make changes when necessary, the forum can work to refine the small claims patent proceeding and help ensure its success.

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<sup>589</sup> *Accord Comment of Engine & PIPLI* (July 5, 2022).

# APPENDIX

## CONSULTATIVE GROUP MEMBERS

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Jonas Anderson (American University Washington College of Law)

Andrew S. Baluch (Smith Baluch LLP; Former Director of International IP Enforcement, Intellectual Property Enterprise Court)

Susan G. Braden (Board of Directors, United Inventors Association; Former Chief Judge of the U.S. Court of Federal Claims)

Colleen V. Chien (Santa Clara University School of Law)

Jorge L. Contreras (University of Utah College of Law)

Rochelle C. Dreyfuss (New York University School of Law)

John F. 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)

David Kappos (Cravath, Swaine & Moore LLP; Former Undersecretary of Commerce and Director of the USPTO)

Sapna Kumar (University of Houston Law Center)

Brian J. Love (Santa Clara University School of Law)

Alan Marco (George Tech School of Public Policy; Former Chief Economist for the USPTO)

Joseph Matal (Haynes & Boone LLP; Former USPTO Acting Director and Acting Solicitor)

Adam Mossoff (George Mason University Antonin Scalia Law School)

Tejas N. Narechania (University of California Berkeley School of Law)

Matthew Powers (Tensegrity Law Group LLP; The Sedona Conference)

John Riley (U.S. Copyright Office)

Pamela Samuelson (University of California Berkeley School of Law)

Jeffrey M. Sears (Columbia University)

Amy Semet (University of Buffalo School of Law)

David O. Taylor (Southern Methodist University Dedman School of Law)

## INTERVIEWEES

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US Inventor (Sept. 26, 2022)	Judge Eleni Roumel, Court of Federal Claims (Sept. 30, 2022)
Small Business Administration, Office of Advocacy (Oct. 7, 2022)	Microsoft (Oct. 7, 2022)
American Intellectual Property Law Association (AIPLA) (Oct. 7, 2022)	Professor Lateef Mtima, Howard University School of Law (Oct. 13, 2022)
Stanford University Office of Technology Licensing (Oct. 14, 2022)	Federal Judicial Center (Oct. 19, 2022)
Amazon (Oct. 18, 2022)	Charles Duan, Cornell Law School (Oct. 21, 2022)
Professor Esther Van Zimmeren, University of Antwerp (Oct. 19, 2022)	U.S. MADE (Oct. 25, 2022)
David Kappos, Former Director, USPTO (Oct. 21, 2022)	Patent Trial and Appeal Board, USPTO (Nov. 14, 2022)
United Inventors Association (UIA) (Nov. 22, 2022)	Professor Chris Beauchamp, Brooklyn Law School (Nov. 30, 2022)
Kathi Vidal, Director, USPTO (Dec. 2, 2022)	Copyright Claims Board (Dec. 6, 2022)
ALJs and Office for § 337 Investigations, USITC (Dec. 7, 2022)	

## PUBLIC COMMENTERS

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ACT   The App Association	Amnon Cohen	Larry Glaser	Edward Lin
American Intellectual Property Law Association (AIPLA)	Manus Cooney	Carrie Hafeman	Mark Loen
Amazon	Susan Currell	Jeff Haley	Dave Madson
Brian Aumiller	Wayne Darnell	William Hamilton	Sean Malek
Frances Barbaro	Li Decker	Jeff Hardin	Josh Malone
Michael Barrett	Trenton Despain	Samuel Hay	Michael McCarty
Arnold Beal	Ronald Docie	Paul Hayes	Robert Merz
William Bell	Kenneth Drake	Norm Hedges et al.	Darrell Metcalf
James Bertini	Engine Advocacy & Public Interest Patent Law Institute (PIPLI)	Valerie Heilbron	Molly Metz
Boston Patent Law Association (BPLA)	Theodore Essex	Lee Hollaar	Luis Millan
David Boundy	Curt Evans	Janice Jordan	Alexa Milton
Brain Throb Labs	Emmett Farris	Kamran Kamrani	David Monroe
David Breed	Juliette Fassett	Nader Kamrani	George Mouzakis
Steven Bridgers	Mary Fletcher	Nina Kamrani	Walter Mruk
Dan Brown	Rick Fletcher	Jason Kemmerer	Keith Mullin
Richard Brunner	Chris Flood	Tracey Kennedy	National Association of Patent Practitioners (NAPP)
David Burchinal	Robert Fortier-Bensen	Mike Kramer	Edward Neister
Nate Bustamante	Nicholas Frattalone	Steve Kube	Martin Nguyen
Jay C.	Caleb Freeman	Benjamin Kwitek	Ian Osborn
Steven Caruso	Seth Friedman	Jonathon Landell	John Pfanstiehl
Computer and Communications Industry Association (CCIA)	Damien Gallina	JP Lapeyre	Jack Powers

Shivaji Prasad	Charlie Roscoe	Steven Thrasher	Maran Vedamanikam
Lukas Przybylo	Jay Rowland	Mark Thoreson	Matt Vodvarka
Juris Pupols	Irl Sanders	Dirk Tomsin	George Voirol
PTAB Trials Committee, PTAB Bar Association	Robert Schmidt	Kelly Tong	Jason Weaver
Schumann Rafidazeh	Kimberly Shepherd	Richard Torczon	Joel Weiss
Alberto Ratmiroff	Henry Sifuentes	United for Patent Reform (UPR)	Shalom Wertsberger
Mark Riley	Roy Smith	United Inventors Association (UIA)	
Michael Risch	Jeremy Suelflow	US Inventor	