



July 5, 2022

Shawne McGibbon  
General Counsel  
Kazia Nowacki  
Attorney Advisor  
Administrative Conference of the United States  
Suite 706 South  
1120 20th Street NW  
Washington, DC 20036  
202.480.2080  
info@acus.gov

VIA ONLINE SUBMISSION

Re: Comments of Engine Advocacy & the Public Interest Patent Law Institute Regarding *Small Claims Patent Court Study*

Dear Ms. McGibbon & Ms. Nowacki:

Engine is a non-profit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups. Engine works with government and a community of thousands of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship through economic research, policy analysis, and advocacy on local and national issues.

The Public Interest Patent Law Institute (PIPLI) is a nonprofit, nonpartisan public interest organization dedicated to ensuring the patent system promotes innovation and access for the benefit of all Americans. PIPLI conducts policy research; engages in educational outreach; advocates for greater transparency, ethics, and equity in the patent system; and represents the public's interest before courts, agencies, and standard-setting organizations.

We appreciate the opportunity to submit these comments as the Administrative Conference of the United States (ACUS) studies the “issues associated with and options to consider in designing a small claims patent court” in the U.S.<sup>1</sup>

## **A. Introduction**

Across the country, startups are major drivers of innovation, economic growth, and job creation.<sup>2</sup> Many may seek patent protection, and high-quality patents can be an asset for, e.g., attracting investors, setting a new company apart in the market, or signaling some competitive advantage.<sup>3</sup> However, many startups also know first-hand the pervasive problems of abusive patent assertion—where assertion entities and established companies can hold out low-quality patents and weak infringement theories to coerce startups into “settlements” and stand in the way of their success. Because startups are operating on thin margins, they are particularly vulnerable to these accusations given the high volume and costs of patent litigation in the U.S.<sup>4</sup> ACUS’s current effort to study a possible small claims patent court, therefore, implicates critical issues for domestic startups and their ability to innovate and compete.

The present inquiry presents several thorny and complex questions, and there are many factors that would have to be carefully balanced if the government were to create a small claims patent court—something we should only do if we can strike that balance. As detailed below, a small claims patent court might be useful in resolving a variety of patent disputes—it is critical ACUS remember that a small claims patent court would not (should not) just be about small entities asserting infringement. Instead, this study should invite creative ideas related to the problems startups experience across the patent system. Just as importantly, ACUS must conduct this work with a full recognition of the types of gamesmanship and abuse present in our patent system, because any small claims patent court must avoid making those problems worse.

Finally, there are imperfections in our patent system, and areas where policymakers could improve mechanisms for patent quality and balanced enforcement. While not the subject of this study, these issues are also very relevant—because fixes elsewhere in the patent system could reduce the cost and amount of litigation in healthy and productive ways, offering a different lens to solve the problems motivating certain small claims proposals.

## **B. Responses to Questions**

With that in mind, Engine and PIPLI offer these responses to several of the questions posed:

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<sup>1</sup> Small Claims Patent Court Study; Comment Request, 87 Fed. Reg. 26183 (May 3, 2022), <https://www.federalregister.gov/documents/2022/05/03/2022-09489/small-claims-patent-court-study-comment-request>.

<sup>2</sup> See *Startups & the U.S. Patent System: Prioritizing Quality and Balance to Promote Innovation*, Engine 2 (July 2021), available at <https://www.engine.is/news/category/prioritizing-quality-and-balance-to-promote-innovation>.

<sup>3</sup> See generally *id.* at 5.

<sup>4</sup> See generally *id.* at 6-7.

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

The present study is rooted in legitimate concerns about the high costs of patent litigation, for both plaintiffs and defendants. Questions about whether and when small entities would benefit from a small claims patent court are complex.<sup>5</sup> In conducting this study, and crafting any recommendations, ACUS and other policymakers should focus on the most likely (and promising) use cases and avoid creating a system if it misses those marks and/or fosters abuse of the system.

Patent litigation is very expensive and inherently complex. In even the simplest cases, courts must routinely construe claim terms and define a patent's scope, assess validity, determine whether the accused product(s) infringe, and calculate damages (unless the case ends before one of these steps). Each stage of a case implicates, e.g., expert discovery, prior art, fact discovery, and motions practice whenever a dispute arises. And the costs quickly add up: for a lower-stakes patent suit (where damages are \$1 million or less), the median legal costs are \$700,000.<sup>6</sup> For a defendant sued by a patent assertion entity (PAE), the median legal costs of a lower-stakes suit are \$750,000.<sup>7</sup> When more than \$1 million is at risk, median legal costs range from \$1.5 - \$4 million.<sup>8</sup>

Setting aside the inefficiency of having two parties collectively pay more than a dispute is worth to resolve it, the costs of a full patent suit are out of reach for many startups.<sup>9</sup> Engine's research shows that the average seed stage startup raises \$1.2 million, a sum that is expected to cover all of its expenses for nearly 2 years. And most startups do not even have that much money.<sup>10</sup>

Likewise, lengthy and expensive patent suits frustrate a startup's ability to attract capital. Startup investors do not want to spend money on litigation—they want their money to go to things like R&D, hiring, customer acquisition, and revenue generation.<sup>11</sup> In one survey, 100 percent of investor-respondents indicated that an existing patent demand against a startup is a deterrent when deciding

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<sup>5</sup> “Small entity” has a specific definition in the patent context. *E.g.*, 37 CFR § 1.27. We do not mean our use of the term in these comments to align with that definition. Rather, we use this to refer to a class of innovators and companies that might be the intended beneficiaries of a small claims patent court—including, for example, startups, small businesses, and individuals or small groups of software developers.

<sup>6</sup> Am. Intellectual Prop. Law Ass'n, 2019 Report of the Economic Survey 50 (2019).

<sup>7</sup> *Id.* at 51.

<sup>8</sup> *Id.* at 50-51 (for defendants in PAE suits the range is \$1.875 - \$4.5 million).

<sup>9</sup> *See, e.g.*, Colleen V. Chien & Michael J. Guo, *Is a Patent Small Claims Proceeding a Good Idea?*, Comments on a Patent Small Claims Proceeding in the United States, Docket No. PTO-P-2012-0050, at 1-2 (Mar. 1, 2013), [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2249896](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2249896).

<sup>10</sup> *The State of the Startup Ecosystem*, Engine 17 (2021), <https://engineis.squarespace.com/s/The-State-of-the-Startup-Ecosystem.pdf>.

<sup>11</sup> *See, e.g.*, Robin Feldman, *Patent Demands & Startup Companies: The View from the Venture Capital Community*, 16 Yale J.L. & Tech. 236, 272-76 (2014) (“When companies spend money protecting their intellectual property position, they are not expanding; and when companies spend time thinking about patent demands, they are not inventing.”); Matthew C. LeMerle et al., *The Impact of Internet Regulation on Early Stage Investment* 5 (Nov. 2014), <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/572a35e0b6aa60fe011dec28/1462384101881/%20EngineFifthEraCopyrightReport.pdf> (survey of investors where majority reported they would be deterred from investing in companies that hosted user-generated music or video if the laws changed to increase the risk investments would be exposed to liability in IP infringement lawsuits); Mark Suster, *Why Lawsuits Are On the Rise at Startups and What To Do About It*, Both Sides of the Table (May 10, 2015), <https://bothsidesofthetable.com/why-lawsuits-are-on-the-rise-at-startups-and-what-to-do-about-it-83f80676bfd4>.

whether to invest.<sup>12</sup> And that is not surprising when you consider the substantial operational impacts startups report when they are (wrongfully) accused of infringement.<sup>13</sup> As one startup attorney recently put it: “As a startup, . . . there are many non-practicing entities knocking on our door.” Investors want to “fund companies that are in business. . . . These threats, multiple threats from non-practicing entities . . . threaten us because every litigation . . . is indeed threatening to our existence. . . . When we have a pending litigation . . . that also staves off costs VCs want to put in because we are spending on litigation.”<sup>14</sup>

Reducing the cost and duration of patent proceedings could help startups access another portion of the patent system and mount meaningful defenses to meritless cases. But an imbalanced or misguided approach to small patent claims could exacerbate existing problems and open doors to new ones. Any systemic efforts to reduce litigation costs must be fair to all parties—patent owners and accused infringers. And those efforts would only be justified if they advance the broader public purposes of the patent system. Here we explore some of the most obvious “use cases” for a small claims patent court.

**Possible use cases and concerns.** It is unclear (at least at this stage of the inquiry) whether a small claims patent court would be widely used by small entities suing for infringement. But that is not the only possible use; a small claims patent court could also, e.g., open meaningful opportunities for small entities to defend themselves in frivolous cases or settle disputes over ownership. ACUS should keep in mind the variety of circumstances where small entities might benefit from such a court.

- Infringement litigation → Perhaps the most obvious thinking behind a small claims patent proposal would be allowing a small company with few resources to sue a competitor that is infringing its patents.<sup>15</sup> Yet, if a small company has a valid patent, and it is infringed in a way that is important to the business (significant enough to pursue litigation), the recovery in a small claims proceeding might be inadequate.<sup>16</sup> Instead, companies in that situation can (and

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<sup>12</sup> Feldman, *supra* note 11.

<sup>13</sup> E.g., Colleen Chien, *Startups and Patent Trolls*, 17 Stan. Tech. L. Rev. 461, 461-62 (2014) (in survey of startups, majority had received a demand and large percentage reported significant operational impact); *Startups & the U.S. Patent System*, *supra* note 2, at 7.

<sup>14</sup> *The Patent Trial and Appeal Board After 10 Years: Impact on Innovation and Small Businesses: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary*, 117th Congress at 1:54:57 (2022) (testimony of Kirupa Pushparaj, General Counsel and Corporate Secretary, Step), [https://www.youtube.com/watch?v=JHVr\\_8dAgnE](https://www.youtube.com/watch?v=JHVr_8dAgnE).

<sup>15</sup> Small Claims Patent Court Study, *supra* note 1, at 26183.

<sup>16</sup> For comparison, most small claims courts in the U.S. cap damages at about \$7,500 to \$9,000, with the highest cap at \$25k. Ann O’Connell, *50-State Chart of Small Claims Court Dollar Limits*, Nolo (Jan. 2022), <https://www.nolo.com/legal-encyclopedia/small-claims-suits-how-much-30031.html> (median of \$7,500 and mean of \$8,665). And the controversial copyright small claims proceeding was set up with damages capped at \$30k, a level that was widely criticized. E.g., Anthony Marcum, *Potential Pitfalls of the CASE Act*, R Street Institute (July 16, 2019), <https://www.rstreet.org/2019/07/16/potential-pitfalls-of-the-case-act/>; Katharine Trendacosta & Jason Kelley, *Tell Congress Not To Bankrupt Internet Users*, Elec. Frontier Found. (Dec. 7, 2020), <https://www.eff.org/deeplinks/2020/12/we-have-one-day-tell-congress-not-bankrupt-internet-users>; Phillip R. Malone, Peggy Xu, & Matt Krantz, *Juelsgaard Clinic Students Urge Fairness and Transparency in Copyright “Small Claims” Proceedings*, SLS Blog (Apr. 10, 2022), <https://law.stanford.edu/2022/04/10/juelsgaard-clinic-students-urge-fairness-and-transparency->

many do) seek out contingency counsel.<sup>17</sup> To the extent there are small entities with valid, infringed patents—where that infringement matters enough to a business that it would litigate—it is worth ACUS investigating whether they can access contingency counsel, and if not, why not. Crafting any small claims patent court should account for those actual circumstances. Else, this small claims court might not fill any existing gaps.

Relatedly, it is critical to remember that for startups wrongfully accused of infringement, contingency fee arrangements and other litigation funding avenues are often unavailable, instead being largely reserved for patent plaintiffs.<sup>18</sup> This creates a lopsidedness in the market for legal services available to small and under-resourced entities.

Finally, if a small claims patent court can adjudicate infringement and award damages, that could open doors to the type of abuse we already see. PAEs could file suit against small businesses seeking nuisance value settlements and established companies could file weak cases asserting low-quality patents with the goal of stifling new rivals.<sup>19</sup> So the creation of any new court would need to grapple with this risk and seek to avoid abuse.

- **Invalidity and non-infringement defenses** → A small claims patent court could be a venue where startups wrongfully accused of infringement could afford to defend themselves. *Inter partes* review (IPR) offers a more efficient and affordable mechanism to clear out invalid patents, compared to district court.<sup>20</sup> But IPR still costs upwards of \$300,000,<sup>21</sup> and that is a lot of money for many startups. Not only that, but there is a steady stream of political pressure to restrict access to IPR and increase those costs.<sup>22</sup> It has become harder to access IPR and easier to evade that validity review. Small entities could more efficiently establish that they do not infringe in a small claims patent court, and get out from underneath abusive

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[in-copyright-small-claims-proceedings/](#); Meredith Whipple, *Public Knowledge Condemns Passage of CASE Act in Funding Bill* *Public Knowledge Condemns Passage of CASE Act in Funding Bill* *Public Knowledge Condemns Passage of CASE Act in Funding Bill*, Public Knowledge (Dec. 21, 2022), <https://publicknowledge.org/public-knowledge-condemns-passage-of-case-act-in-funding-bill/>.

<sup>17</sup> See, e.g., William R. Towns, *U.S. Contingency Fees: A Level Playing Field?*, WIPO Magazine (Feb. 2010), [https://www.wipo.int/wipo\\_magazine/en/2010/01/article\\_0002.html](https://www.wipo.int/wipo_magazine/en/2010/01/article_0002.html).

<sup>18</sup> See generally Karen Duffin, *Capitalism In the Courtroom*, Planet Money (Oct. 2, 2019), <https://www.npr.org/2019/10/02/766556249/episode-942-capitalism-in-the-courtroom> (discussing litigation funding); Charles Agee & Gretchen Lowe, *Litigation Finance Client Types*, Bloomberg Law (Dec. 31, 2019), <https://pro.bloomberglaw.com/brief/practical-guidance-litigation-finance-client-types/>.

<sup>19</sup> E.g., Colleen V. Chien, *Of Trolls, Davids, Goliaths, and Kings: Narratives and Evidence in the Litigation of High-Tech Patents*, 87 N.C. L. Rev. 1571, 1587-89 (2009) (describing “patent predation”); Ted Sichelman, *The Vonage Trilogy: A Case Study in “Patent Bullying,”* 90 Notre Dame L. Rev. 543, 549-50 (2014).

<sup>20</sup> See, e.g., Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 18 (2011).

<sup>21</sup> AIPLA, *supra* note 6, at 52.

<sup>22</sup> See generally Comments of Engine Advocacy in Response to Request for Comments on Discretion to Institute Trials Before the Patent Trial and Appeal Board, Docket No. PTO-C-2020-0055 (Dec. 3, 2020), [https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/5fca4fad1a258d244fec7ba7/1607094191551/20.12.03\\_Comments+to+Docket+PTO+C+2020+0055.pdf](https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/5fca4fad1a258d244fec7ba7/1607094191551/20.12.03_Comments+to+Docket+PTO+C+2020+0055.pdf) (discussing concerns with restricting access to IPR); Letter from Engine to Members of the Subcommittee on Intellectual Property of the Senate Judiciary Committee 2-5 (Sept. 18, 2019), [https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/5d8293688746a245e575f716/1568838505085/2019.09.18\\_Engine+Comments.pdf](https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/5d8293688746a245e575f716/1568838505085/2019.09.18_Engine+Comments.pdf) (discussing concerns with STRONGER Patents Act, including in part restricting access to IPR).

or frivolous assertions involving invalid patents.

Relatedly, the business model for asserting low-quality patents is built on the high costs of litigation which can be leveraged to pressure small entities into nuisance value settlements. A company without the resources to mount a defense might, understandably, pay less than the cost of a litigation to get accusations to go away. A small claims patent court could pull that thread in at least two possible directions: (1) when the costs of defenses are lower (e.g., when it is cheaper to clear out an invalid patent), the settlement value of that invalid patent or meritless accusation also drops.<sup>23</sup> (2) If the settlement value of an invalid patent drops, that could proliferate more low-level patent assertions, with PAEs sending more letters to more small businesses, just demanding less money.

- Inventorship and ownership → Disputes over patent inventorship, ownership, and assignment can also drive complex and drawn-out litigation. If parties to those disputes cannot afford district court cases (and/or if the value of the asset does not justify that expense), those parties might be well-served in a small claims patent court.
- Penalizing bad faith patent assertion → Many states have laws against bad faith patent assertions.<sup>24</sup> For example, these state laws may penalize purported patent owners who send demand letters without comparing the claims to the accused product, who send demand letters with false or misleading information, or who send letters after a court has already found similar assertions lack merit. Creating a strong, federal “anti-troll” law, that could include allowing a small claims patent court to hear cases, would provide similar protection to small businesses nationwide.<sup>25</sup> Indeed, this small claims approach could be especially valuable for startups who could not afford to bring a full state or federal district court case under the law.
- Removal of PAE cases against startups → If a small entity is sued by a PAE in court, they could seek to remove the case to a small claims proceeding.<sup>26</sup> This would reduce their risk and exposure while putting the defendant in a venue they could afford. The rules and procedures would have to set out clear and predictable standards defining who could seek

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<sup>23</sup> Ryan Damon et al., *Five Years Later: Lessons Learned from the First Inter Partes Review*, ACC Docket (May 3, 2018), <https://www.accdocket.com/articles/supreme-court-decisions-inter-partes-review.cfm> (reporting data showing how “IPRs have reduced the cost to challenge questionable patents and also reduced their settlement value”).

<sup>24</sup> E.g., Joe Mullin, *Ten States Pass Anti-Patent-Troll Laws, With More to Come*, ArsTechnica (May 15, 2014), <https://arstechnica.com/tech-policy/2014/05/fight-against-patent-trolls-flags-in-the-senate-but-states-push-ahead/>; Matthew Bultman, *State Laws Fighting Patent System’s ‘Dark Underbelly’ Put to Test*, Bloomberg (June 15, 2021), <https://news.bloomberglaw.com/ip-law/state-laws-fighting-patent-systems-dark-underbelly-put-to-test>; Blake Brittain, *N.C. Federal Court Upholds State’s Anti-Patent Troll Law*, Reuters (Aug. 20, 2021), <https://www.reuters.com/legal/transactional/nc-federal-court-upholds-states-anti-patent-troll-law-2021-08-20/>; Press Release: AG Ferguson Files Lawsuit Against “Patent Troll” Targeting Small Businesses (May 14, 2021), <https://www.atg.wa.gov/news/news-releases/ag-ferguson-files-lawsuit-against-patent-troll-targeting-small-businesses>.

<sup>25</sup> See, e.g., *What We Heard from Startups this Patent Quality Week*, Engine (June 10, 2022), <https://www.engine.is/news/category/what-we-heard-from-startups-this-patent-quality-week> (quoting startup counsel, Shirley Paley, about the value of state laws against bad faith patent assertion and the need for a strong federal law).

<sup>26</sup> See, e.g., Chien & Guo, *supra* note 9, at 5.

removal and allowing meritorious cases to proceed in district court.<sup>27</sup>

- Validity and infringement assessment early in commercialization → In some cases, two parties will benefit from having certainty that a given patent is or is not infringed. It might be that the alleged infringer is early in commercialization, and has only sold a few accused products, so damages are low. Or a company may have very solid plans to launch a product that would be accused upon launch.<sup>28</sup> Adjudicating infringement liability in those circumstances might involve very low (or no) damages, but still be useful to the parties. Because the judgment would be the baseline against which they decide whether to launch or the baseline against which they negotiate a license.

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

Each piece of the U.S. patent system should be designed to promote innovation, commercialization, and progress—and any small claims patent court must also be designed to advance those goals. One challenge would be getting the “right” cases to the small claims court while preventing abuse. There are likely ways to incentivize appropriate and efficient use of a small claims court, and ways to create rules and thresholds around jurisdiction and access—these questions warrant very careful consideration.

The UK’s experience with the Intellectual Property Enterprise Court (IPEC) and its two-tiered system may prove instructive to ACUS’s inquiry. But it is essential to look at IPEC in context of how the U.S. legal system differs from that in the UK. To the extent the UK’s small claims patent court is seeing the types of cases and efficiencies that merit small claims proceedings, unique fee shifting rules could influence that.

Under the American Rule, at the most basic level, each party pays its own costs and fees. By contrast, under the English Rule, the loser pays the other side’s costs and fees. Each system has pros and cons which we will not unpack here.<sup>29</sup> But one purported virtue of the English Rule is that it

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<sup>27</sup> The standards could borrow ideas from other areas of patent law. For example, the small claims patent court procedures could look to the International Trade Commission’s rules around domestic industry to assess whether the PAE practices the patent—if it does, that might weigh towards leaving the case in district court, and if it does not, that might support the startup’s request to remove the case to small claims. 19 U.S.C. § 1337. Procedures could also look to preliminary injunction standards to assess likelihood of success on the merits, moving unmeritorious cases to small claims. *E.g., Preliminary Injunction*, Legal Information Institute, [https://www.law.cornell.edu/wex/preliminary\\_injunction](https://www.law.cornell.edu/wex/preliminary_injunction) (last visited July 5, 2022). And procedures could look to Small Business Association definitions to define the small businesses that would be allowed to seek such removal. *Table of Size Standards*, U.S. Small Business Administration (May 2, 2022), <https://www.sba.gov/document/support-table-size-standards>.

<sup>28</sup> For example, in the Hatch-Waxman context, generic pharmaceutical companies are given the opportunity to adjudicate patent infringement and validity, so that they do not have to launch at risk of an infringement suit that could give rise to substantial damages. *See, e.g., Alexander Pinal, Damages in Hatch-Waxman: What’s At Risk from an At-Risk Launch After the Market is Created?*, Baker Botts (May 1, 2020), <https://www.bakerbotts.com/thought-leadership/publications/2020/may/damages-in-hatch-waxman>.

<sup>29</sup> *See generally* John Leubsdorf, *Does the American Rule Promote Access to Justice? Was That Why It Was Adopted?*, 67 Duke L.J. Online 257 (2019), <https://dlj.law.duke.edu/2019/01/does-the-american-rule-promote-justice/> (discussing the history and experience with the American Rule through the lens of promoting access to justice for deserving plaintiffs).

encourages plaintiffs to bring only meritorious claims—because they would have to cover the defendant’s expenses if they lost.<sup>30</sup>

The IPEC has modified fee shifting rules. There are two tiers: the multi-track, where claimants can seek up to £500,000, and the small claims track, where claimants can seek up to £10,000.<sup>31</sup> For multi-track claims, there are caps on fee shifting—in general, the losing party will not have to pay more than £50,000 of the other side’s expenses for a claim of liability and more than £25,000 for an inquiry to damages.<sup>32</sup> With IPEC’s small claims track, standard fee shifting does not apply—and there are only limited circumstances where the court will have one party contribute to the costs of the other.<sup>33</sup>

This fee shifting structure may encourage claimants to bring only meritorious cases where they are confident they can do the work in an affordable fashion. There is a self-interest for both parties to keep their costs under control. While there might not be a direct translation from the UK experience to the U.S., if policymakers create a small claims patent court here, they should consider whether there are any analogous (dis)incentives.<sup>34</sup>

On a different note, intrinsic in ACUS’s inquiry is the theme of supporting small businesses who cannot afford the high costs of district court patent litigation. With that goal in mind, it is important to remember that not all “small businesses” are created equal. Many companies currently conceal patent ownership and create shell companies, in some instances because it facilitates gamesmanship and abusive assertion campaigns and insulates the parent companies from liability.<sup>35</sup> There is also a growing trend of hedge funds investing in the filing of more patent suits.<sup>36</sup> These shell companies and named plaintiffs might, by some standard, look like small businesses—although their role is just to obfuscate the larger entities that are advancing (and will reap the benefits of) a lawsuit. Any

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<sup>30</sup> See *id.* (“[t]he American Rule also provides less encouragement than the English Rule to assert claims almost certain to prevail, . . .”).

<sup>31</sup> *Intellectual Property Enterprise Court*, GOV.UK, <https://www.gov.uk/courts-tribunals/intellectual-property-enterprise-court> (last visited July 5, 2022).

<sup>32</sup> Procedure Rules - Part 45, <https://www.justice.gov.uk/courts/procedure-rules/civil/rules/part45-fixed-costs#sectionIV> (Section 45.31, Amount of scale costs) (last visited July 5, 2022); Practice Direction - Part 45, <https://www.justice.gov.uk/courts/procedure-rules/civil/rules/part45-fixed-costs/practice-direction-45-fixed-costs> (similar) (last visited July 5, 2022).

<sup>33</sup> *Guide to the Intellectual Property Enterprise Court Small Claims Track*, HM Courts & Tribunals Service 11 (Feb. 2018), [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/679030/ip-ec-sct-published-guide-february-2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/679030/ip-ec-sct-published-guide-february-2018.pdf).

<sup>34</sup> See, e.g., Chien & Guo, *supra* note 9, at 5 (discussing fee shifting in favor of certain parties).

<sup>35</sup> See generally *Pride in Patent Ownership: The Value of Knowing Who Owns a Patent: Hearing Before the Subcomm. on Intellectual Property of the S. Comm. on the Judiciary*, 117th Congress (2021) (testimony of Abigail A. Rives), available at <https://www.judiciary.senate.gov/meetings/pride-in-patent-ownership-the-value-of-knowing-who-owns-a-patent> (discussing value of disclosing true patent ownership information); Jonathan Stroud, *Miles to Go Before We Sleep*, Regulation 48, 51 (2018) (explaining with examples use of shell companies to hide patent ownership and assertion); Michelle K. Lee, *Statement by Michelle K. Lee at Legislative Hearing on H.R. 9, the “Innovation Act,”* USPTO (Apr. 14, 2015), <https://www.uspto.gov/about-us/news-updates/statement-michelle-k-lee-legislative-hearing-hr-9-innovation-act> (supporting increased transparency of patent ownership).

<sup>36</sup> Josh Landau, *Is Litigation Finance Turning Justice Into the Newest Financial Asset?*, Patent Progress (Mar. 16, 2022), <https://www.patentprogress.org/2022/03/17/is-litigation-finance-turning-justice-into-the-newest-financial-asset/>.

provisions for small claims patent proceedings, and measuring whether the system is working as intended, needs to account for this fact.

**3. *The institutional placement, structure, and internal organization of a potential small claims patent court, including whether it should be established within the Article III federal courts, as or within an Article I court, or as an administrative tribunal***

The institutional placement, structure, and composition of any court is critical to its ability to make informed, fair, and accurate decisions—especially in the context of specialized or technical arenas like patent law. A number of considerations should guide thinking about the placement of any small claims patent court, which also implicates the role and qualifications of adjudicators.<sup>37</sup>

First, there are questions about how specialized and isolated any small claims patent court should be. Especially in patent law, specialization offers benefits like expertise and efficiency.<sup>38</sup> But specialized courts also create a risk that judges would be subject to capture by the interest groups they oversee.<sup>39</sup> On the other hand, generalization can ensure broad viewpoints are brought to questions, avoid distorted perspectives that can result from specialization,<sup>40</sup> and avoid specialists taking a more expansive view of their own jurisdiction.<sup>41</sup> These later features of generalization can be particularly salient in the context of patent litigation where things like infringement liability and damages are assessed.

Relatedly, the judicial system—and its decisions—need to be accessible, especially for small claims purposes. If the judges and the structures are too specialized, it can lead to proceedings and decisions that are very technical and complex, making it hard for the public to follow along.<sup>42</sup> For example, a specialized court can become comfortable using jargon (which is especially easy when writing about patent law), and sacrifice accessibility for non-lawyers and non-experts. If that happened in a small claims patent court, it would exacerbate concerns that insiders, repeat players, and those with patent counsel would get a leg up, and small entities (those the court is supposed to help most) would be at a disadvantage.<sup>43</sup>

Second, there are likely many ways to strike the balance between specialization and generalization. If a court is hearing a few different types of cases, even if it is not a full generalist court, that can help combat some of the tunnel vision. For example, the Federal Circuit was originally created to have

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<sup>37</sup> *Infra* response to question 4.

<sup>38</sup> See, e.g., Joshua I. Schwartz, *Proceedings of the 15th Judicial Conference Celebrating the 20th Anniversary of the United States Court of Federal Claims*, 71 Geo. Wash. L. Rev. 863, 877-78 (2003).

<sup>39</sup> See, e.g., Diane P. Wood, *Generalist Judges in a Specialized World*, 50 SMU L. Rev. 1755, 1765 (1997). For example, in the patent context, this can result in a court becoming biased in favor of the purported patent holders; see, e.g., Amy Semet, *Specialized Trial Courts in Patent Litigation: A Review of the Patent Pilot Program's Impact on Appellate Reversal Rates at the Five-Year Mark*, 60 B.C. L. Rev. 519, 534-35 (2019).

<sup>40</sup> J. Schwartz, *supra* note 38.

<sup>41</sup> See, e.g., Sapna Kumar, *Patent Court Specialization*, 104 Iowa L. Rev. 2511, 2515-16 (2019).

<sup>42</sup> See, e.g., Wood, *supra* note 39 at 1767.

<sup>43</sup> See, e.g., David A. Nelson, Review, *Rationing Justice on Appeal: The Problems of the U.S. Courts of Appeals* – By Thomas E. Baker, 47 Admin. L. Rev. 111, (1995).

jurisdiction over a variety of types of cases, and while its docket has become more patent heavy in recent years, its initial design included appeals from Federal Claims, veterans benefits, government employment matters, and more.<sup>44</sup> A small claims patent court could be set up to hear some variety of cases to ensure it has the balance and expertise needed (e.g., infringement, validity, ownership, bad faith assertion), and it could include judges and staff that work on matters beyond the patent system.

One institutional option for small claims patent proceedings could be to leverage magistrate judges and existing alternative dispute resolution structures in district courts across the country. Each district court is required to have a program for resolving controversies outside of court.<sup>45</sup> Those programs may not be the first stop for most district court litigants, but a small claims patent proceeding could be set up to fast track cases on these routes.<sup>46</sup> Some of the magistrate judges, adjudicators, and mediators involved in those programs could be tapped to oversee small claims patent disputes. Parties could immediately direct their complaints to those officials (and all proceedings could be virtual, removing geographic barriers to participation). And rules could be crafted to govern the assessment of a case and options for appeal/further proceedings as needed. The adjudicators would need to have the right qualifications and could have technical staff and training available. But these officials would be generalist in a sense and could become specialists as well.

Finally, it is not immediately apparent that a small claims patent court could be created in the Executive Branch or where it could reside. For example, the U.S. Patent and Trademark Office (PTO) has some of the relevant technical expertise. But it is focused on examining patent applications and assessing validity (as opposed to adjudicating liability or calculating damages, areas where the small claims court would need expertise and diverse experience the PTO lacks),<sup>47</sup> and in some contexts it approaches patent owners and applicants as its customers.<sup>48</sup> And given the small claims court could play a role in awarding damages, this question implicates constitutional matters that are outside Engine and PIPL's expertise. But any inquiry into a small claims patent court would have to examine the constitutional constraints.<sup>49</sup>

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<sup>44</sup> See, e.g., Sapna Kumar, *Patent Court Specialization*, 104 Iowa L. Rev. 2511, 2512, 2517 (2019).

<sup>45</sup> 28 U.S.C. § 651.

<sup>46</sup> See, e.g., N.D. Cal. ADR Local Rules, <https://www.cand.uscourts.gov/about/court-programs/alternative-dispute-resolution-adr/adr-local-rules/> (last visited July 3, 2022) (presenting implementation of the rules and options for resolution that each party must consider at some point during a case, e.g., early neutral evaluation, mediation, or a settlement conference with a magistrate).

<sup>47</sup> U.S. Patent and Trademark Office, U.S. Department of Commerce, <https://www.commerce.gov/bureaus-and-offices/uspto> (last visited July 5, 2022).

<sup>48</sup> See, e.g., Chelsea D'Angona, *Introduction to Customer Experience*, U.S. Patent and Trademark Office 6 (May 2, 2019), [https://www.uspto.gov/sites/default/files/documents/20190502\\_PPAC\\_Customer\\_Experience.pdf](https://www.uspto.gov/sites/default/files/documents/20190502_PPAC_Customer_Experience.pdf) (defining patent customers); *General Information*, U.S. Patent and Trademark Office, <https://www.uspto.gov/about-us/contact-us> (last visited July 3, 2022) (providing contact information for “customers”); *Integrating Public Voices into the Patent System: A Blueprint for Reforms*, I-MAK 8, <https://www.i-mak.org/public-participation-blueprint/> (last visited July 3, 2022) (calling for the patent office to expand how it views its customers).

<sup>49</sup> For example, Separation of Powers and Seventh Amendment.

#### ***4. The selection, appointment, management, and oversight of officials who preside over proceedings in a potential small claims patent court***

**Qualifications for officials.** Officials for a small claims patent court would need expertise in patent law and technology, but they would also need to demonstrate balanced perspectives and experience in several other areas to ensure fair proceedings.<sup>50</sup> Some of this expertise could also be brought into the system through court staff.<sup>51</sup>

Of course, these officials would need to be able to assess patent validity and infringement efficiently, which would require deep knowledge—through litigation experience or otherwise—with standards for patentability and the pertinent case law. They would need to understand the rules and procedures for claim construction. They would need to understand the ins and outs of different forms of infringement liability. And they would need to understand each of the pertinent defenses. If a small claims patent court official had to learn new substantive law across the board and for each new case, it would either slow things or lead to inaccurate outcomes (or both).

But each patent case also implicates questions rooted in the technology—including things like the state of the art and how an accused product works. Officials would need to have a strong technical background and be able and willing to learn new technology quickly.

However, officials would need expertise in several other areas. For example, district court judges routinely decide damages in all types of cases—not just patent cases. Small claims patent court officials would benefit from that broader perspective, which would help them fairly weigh evidence and award appropriate damages. Likewise, district court and magistrate judges routinely oversee discovery and discovery disputes. That experience would help small claims officials ensure discovery is proportional and relevant. Similarly, given the importance of expert witnesses to all stages of a patent case, officials would need to be able to evaluate expert qualifications and rule on *Daubert* motions. Currently, district court judges get the benefit of seeing patent disputes in the context of the broader legal system, which can improve decisionmaking.<sup>52</sup>

Finally, officials would need to demonstrate balance and be able to take account of the views of both claimants and respondents. They should have experience working with and representing the interests of both patent owners and accused infringers.

**Appeals.** Decisions by a patent small claims court should be appealable. Appeals are available as a matter of course in many state small claims proceedings.<sup>53</sup> In some courts, the defendant or

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<sup>50</sup> Engine has written about similar issues and responded to related questions in the copyright small claims context. These comments rely on and draw from previous work, e.g., Comments of Engine Advocacy in Response to Copyright Claims Board: Active Proceedings and Evidence, Docket No. 2021-8, at 10-11 (Apr. 26, 2021), <https://www.regulations.gov/comment/COLC-2021-0007-0011>.

<sup>51</sup> See, e.g., Sapna Kumar, *Judging Patents*, 62 Wm. & Mary L. Rev. 871, 922-924 (2021).

<sup>52</sup> E.g., Diane P. Wood, *Generalist Judges in a Specialized World*, 50 SMU L. Rev. 1755, 1767 (1997).

<sup>53</sup> E.g., Superior Court of the District of Columbia, Civil Division Small Claims and Conciliation Brand Information Handbook 14, 20 (Oct. 2020), <https://www.dccourts.gov/sites/default/files/SmallClaimsHandbook.pdf> (parties to small claims court can request a jury trial before the first court date, and each party may appeal a small claims decision);

respondent can appeal, while the plaintiff or claimant who chose the venue may not.<sup>54</sup> And restrictions on appeal can make a venue less favorable, undercutting the value of creating it.<sup>55</sup>

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.<sup>56</sup> They can be useful to identify and correct imbalances that emerge (for example, incorrect interpretations of the law that favor one class of litigants).<sup>57</sup> 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.

Finally, access to appeal may be able to resolve certain constitutional questions around small claims proceedings.<sup>58</sup> That is outside our expertise and beyond the scope of these comments, but we urge ACUS to investigate how it might be possible to craft a small claims proceeding compliant with due process requirements, the Seventh Amendment, etc.

**Data collection and monitoring.** If a small claims patent court were launched, 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 purposes. For example, data could show whether a new small claims patent court was being used by small entities to better afford access to justice in the patent system. It could also show whether this new court was being used as a venue where big companies and PAEs were coming to get more leverage over more small businesses in frivolous cases. From the outset, any such court should record data along the lines of:

- Number of cases filed; number of cases transferred out to a different jurisdiction (for example, a district court or the Patent Trial and Appeal Board (PTAB)); and if cases can be transferred into the small claims patent court, the number of cases transferred in;
- Features of the parties, for example, the approximate size of the parties, how many small entity patent owners file complaints, how many other patent owners file complaints, how many small entity defendants are accused of infringement, how many small entities file against bad faith assertions;
- How often various causes of action are raised;
- How many cases reach a final decision versus how many settle;

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*Small Claims*, Maryland Courts, <https://mdcourts.gov/legalhelp/smallclaims> (last visited July 5, 2022) (appeals of small claims proceed in circuit court); *Small Claims*, Virginia Judicial System Court Self-Help, <https://selfhelp.vacourts.gov/node/11/small-claims> (last visited July 5, 2022) (parties may appeal when judgment is greater than \$50); *Small Claims*, North Carolina Judicial Branch, <https://www.nccourts.gov/help-topics/lawsuits-and-small-claims/small-claims> (last visited July 5, 2022) (either party can appeal).

<sup>54</sup> *Petersen v. Tulare Cty. Superior Ct.*, No. 1:15-cv-00209-TLN-SAB, 2015 WL 925701, at \*4 (E.D. Cal. Mar. 3, 2015).

<sup>55</sup> *See, e.g.*, S. Rep. No. 110-259, at 18-19 (referring to pre-America Invents Act procedures, noting “a challenger that lost at the USPTO under reexamination had no right to appeal ... either administratively or in court. Restrictions such as these made reexamination a much less favored avenue to challenge questionable patents than litigation.”)

<sup>56</sup> *See, e.g.*, Janice M. Mueller, *Patent Law* 39 (3d ed. 2009) (discussing how appellate review in patent cases helped to create relatively coherent law that parties can rely on with greater certainty).

<sup>57</sup> Paul D. Carrington, *Crowded Dockets and the Courts of Appeals: The Threat to the Function of Review and the National Law*, 82 Harv. L. Rev. 542 (1969) (appeal is an important feature, creating consistency and fairness in application of the law).

<sup>58</sup> *See, e.g., Carr v. Pena*, 432 F. Supp. 828 (D.V.I. 1977) (finding small claims scheme satisfied due process requirements, based in part due to availability of features on appeal).

- The number of decisions where damages are awarded, including the damages amount initially requested and the damages awarded in each case;
- The number of decisions in which the asserted claims are all invalid, or where some of the claims are invalid; and
- How often the same defendant is accused of sending abusive demand letters, how often the court finds that they did.

Finally, it is worth considering any small claims patent court as a pilot program, at first. After three to five years, policymakers could revisit the question of whether a small claims patent court is warranted, and whether the one created served its purpose.

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

As noted, there are several use cases for a small claims patent court.<sup>59</sup> The court could have jurisdiction over, e.g., patent validity and infringement liability, bad faith patent assertions, and inventorship and patent ownership. Importantly, if the court can adjudicate infringement liability, it must also have jurisdiction to consider the relevant defenses—including invalidity.

**Voluntariness.** The question of whether participation in a small claims patent court should be voluntary or mandatory is an important and complex one, implicating constitutional issues outside our expertise. Voluntariness may also hinge on which sorts of cases the court could hear; what remedies would be available; whether there is appeal or judicial review; and other issues, e.g., whether and how policymakers hope law school clinics would represent under-resourced parties.<sup>60</sup>

Also, in thinking about voluntariness, a note of caution from the experience with the Copyright Alternative in Small Claims Enforcement (CASE) Act. In that context, policymakers created a system where respondents have to appear before a board in the Copyright Office unless they opt-out in a certain amount of time. This opt-out approach has received well-founded criticism for failing to adequately provide voluntary participation.<sup>61</sup> Likewise, several stakeholders have pointed out how this structure will “create an incentive for sophisticated or well-resourced defendants to strategically opt out of the small claims process when they think the claimant won’t be able to pursue her claim in federal court.”<sup>62</sup> Which may defeat the primary, intended goal of a small claims

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<sup>59</sup> *Supra* response to question 1.

<sup>60</sup> Samantha Handler, *Opt-Out Option Threatens Fledgling Small Claims Copyright Board*, Bloomberg (Mar. 1, 2022), <https://news.bloomberglaw.com/ip-law/opt-out-option-threatens-fledgling-small-claims-copyright-board> (discussing concerns that the structure of the copyright small claims board, nominally targeted to voluntariness, frustrates the goal of having law school clinics provide assistance to parties).

<sup>61</sup> *See, e.g.*, Letter from ACLU to Members of Congress, Re: Vote “NO” on H.R. 2425, the Copyright Alternative in Small-Claims Enforcement (CASE) Act, 3 (Oct. 21, 2019), <https://www.aclu.org/letter/aclu-vote-recommendation-hr-2426-case-act>.

<sup>62</sup> Kerry Maeve Sheehan, *Copyright Law Has a Small Claims Problem. The CASE Act Won’t Solve It*, Author’s Alliance (June 4, 2019), <https://www.authorsalliance.org/2019/06/04/copyright-law-has-a-small-claims-problem-the-case-act-wont>.

proceeding. We urge ACUS to consult with experts, for example in constitutional law and arbitration, in sorting through these questions.

**Removal and transfer.** There would need to be options for parties to transfer cases into and out of any small claims patent court, to preserve appropriate uses of small claims. Indeed, one possible use case for such a court would be to allow startups targeted with weak infringement accusations to move those cases into a small claims proceeding.<sup>63</sup> This question of removal also likely overlaps with the voluntariness question.

**Preventing abuse.** ACUS should also consider how a small claims patent court could be structured to prevent or limit abuse. Here are a number of ideas:

- Require claimants asserting patent infringement either practice the asserted patents or have very willing and active licensee(s) who join as co-claimants. This could be informed by the International Trade Commission's thresholds.<sup>64</sup>
- Limit the number of cases a given patent owner can bring in a year and limit the number of cases an attorney can work on in a year. In implementing the CASE Act, the Copyright Office regulations set such limits, and something similar in the small claims patent context could blunt the impact of any PAEs who frequently assert low-quality patents against small businesses who do not infringe.<sup>65</sup>
- Require claimants asserting patent infringement to sue manufacturers, and exclude cases against customers, downstream innovators, or users of technology. This could stem abuse and enhance efficiency.<sup>66</sup>
- Craft discovery rules that can unearth problematic demand letter practices. A substantial portion of the abusive IP assertion in this country occurs through demand letters. Yet policymakers and the public (and everyone beyond the parties sending and receiving the letter) have little insight into demand letter practice.<sup>67</sup> A small claims patent court could

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[solve-it%Ef%BB%BF/](#); see also, e.g., ACLU *supra* note 61, at 3 (similar); Ben Depoorter, *If You Build It, They Will Come: The Promises and Pitfalls of a Copyright Small Claims Process*, 33 Berkeley Tech. L.J. 711 (2018) (similar).

<sup>63</sup> *Supra* response to question 1.

<sup>64</sup> 19 U.S.C. § 1337(a).

<sup>65</sup> Copyright Claims Board: Active Proceedings and Evidence, 87 FR 30060, at 30064-66 (May 17, 2022); Comments of Engine Advocacy in Response to Copyright Claims Board: Active Proceedings and Evidence, Docket No. 2021-8, at 7-8 (Feb. 7, 2021),

<https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/62029e7e6261e73c023823b4/1644338815028/Engine+CCB+Comment+Final+-+TO+FILE.pdf> (“We strongly support the Office’s attention to trying to prevent abuse of the CCB process, and appreciate the proposal to cap the number of CCB proceedings that a party may bring in any twelve-month period to ten cases. This rule, and the limit on private attorneys and law firms representing claimants in no more than forty CCB proceedings in any twelve-month period, are useful ideas to help curb abuse of the CCB.”)

<sup>66</sup> See, e.g., Jacob Todd, *Troll Repellent: The Customer Suit Exception Today*, Columbia Sci. & Tech. L. Rev. (Oct. 29, 2019), <https://journals.library.columbia.edu/index.php/stlr/blog/view/82> (discussing customer-suit exception); James Yoon, Abstract, *Expanding the Customer Suit Exception in Patent Law*,

<https://web.stanford.edu/dept/law/ipsc/PDF/Yoon,%20jim%20-%20Abstract.pdf> (last visited June 30, 2022).

<sup>67</sup> E.g., Leonid Kravets, *Patent Trolls Eat Startups First. Here’s What You Can Do About It*, TechCrunch (Jan. 19, 2013), <https://techcrunch.com/2013/01/19/patent-troll-effects-on-startups-and-small-businesses/> (discussing patent demand letter practice targeting startups and small businesses); Casey C. Sullivan, *3 Mistakes Lawyers Make When Responding to Demand Letters*, FindLaw (Apr. 13, 2015), <https://blogs.findlaw.com/strategist/2015/04/3-mistakes-lawyers-make-when-responding-to-demand-letters.html> (noting invocation of Fed. R. Evid. 408 in demand letters to shield them against

adopt rules that permit—or even require—disclosure of certain pre-suit correspondence to shed light on whether parties are leveraging the court in problematic demand letter campaigns.

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

This is not a comprehensive list, but a few reflections regarding pleading, discovery, and representation that might be appropriate for a small claims patent court.

**Pleading standards.** A small claims patent court should probably have a pleading standard similar to the *Iqbal/Twombly* standard. This could help orient parties who are unfamiliar with litigation to laying out the basics of their case at the very beginning and be a check against truly frivolous complaints. The government could make sample complaints available online, and also provide forms that claimants fill out for various cases: e.g., the basic scaffold of a claim chart for infringement cases, a simple outline for invalidity contentions for validity disputes, and for bad faith assertion cases instructions to file a (appropriately redacted, as warranted) copy of a demand letter and list out the elements for the cause of action. Leave to amend may be warranted, within reason, to permit first-time litigants time to correct mistakes in complaints and answers.

**Discovery.** The amount and type of discovery will likely vary depending on the claims and defenses raised in a given suit. Discovery is often a very expensive part of district court litigation, but it is also important to ensure parties have access to what they truly need to make their case or defend themselves. Moreover, discovery can feel complicated and opaque, for example, because document requests and interrogatories are often written in legalese and the tactics for responding are unfamiliar to non-lawyers.

The government could standardize some discovery in small claims proceedings through initial disclosures and stock language for discovery requests, tailored to specific causes of action and defenses.<sup>68</sup> Those should be crafted with an eye toward proportionality and readability.

Discovery expectations will differ for different causes of action. For example, in some infringement and validity disputes, there might not be a need for extensive deposition testimony. Disputes about inventorship, on the other hand, may present fundamentally different issues that require deposition testimony in all cases. A small claims patent court should be structured with the requisite flexibility.

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admissibility in court); Matthew Sag & Jake Haskell, *Defense Against the Dark Arts of Copyright Trolling*, 103 Iowa L. Rev. 751 (2018) (study estimating hundreds of thousands of U.S. households have received copyright demand letters from plaintiffs regarded as copyright trolls).

<sup>68</sup> Cf. *The Sedona Conference Commentary on Patent Practices: Discovery Chapter*, Sedona Conference 18 (Dec. 2015), <https://thesedonaconference.org/node/261> (“[m]andatory automatic disclosures and contentions regarding fundamental information allow the parties to identify and define key issues central to the dispute early in the action, and without the time and expense associated with broad general discovery”).

**Counsel.** One way many small claims courts reduce costs is to have parties appear pro se.<sup>69</sup> In the patent context, even without lawyers, there might be imbalances in expertise leaving startups and small businesses at a disadvantage. Especially because patent law is complex, any small claims patent court should be established with these realities in mind.

If both parties are required to appear in a small claims court without counsel, it can level the playing field. But the question of who represents a corporation can get complicated and distort that balance.<sup>70</sup> For example, if a startup patent owner wants to sue a more established company for infringement, the startup might not have in-house counsel and appear without an attorney, while the defendant employs full time, in-house (patent) counsel that could assist in the case.

Likewise, experience with the patent system can give parties an advantage in litigation, even if neither party is a formally trained patent attorney. So even if a small claims patent court barred or discouraged legal representation, repeat players could have a leg up. For example, if a startup is accused of infringement by a PAE, that plaintiff would have a lot of knowledge about patent assertion (because that is its business), while the startup might have no experience with patents—and that would impact how easily and effectively the parties could maneuver substantive law and court procedures.

Any small claims patent court should be structured in a way that recognizes these potential imbalances in expertise and access to counsel, and have structures for, e.g., providing information to pro se parties to help re-balance.

Relatedly, there are many benefits to pro bono legal services and the government should seek to expand the reach of patent pro bono programs, but it should also exercise caution before creating more or new legal structures on the assumption pro bono counsel can fill gaps that emerge for small entities and the public's interest. In other areas of IP law—for example, the Section 1201 triennial rulemaking at the Copyright Office—large, wealthy rightsholders are often well represented while it falls to pro bono lawyers and public interest groups to bring opposing views to the Office's attention.<sup>71</sup> That can tilt the law further in favor of those monied interests, because pro bono

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<sup>69</sup> See, e.g., Cara O'Neill, *Small Claims Court FAQ*, Nolo, <https://www.nolo.com/legal-encyclopedia/small-claims-court-faq.html> (last visited June 30, 2022) (noting that even when it is allowed in a small claims court, “hiring a lawyer is rarely cost efficient,” because “[m]ost lawyers charge too much compared to the relatively modest amounts of money involved”); *Small Claims Court*, New Jersey Courts, [https://www.njcourts.gov/selfhelp/small\\_claims.html](https://www.njcourts.gov/selfhelp/small_claims.html) (last visited June 30, 2022) (“Small claims are simpler than other case types. Most people are able to file and present their case without an attorney.”); *Requesting \$10,000 or Less*, District of Columbia Courts, <https://www.dccourts.gov/services/civil-matters/requesting-10k-or-less> (last visited June 30, 2022) (similar).

<sup>70</sup> For example, California and Michigan do not allow parties to have counsel in small claims proceedings, and have definitions about the employees that are allowed to represent corporations. E.g., *Basic Considerations and Questions*, State of California Department of Consumer Affairs, [https://www.dca.ca.gov/publications/small\\_claims/basic\\_info.shtml](https://www.dca.ca.gov/publications/small_claims/basic_info.shtml) (last visited June 30, 2022); *An Overview of Small Claims Court*, Michigan Legal Help, <https://michiganlegallhelp.org/self-help-tools/money-and-debt/overview-of-small-claims-court> (last visited June 30, 2022); *Small Claims*, Oakland County Michigan, <https://www.oakgov.com/courts/district-courts/52-2/civil/Pages/small-claims.aspx> (last visited June 30, 2022).

<sup>71</sup> See, e.g., Art Neill, *Fixing Section 1201: Legislative and Regulatory Reforms for the DMCA's Anti-Circumvention Provisions*, 19 Tul. J. Tech. & Intell. Prop. 27 (2016) (discussing the vast resource necessary to participate in 1201 rulemaking); Sarah Jeong, *Why DMCA Rulemaking Is an Unsustainable Garbage Train*, Vice (Nov. 3, 2015),

counsel can only do so much.<sup>72</sup> Likewise, in the copyright small claims context, a group of law professors recently explained:

To whatever extent the Office is contemplating proceedings that will require a large number of [] litigants to seek pro bono counsel from clinics, the Office should be mindful of the fact that clinics likely will be unable to fill the significant access-to-justice gaps that the opening of proceedings before the [copyright small claims board] may create.<sup>73</sup>

In building any small claims patent court, policymakers should not assume that pro bono legal services, public interest groups, or law school clinics will be able to step in to alleviate unfairness.<sup>74</sup> At the same time, a small claims patent court could come with incentives for attorneys to provide lower costs or pro bono services and policymakers could consider procedures where judges could appoint counsel in certain cases.

Finally, this inquiry about a small claims patent court is also a reminder about the value of existing pro bono programs and could be an invitation to expand them. For example, the patent office currently has a program to assist under-resourced inventors and small businesses apply for patents.<sup>75</sup> However, many do not know the program exists.<sup>76</sup> That pro bono program should be more accessible, to reach more innovators in more parts of the country, and be expanded to aid in, e.g., trademark applications.<sup>77</sup> Similarly, the PTAB Bar Association recently collaborated with the PTO on a pro bono program for *ex parte* appeals.<sup>78</sup> If that program is successful, it could (and should) serve as a template for a pro bono program to represent small entities in all types of PTAB proceedings.

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<https://www.vice.com/en/article/9a33wv/why-dmca-rulemaking-is-an-unsustainable-garbage-train> (“Many of the exemptions that succeeded were championed by public interest organizations like the Electronic Frontier Foundation and Public Knowledge, with supporting work done pro bono by law school clinics across the country. Exemptions that lost were requested by parties that didn’t have full-time employees on the issues—for example, the proposed exemptions for jailbreaking video game consoles or ebook readers.”).

<sup>72</sup> Cf. Abby Rives, *The So-Called “SMART” Copyright Act of 2022 and What It Means for Startups*, Engine (Mar. 25, 2022), <https://www.engine.is/news/category/the-so-called-smart-copyright-act-of-2022-and-what-it-means-for-startups> (discussing concerns with proposed rulemakings that could advantage those who can afford to show up with counsel and could disfavor startups and small businesses).

<sup>73</sup> Comments of Technology and Intellectual Property Clinical Law Professors, Docket No. 2021-9, at 5 (Feb. 3, 2022), <https://www.regulations.gov/comment/COLC-2021-0011-0012>.

<sup>74</sup> Cf. Samantha Handler, *Opt-Out Option Threatens Fledgling Small Claims Copyright Board*, Bloomberg (Mar. 1, 2022), <https://news.bloomberglaw.com/ip-law/opt-out-option-threatens-fledgling-small-claims-copyright-board>.

<sup>75</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 visited June 30, 2022).

<sup>76</sup> E.g., *Improving Access and Inclusivity in the Patent System: Unleashing America’s Economic Engine*, Hearing Before the Subcomm. on Intellectual Property of the S. Comm. on the Judiciary, 117th Congress at 49:00 (2021) (testimony of Georgia Grace Edwards, Co-Founder, SheFly), <https://www.judiciary.senate.gov/meetings/improving-access-and-inclusivity-in-the-patent-system-unleashing-americas-economic-engine>.

<sup>77</sup> Engine has written about similar issues and responded to related questions in the copyright small claims context. These comments rely on and draw from previous work, e.g., *Startups & the U.S. Patent System*, *supra* note 2, at 11.

<sup>78</sup> Press Release: USPTO launches PTAB Pro Bono Program (Mar. 24, 2022), <https://www.uspto.gov/about-us/news-updates/uspto-launches-ptab-pro-bono-program>.

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

Calibrating remedies for a small claims patent court will be challenging. Policymakers need to strike a careful balance. If the available remedies are set too low, then the court might not be as useful—although even if no damages were available (which is an option), there could still be value in a small claims process for resolving patent disputes. If remedies are set too high in a “small claims” process, that could create constitutional or procedural problems and open doors to abuse.

**Damages.** There will need to be different types of remedies for different types of claims. For example, in an infringement case, recovery of actual damages or a reasonable royalty may be appropriate.<sup>79</sup> In a case of bad faith patent assertion, actual damages, attorneys fees, or exemplary damages may be appropriate.<sup>80</sup> For inventorship and ownership, it may be that there are no damages, but an order to correct ownership information.

There would also need to be some balance between damages available for infringement and for the sending of bad faith notices. The purpose of state laws prohibiting bad faith demand letters is to create risk for those abusing the system.<sup>81</sup> If patent owners can seek very high damages for infringement and wrongfully accused infringers can only make a minimal recovery, the law might not have its desired deterrent effect. For example, in the copyright context, 17 U.S.C. § 512(f) imposes liability for sending improper takedown notices (e.g., when a person knowingly misrepresents that an online post infringes their copyright). But copyright holders can seek statutory damages of up to \$150,000 for a single infringement while wrongfully accused infringers can only recover actual damages and attorneys fees (which has been about \$25,000 in a few of the cases filed). Those amounts are wholly out of balance, and § 512(f) is rarely used (despite the high rates of improper notices).<sup>82</sup> For a small claims patent court, there should be some alignment between the amount of money available upon a finding of infringement and of bad faith notice sending.

ACUS and policymakers should also study current patent demand letter activity when considering the damages cap for a small claims court. The PAE business model works because many targets are willing to settle for less than the cost of litigation—not because the allegations are valid and well-founded, but because a nuisance value settlement is cheaper.<sup>83</sup> If the damages cap in a small claims

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<sup>79</sup> *E.g.*, 35 U.S.C. § 284.

<sup>80</sup> *See, e.g.*, Michigan’s Bad-Faith Patent Infringement Claims Act, <http://www.legislature.mi.gov/documents/2015-2016/publicact/pdf/2016-PA-0550.pdf> (last visited June 30, 2022); Vermont’s Bad Faith Assertions of Patent Infringement, <http://www.leg.state.vt.us/docs/2014/Acts/ACT044.pdf> (last visited June 30, 2022); Florida’s Patent Troll Prevention Act, [http://www.leg.state.fl.us/Statutes/index.cfm?App\\_mode=Display\\_Statute&Search\\_String=&URL=0500-0599/0501/Sections/0501.995.html](http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=0500-0599/0501/Sections/0501.995.html) (last visited June 30, 2022); Maryland’s Bad Faith Assertions of Patent Infringement, <https://mgaleg.maryland.gov/2014RS/bills/sb/sb0585T.pdf> (last visited June 30, 2022).

<sup>81</sup> *E.g.*, *What We Heard from Startups*, *supra* note 25.

<sup>82</sup> *See, e.g.*, *Is the DMCA’s Notice-and-Takedown System Working in the 21st Century?: Hearing Before the Subcomm. on Intellectual Property of the S. Comm. on the Judiciary*, 116th Congress 15-16 (2020) (testimony of Abigail A. Rives), <https://www.judiciary.senate.gov/imo/media/doc/Rives%20Testimony.pdf>.

<sup>83</sup> *E.g.*, *Patent Troll: Everything You Need to Know*, UpCounsel, <https://www.upcounsel.com/patent-troll> (last visited June 30, 2022).

proceeding is too high or the costs of litigating climb, a small claims court could become another venue for the same practices. While it is difficult to get a comprehensive picture, we have a sense of nuisance settlements some well-known PAEs seek.<sup>84</sup> If ACUS better understood current practices, it might be able to hone in on a damages threshold for small claims proceedings that would be less subject to abuse.

**Injunctions.** Injunctive relief should not be available in a small claims patent court. Creating a new venue where accused infringers faced the possibility of an injunction would breathe new life into abusive assertion and give patent owners (including PAEs) wielding low-quality patents the power to shut down—or threaten to shut down—startups.<sup>85</sup>

The ready availability of injunctions creates significant leverage to settle even frivolous, abusive patent cases.<sup>86</sup> *eBay*'s equitable framework leveled the playing field in litigation and created more space for wrongfully accused infringers to defend themselves without the risk of having a product pulled from the market.<sup>87</sup> And, in many cases, an asserted patent only covers a portion of the accused product or service.<sup>88</sup> The availability of injunctive relief, however, would grant the patent holder the ability to threaten to block the entire product. If injunctions were available in a small claims patent court, it would strip many startups of their freedom to fight back against meritless claims.

This is particularly important for startups. As Engine has noted:<sup>89</sup>

Startups are more likely to offer a much smaller product line than larger companies, and young startups may have only a single product. That means an injunction is a

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<sup>84</sup> *E.g.*, Press Release: AG Ferguson Files Lawsuit Against “Patent Troll Targeting Small Businesses (May 14, 2021), <https://www.atg.wa.gov/news/news-releases/ag-ferguson-files-lawsuit-against-patent-troll-targeting-small-businesses> (reporting demand letters seeking \$65,000); *Blackbird v. Health in Motion, Attorney Fees, and What it Means for Startups*, Engine (Jan. 9, 2020), <https://www.engine.is/news/ip-recap-010920> (PAE's initial settlement request of \$80,000); Joe Mullin, *Podcast Episode: Saving Podcasts from a Patent Troll*, Elec. Frontier Found. (Feb. 1, 2022), <https://www.eff.org/deeplinks/2022/01/podcast-episode-saving-podcasts-patent-troll> (reporting on \$25,000 demand letter).

<sup>85</sup> *See, e.g.*, Brian T. Yeh, Cong. Research Serv., R42668, *An Overview of the “Patent Trolls” Debate* 12-14, 18 (2013) (describing leverage PAEs can exert when injunctive relief is available).

<sup>86</sup> Engine has written about similar issues and responded to related questions in the past. These comments rely on and draw from previous work, *e.g.*, Engine Letter to IP Subcommittee, *supra* note 22, at 3.

<sup>87</sup> *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006); *see also, e.g.*, *eBay Decision Levels Patent Litigation Playing Field*, Buchanan Ingersoll & Rooney (Apr. 5, 2011), <https://www.bipc.com/ebay-decision-levels-patent-litigation-playing-field/>; Josh Landau, *Much Ado About Injunctions*, Patent Progress (Aug. 1, 2019), <https://www.patentprogress.org/2019/08/01/much-ado-about-injunctions/> (finding injunction grant rates dropped for PAEs after *eBay*, while the decision has had little to no impact on grant rates for operating companies).

<sup>88</sup> *See, e.g.*, Comments of Engine Advocacy on Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments 4-5, 8 (Feb. 4, 2022), <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/62029f90241be57ad8149c66/1644339088824/Engine+DOJ+SEP+Comment+-+AS+FILED.pdf>.

<sup>89</sup> Engine has written about similar issues and responded to related questions in the past. These comments rely on and draw from previous work, *e.g.*, *id.* at 10 (citing Tim Molino, Opinion, *If Your Startup Really Is Disruptive, Expect to be Sued By a Patent Troll*, Entrepreneur (Aug. 4, 2017), <https://www.entrepreneur.com/article/296625> (“The threat of an injunction and the high costs of litigation often forced defendants to settle for large amounts of money, even if they believed the patent was invalid or worth very little.”)).

threat that could put the company out of business entirely. As such, the threat of injunctive relief provides an unscrupulous [patent] holder with massive leverage in licensing negotiations and infringement suits . . . . To avoid the risk of litigation—especially litigation that could result in an injunction—startups may accept coercive licensing offers or settle frivolous claims.

**Lessons learned from other alternative venues.** ACUS will probably (and should) look at other efforts to resolve simpler patent claims in an efficient and cost-effective manner. For example, Amazon has a patent evaluation program to resolve claims of infringement for items listed on its site.<sup>90</sup> These experiments might be instructive when deciding whether (and how) to create any federal small claims patent court. But ACUS should also analyze these efforts in context, because they probably cannot be directly translated into a government program. For example, presumably the main (only) remedy Amazon offers is removal of goods from its marketplace. That may be the most appropriate remedy in the circumstance, but imperfect—especially given the substantial and well-documented problem of improper copyright and trademark takedown requests.<sup>91</sup>

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

We have no comment at this time.

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

See above, *supra* response to question 4.

### **C. Other Considerations**

#### ***1. The copyright small claims process should not be a model for a patent small claims inquiry***

Congress recently passed the CASE Act, and the Copyright Office is in the early days of launching the Copyright Claims Board. It has been subject to substantial criticism from a wide variety of stakeholders—that the proceedings will be unfair to small creators and Internet users, that the CASE Act’s structure will enable abuse, that it will curtail free speech without justification, that it lacks critical constitutional safeguards, that it will risk bankrupting the average U.S. household over fair uses or trivial acts of alleged infringement, and that it received inadequate process and

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<sup>90</sup> Adam Philipp, *Patent Poetry: Understanding Amazon’s Utility Patent Neutral Evaluation Proceedings*, JD Supra (Apr. 4, 2022), <https://www.jdsupra.com/legalnews/patent-poetry-understanding-amazon-s-3146671/>.

<sup>91</sup> *Is the DMC.A’s Notice-and-Takedown System Working*, *supra* note 82, at 10-14 (citing examples); Comments of Engine Advocacy in Response to Secondary Trademark Infringement Liability in the E-Commerce Setting, Docket No. PTO-T-2020-0035, at 5-7 (Dec. 28, 2020), <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/5ff37a915abd827caddf968f/1609792145348/20.12.28+Comments+to+Docket+PTO+T+2020+0035.pdf>.

policymakers were not receptive to legitimate concerns.<sup>92</sup> ACUS and policymakers should avoid similar missteps in the patent context.

**2. *There are a number of other policies the government should consider, which could either obviate the need for small claims proceedings or make a small claims court easier to implement***

Some of the high costs and burdens of patent litigation can be attributed to features (or flaws) of our patent system—where fixes could reduce the burden of litigation costs on small entities. For example, many U.S. patents are invalid, innovators struggle to understand the boundaries of issued patents due to a lack of clarity in claim scope, and the low cost and risk of initial patent assertion enables certain abuses. Increasing confidence in our patent system, bringing earlier certainty to claim scope, and creating some consequences for bad actors could all help bring down the staggering costs of litigation, and in turn, shape demand for small claims patent proceedings.

Studies show that approximately 40 percent of patents that are subject to a final court judgment on validity are found invalid, and estimates indicate 28 percent of patents would be found invalid if they

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<sup>92</sup> E.g., Comments of Engine Advocacy in Response to Copyright Alternative in Small-Claims Enforcement (“CASE”) Act Regulations, Docket No. COLC-2021-0001 (Apr. 26, 2021), <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/60885c92bebd5d771de0b680/1619549331226/2021.04.26+Comments+of+Engine+on+COLC-2021-0002.pdf>; Abby Rives, *CASE Act Does Not Offer Viable Solution to Online Infringement*, Engine (July 11, 2019), <https://www.engine.is/news/case-act-does-not-offer-viable-solution-to-online-infringement>; Abby Rives, *Opinion, Startups Need Certainty, Not Unaccountability and Confusion in Copyright Law*, Inside Sources (Sept. 10, 2019), <https://www.insidesources.com/startups-need-certainty-not-unaccountability-and-confusion-in-copyright-law/>; Letter to Speaker Pelosi, Sen. Feinstein, & Sen. Harris from Automattic, GitHub, Patreon, Pinterest, Reddit (Oct. 3, 2019), <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/5d9664cdd8a0454502015eac/1570137293411/2019.10.03+Letter+re+CASE+Act-2.pdf>; Letter to Sen. Wyden from Automattic, Etsy, GitHub, Patreon, Pinterest, Reddit (May 15, 2020), <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/5ebef732cb8c5651cdc49832/1589573426981/2020.05.15+Letter+to+Senator+Wyden+re+CASE+Act.pdf>; Anthony Marcum, *Potential Pitfalls of the CASE Act*, R Street Institute (July 16, 2019), <https://www.rstreet.org/2019/07/16/potential-pitfalls-of-the-case-act/>; Daniel Takash, *Opinion, CASE Act Would Create a Drive-Through Window for Copyright Trolling*, Niskanen Center (Oct. 8, 2019), <https://www.niskanencenter.org/op-ed-case-act-would-create-a-drive-through-window-for-copyright-trolling/>; Letter to Sen. Lindsey Graham & Sen. Dianne Feinstein from Association of College Research Libraries et al. (July 17, 2019), <http://www.ala.org/advocacy/sites/ala.org.advocacy/files/content/Sign-ons/ReCreate-Coalition-Letter-to-Oppose-CASE-Act.pdf>; Kerry Maeve Sheehan, *Copyright Law Has a Small Claims Problem. The CASE Act Won't Solve It*, Author's Alliance (June 4, 2019), <https://www.authorsalliance.org/2019/06/04/copyright-law-has-a-small-claims-problem-the-case-act-wont-solve-it%E2%8C%9C%BB%BF/>; Letter to Members of House of Representatives from ACLU (Oct. 21, 2019), <https://www.aclu.org/letter/aclu-vote-recommendation-hr-2426-case-act>; Wayne T. Brough, *Opinion, If You Build It, They Will Troll*, Inside Sources (Sept. 4, 2019), <https://www.insidesources.com/if-you-build-it-they-will-troll/>; Press Release, Re:Create Coalition, *Re:Create Statement on the CASE Act* (Oct. 22, 2019), [https://www.recreatecoalition.org/press\\_release/recreate-statement-on-the-case-act/](https://www.recreatecoalition.org/press_release/recreate-statement-on-the-case-act/); Letter to Sen. Lindsey Graham & Sen. Dianne Feinstein from Consumer Tech. Assoc. (July 10, 2019), <https://www.recreatecoalition.org/wp-content/uploads/2019/09/CTA-Letter-CASE-Act.pdf>; Stan Adams, *The CASE Act: The Road to Copyright Trolling is Paved with Good Intentions*, Center for Democracy & Tech. (July 17, 2019), <https://cdt.org/insights/the-case-act-the-road-to-copyright-trolling-is-paved-with-good-intentions/>; Katharine Trendacosta, *Congress Continues to Ignore the Dangerous Flaws of the CASE Act*, Elec. Frontier Found. (Sept. 11, 2019), <https://www.eff.org/deeplinks/2019/09/congress-continues-ignore-dangerous-flaws-case-act>; Press Release, Public Knowledge, *Public Knowledge Urges Congress to Re-examine CASE Act* (July 18, 2019), <https://www.publicknowledge.org/press-release/public-knowledge-urges-congress-to-re-examine-case-act/>.

were litigated.<sup>93</sup> This means that practically every patent suit has to confront questions of patent validity. If we had greater confidence patents are valid, litigation would be cheaper.

To improve patent quality, and contribute to greater confidence and lower litigation burden, policymakers could:<sup>94</sup>

- Create regional patent offices to do an even better job of meeting innovators where they are at and ensuring they have ready access to the resources, tools, and advice they need to prepare and file high-quality applications.<sup>95</sup>
- Launch pilot programs to provide more information about applications and related prior art early in examination.<sup>96</sup> Many applicants, especially those that might not have experience with the patent system and cannot afford a lot of patent attorneys, may not know a lot about the prior art or standards for patentability. Which means they might waste time and money on ultimately unsuccessful applications or low-quality patents, whereas better information at the start of the process could help them better direct those resources and approach IP protection more strategically and with a greater likelihood of obtaining high-quality assets.
- Restore quality oriented infrastructure and leadership positions within the U.S. Patent and Trademark Office (PTO).<sup>97</sup>
- Ensure the PTO and examiners have the resources and technology needed to fully evaluate patent quality (including relevant prior art and the time to analyze it).<sup>98</sup> Current estimates indicate that patent examiners only have approximately 20 hours total to spend with each application, and just doubling the amount of time examiners have to evaluate applications could save nearly \$300 million annually.<sup>99</sup>

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<sup>93</sup> 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/2018/05/01/a-little-more-than-forty-percent/> (citing John R. Allison et al., *Our Divided Patent System*, 82 Univ. Chicago L.R. 1073 (2015), <https://ssrn.com/abstract=2510004>); Shawn P. Miller, *Where's the Innovation: An Analysis of the Quantity and Qualities of Anticipated and Obvious Patents*, 18 Va. J. Law & Tech. 1 (2013).

<sup>94</sup> Engine has written about similar issues and responded to related questions in the past. These comments rely on and draw from previous work, e.g., Letter from Engine to Members of the Subcommittee on Intellectual Property of the Senate Committee on the Judiciary (June 22, 2021) [https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/60d0b8fa5f735079d8dfaf40/1624291578608/2021.06.22\\_Engine+Letter+to+SJC+Subcomm+on+Patent+Quality.pdf](https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/60d0b8fa5f735079d8dfaf40/1624291578608/2021.06.22_Engine+Letter+to+SJC+Subcomm+on+Patent+Quality.pdf); *Startups & the U.S. Patent System*, *supra* note 2, at 11-12.

<sup>95</sup> See, e.g., *Startups & the U.S. Patent System*, *supra* note 2, at 11-12.

<sup>96</sup> E.g., Colleen V. Chien, *Rigorous Policy Pilots the USPTO Could Try*, 104 Iowa L. Rev. Online 1 (2019), <https://ssrn.com/abstract=3499202> (suggesting a pilot to give applicants all relevant prior art “up front”); *Improving Access and Inclusivity in the Patent System: Unleashing America's Economic Engine*, Hearing Before the Subcomm. on Intellectual Property of the S. Comm. on the Judiciary, 117th Congress at 1:01:38 (2021) (testimony of Professor Lateef Mtima, Professor of Law, Howard University School of Law), <https://www.judiciary.senate.gov/meetings/improving-access-and-inclusivity-in-the-patent-system-unleashing-americas-economic-engine> (suggesting pre-prosecution patentability assessment for certain applicants).

<sup>97</sup> See, e.g., Abby Rives, *A Declining Focus on Patent Quality at the USPTO and What it Means for Startups*, Engine (Oct. 21, 2020), <https://www.engine.is/news/ip-recap-102120>.

<sup>98</sup> See, e.g., Josh Landau, *Granted in 19 Hours*, Patent Progress (Mar. 6, 2018), <https://www.patentprogress.org/2018/03/06/granted-19-hours/>.

<sup>99</sup> Michael D. Frakes & Melissa F. Wasserman, *Irrational Ignorance at the Patent Office*, 72 Vand. L. Rev. 975, 1021 (2019).

- Identify and correct incentives for the issuance of low-quality patents, including evaluating possible improvements to the PTO’s cost structure.<sup>100</sup> Right now, the PTO charges applicants fees far below what is needed to cover the costs of examination, instead collecting more in issuance and maintenance fees. This structure creates the risk that the Office will be unable to cover its expenses, and it also creates troubling incentives that can lead to the issuance of low-quality patents.
- Encourage earlier clarity during patent examination, perhaps through claim construction analysis during prosecution or having examiners make affirmative statements about claim scope when a patent issues. Or courts could penalize patent owners when they try to alter claim scope.<sup>101</sup>

Relatedly, there is often a lot of uncertainty about what claim terms mean and what the scope of coverage is for a given claim. Businesses need certainty, and would benefit from more definitive information about what patents in their field cover, so they know what space is open for innovation, what patents they might want to license, and what patents they want to design around. This uncertainty also means that the “shape” of a patent can be constantly changing—in one suit with one defendant, a patent owner might assert a term means one thing, but when it comes to another defendant and a different accused product, the same term might mean something (slightly) different.<sup>102</sup> Which, in turn, means that each patent suit has to go through claim construction steps that take time and money. And since the claim construction arguments and results in each case differ, this also means that validity of the patent has to be re-assessed based on new constructions. Finally, this uncertainty also creates opportunities for more, sometimes frivolous, litigation because patent holders can delay pinning down what a term means in an effort to drive up litigation costs.<sup>103</sup> Each of these inefficiencies could be corrected with earlier clarity around what claim terms mean.

Similarly, the uncertainty around patent scope and validity creates challenges for contingency funding. If attorneys willing to take patent cases on contingency had more certainty about what the patents mean and whether they are valid, it would be easier for plaintiffs to find counsel comfortable to work those cases on a contingency basis.

On a different note, it is relatively cheap and low-risk to send demand letters and file patent complaints—even meritless letters and frivolous cases. If there were less abuse of the patent system, it would reduce burdens on startups and small businesses wrongfully accused of infringement, alleviating the need for them to bring defenses in a small claims proceeding. Also, especially in certain parts of the country, PAEs account for a substantial amount of patent litigation in the U.S.<sup>104</sup> If they faced greater risk when they brought frivolous cases, it could free up legal and judicial resources to focus on efficient adjudication of meritorious disputes.

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<sup>100</sup> E.g., *Promoting the Useful Arts: How Can Congress Prevent the Issuance of Poor Quality Patents?: Hearing Before the Subcomm. on Intellectual Property of the S. Comm. on the Judiciary*, 116th Congress (2019) (testimony of Melissa F. Wasserman), <https://www.judiciary.senate.gov/imo/media/doc/Wasserman%20Testimony.pdf>.

<sup>101</sup> E.g., R. Polk Wagner, *Understanding Patent-Quality Mechanisms*, 157 U. Penn. L. Rev. 2135, 2165-68 (2009).

<sup>102</sup> E.g., Greg Reilly, *Patent “Trolls” and Claim Construction*, 91 Notre Dame L. Rev. 1045 (2016).

<sup>103</sup> See, e.g., *Startups & the U.S. Patent System*, *supra* note 2, at 8.

<sup>104</sup> See, e.g., *id.* at 21.

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Thank you for the opportunity to submit these perspectives, and we look forward to continued engagement with ACUS on these and other issues critical to startup innovation and success.