

## Is the United States Finally Ready for a Patent Small Claims Court?

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In the past few years, legislative proposals for United States patent reform have centered on changing the Patent Act.<sup>1</sup> Some commentators have questioned patent reform, asking whether such proposals favor large interests at the expense of individuals and small businesses.<sup>2</sup> Overlooked since 1992 in discussions about patent reform is an obscure proposal that ought to help individuals, small businesses, large businesses, consumers, and the court system itself—a Patent Small Claims Court.

In the early 1990s, several important policy groups, including the American Bar Association (“ABA”) and the American Intellectual Property Law Association (“AIPLA”), voiced support for such a court, but, ultimately, no one took up the cause.<sup>3</sup> At the time, these policy groups expressed concerns that transaction costs for patent enforcement under the current U.S. system are prohibitively high for a significant subset of inventors—namely, those who stand to recover only small sums from any given infringer.<sup>4</sup>

In this article, I re-propose (with improvements) a Patent Small Claims Court for the United States. Time has shown that such a court will credibly address a major failure in the current patent system—its

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<sup>1</sup> See, e.g., Patent Reform Act of 2007, H.R. 1908, 110th Cong. (2007); Patent Reform Act of 2008, S. 1145, 110th Cong. (2008); Patent Reform Act of 2009, S. 515, 111th Cong. (2009).

<sup>2</sup> See, e.g., Joseph N. Hosteny, *Another Horse in the Race*, 15 INTELL. PROP. TODAY 22, 22 (2008) (sarcastically renaming the lobbying group “Coalition for Patent Fairness” as the “Coalition for Fairness to Foxes in the Henhouse”).

<sup>3</sup> See discussion *infra* Part II.

<sup>4</sup> *Id.*

inability to guarantee economical patent enforcement to all deserving patentees. Statistics from AIPLA confirm that transaction costs in the current system can be prohibitive.<sup>5</sup> Meanwhile, other countries have shown that such a court can work. For example, England and Wales established a successful patent small claims court in 1990.<sup>6</sup> In the United States, a Patent Small Claims Court would be advantageous to individuals and small businesses, to large interests with small disputes, and to large interests seeking systemic change to ensure the current court system is used only for cases that ought to be there.

After introducing the general concept and rationale for a Patent Small Claims Court in the next section, I then discuss notable interest shown by the ABA and other bodies to similar proposals in the early 1990s. Next, I discuss the success of the Patents County Court in England and Wales. Finally, I propose a workable mechanism for implementing a Patent Small Claims Court system in the United States. I suggest local rules to add a patent small claims division in one or more district courts on an experimental basis. If that experiment succeeds, congressional action might implement it nationwide.

#### I. A SMALL CLAIMS COURT TO BRING EFFECTIVE PATENT REFORM

For a significant subset of aggrieved innovators, the patent system has failed. While our federal court system has exclusive jurisdiction over matters relating to patent enforcement, it lacks particular rules or practices to make small-scale patent enforcement rational and effective. According to statistics reported in AIPLA's 2007 Report of the Economic Survey, patent cases in the least-expensive quartile nevertheless cost an average of \$380,000 in fees and expenses to get through trial and appeal, where less than one million dollars in damages is at issue.<sup>7</sup> Those same statistics show, mind-bogglingly, that patent cases at the most expensive quartile cost an average of one million dollars in fees and expenses, even where the potential recovery is less than one million dollars.<sup>8</sup>

The deterrent effect of these high costs to enforcing small-scale patent rights is self-evident. To seek a litigated resolution in the

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<sup>5</sup> See *infra* notes 7-8 and accompanying text.

<sup>6</sup> See discussion *infra* Part III.

<sup>7</sup> LAW PRACTICE MGMT. COMM., AM. INTELLECTUAL PROP. LAW ASS'N, REPORT OF THE ECONOMIC SURVEY I-90 (2007) [hereinafter AIPLA REPORT OF ECONOMIC SURVEY].

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

current environment of fees and expenses, where less than one million dollars is at stake, a rights holder must risk taking an action that might very well cost more than the potential recovery. The situation seems even bleaker when realizing that these expenses only buy access to the courts. Once there, even the best case has (as the saying goes) an eighty percent chance of success.<sup>9</sup> While there are potential findings of willfulness, which might enhance damages by three times under section 284 of the Patent Act,<sup>10</sup> or of an exceptional case, where the court may refund attorney fees under section 285 of the Patent Act,<sup>11</sup> such outlier scenarios do not usually factor into initial decisions over whether to begin an enforcement action.<sup>12</sup>

A Patent Small Claims Court would fill this gap in our system. The small claims court should, first, be skilled enough to resolve cases correctly, and, second, be cost-effective. By implication, it should be fast and efficient. If there were a good, cheap, and fast way to bring a small claim to resolution, the patentee's dilemma would be vastly reduced.

A small claims court for patent disputes would help individuals, small businesses, large businesses, and the court system itself. In contrast to the present patent litigation environment, where individuals or small businesses often cannot economically enforce their intellectual property rights even when they are willfully infringed upon, such a court system would provide a new opportunity. Unblocking access to the courts for a deserving subset of patentees will have the salutary effect of encouraging innovation. Helping innovation, in turn, helps consumers.<sup>13</sup>

The very option for a patentee to file in small claims court would motivate good faith pre-suit negotiations. That is, if it were no longer effective for an accused infringer to ignore, or delay resolution of, a

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<sup>9</sup> Cf. GARY SLAPPER & DAVID KELLY, *THE ENGLISH LEGAL SYSTEM* 587 (7th ed. 2004) (describing how, in one context, the English legal system designates cases that have a very good chance of success as those that have an 80 percent or better chance of success).

<sup>10</sup> 35 U.S.C. § 284 (2000).

<sup>11</sup> 35 U.S.C. § 285 (2000).

<sup>12</sup> The possibility of contingency fee representation would not change the analysis: few contingency fee lawyers would sign onto a case knowing their best sweep-the-boards outcome will yield them something less than their hourly rate—even substantially less.

<sup>13</sup> Cf. U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, *ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY* 2 (1995) ("In the absence of intellectual property rights, imitators could more rapidly exploit the efforts of innovators and investors without compensation. Rapid imitation would reduce the commercial value of innovation and erode incentives to invest, ultimately to the detriment of consumers.").

small-scale notice of infringement, the accused infringer would be required to credit the merits of such a claim. That is not to say any weaknesses of a claim would or should go unheeded. Instead, as often practiced during negotiations of large-scale patent infringement settlements, those weaknesses would be factored into a rational analysis leading to a discounted royalty amount.<sup>14</sup> If, however, the weaknesses in a patentee's claim were indeed fatal, or if business exigencies require a vigorous defense, an accused infringer would retain the option to decline to change a design or decline to pay a royalty. The creation of an inexpensive small claims court system would thus be a positive development for every category of accused infringers of any size. It either motivates *ex ante* behavior that leads more predictably to lawsuit avoidance, or it diminishes the transaction costs of whatever lawsuits cannot be avoided.

Perhaps counterintuitively, the existence of such an enforcement forum would also reduce overall federal court burdens. First, the presence of a small claims court would encourage negotiated resolutions for good faith small-scale disputes. Reduction in enforcement transaction costs would make it more likely that parties to a small-scale patent dispute will try to resolve the dispute. According to some, lowering transaction costs spawns more litigation.<sup>15</sup> But, “[p]rocedures that affect the risks of trial may also have the opposite effect” compared to what was intended.<sup>16</sup> In particular, increasing the amount of unbiased predictive information available to the parties will tend to reduce the number of suits.<sup>17</sup> A small claims court would do just that—provide a wealth of data on how similarly situated cases resolve—although one might expect a transitional period of increased litigation while parties test the new forum.<sup>18</sup> Second, having a small claims court for patent disputes

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<sup>14</sup> John W. Schlicher, *Patent Licensing, What to do After MedImmune v. Genentech*, 89 J. PAT. & TRADEMARK OFF. SOC'Y 364, 369 (2007).

<sup>15</sup> See Samuel R. Gross & Kent D. Syverud, *Don't Try: Civil Jury Verdicts in a System Geared to Settlement*, 44 UCLA L. REV. 1, 62 (1996) (“[A] procedure that lowers the cost of litigation—for example, a small-claims court—will increase the volume of litigation and the number of trials (albeit cheaper, quicker trials).”).

<sup>16</sup> *Id.* at 61.

<sup>17</sup> *Id.* at 60–61.

<sup>18</sup> See *id.* at 51 (“If trials became vanishingly rare, lawyers and litigants would make increasingly crude predictions of trial verdicts. As a result, there would be more cases in which their ill-informed guesses would be too far apart to compromise; which would lead to more trials, more verdicts, and better information on trial outcomes; which, in turn, would produce more settlements, and reduce or stabilize the trial rate.”).

would operate as a release valve, removing significant burdens from the current court system. According to statistics in the 2007 AIPLA survey, twenty-eight percent of reported patent cases (341 out of 1206) involved less than one million dollars at issue.<sup>19</sup> Setting the “small” threshold at this level has the potential to eliminate about one-third of all patent cases from the regular federal court docket.

Large entities would also benefit. Even large entities experience small-scale infringement problems, and these, too, could be resolved in a small claims forum. In addition, large entities are most affected by a certain type of plaintiff who uses the costs of litigation (rather than the merits of the claim) as a false proxy of settlement value.<sup>20</sup> For instance, in the current system, a legitimate claim for \$100,000 might involve a conservative defense budget of \$300,000, distorting the rational settlement value well above the value of the claimed damages. Such cases, though largely irrational for a plaintiff to file strictly on the merits, do exist; as noted, 341 out of 1206 patent cases in the latest survey period involve less than one million dollars at issue.<sup>21</sup> If, on the other hand, the same defendant could defend that claim in a small claims setting, the rational settlement value would fall much closer to (and indeed below) the claimed damages. Thus, large entities would also benefit from a reduction in transaction cost distortions caused by the current system of expensive patent litigation.

## II. PREVIOUS CONSIDERATION OF PATENT SMALL CLAIMS COURTS

In the late 1980s and early 1990s, several well-respected policy groups, including the ABA, voiced favor for a patent small claims procedure. Despite this, such proposals stalled.

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<sup>19</sup> AIPLA REPORT OF ECONOMIC SURVEY, *supra* note 7, at I-90–91.

<sup>20</sup> See Bruce Hay & Kathryn Spier, *Litigation and Settlement 23* (Harvard Law Sch., John M. Olin Center for Law, Econ. & Bus. Discussion Paper No. 218, 1997), *available at* [http://www.law.harvard.edu/programs/olin\\_center/papers/pdf/218.pdf](http://www.law.harvard.edu/programs/olin_center/papers/pdf/218.pdf) (“Another common motivation [of policymakers] is to prevent litigants from compelling their adversaries to accept settlements that do not reflect the underlying merit of the claim—as when, for example, a plaintiff with a frivolous claim extracts a substantial sum from the defendant by threatening the defendant with costly litigation.”).

<sup>21</sup> AIPLA REPORT OF ECONOMIC SURVEY, *supra* note 7, at I-90 to 91. Of course, such cases are not necessarily irrational as long as the plaintiff factors in an opponent’s propensity for early settlement.

A. 1990 ABA RESOLUTION 401.4

The ABA sponsored the most important prior work on patent small claims. In 1990 the ABA Section of Patent, Trademark, and Copyright Law (“ABA Section”) adopted Resolution 401.4 in support of a small claims patent procedure. The text of the Resolution stated:

RESOLVED, that the Section of Patent, Trademark and Copyright Law favors, in principal, legislation for the establishment of an expedited, low-cost small claims procedure within the federal judiciary for the resolution of civil patent and copyright disputes subject to exclusive federal jurisdiction, having an amount in controversy less than an appropriate stated sum.<sup>22</sup>

The ABA Section envisioned some of the details of its small claims procedure. The full text of those details follows here. It is notable that the ABA Section acknowledged prior statements in support of a small claims procedure, including that of AIPLA, which suggested an even greater threshold of “small” than the ABA (one million dollars instead of \$100,000, in 1990 dollars):

The proposed procedure would mandate that all disputes, involving exclusive federal jurisdiction subject matter having an amount in controversy less than \$100,000 be resolved through this procedure. The procedure would be limited to disputes based upon exclusive federal jurisdiction. No pendant jurisdiction claim may be maintained. No counterclaim other than those which could have separately been brought using the federal small claims procedure may be maintained. All other compulsory counterclaims are separate causes of action and must be brought in the normal course in the district court where it would have been brought. The federal small claims procedure would be initiated by either the plaintiff or the counterclaim defendant and would be removable to the federal district court by the defendant or the counterclaim defendant.

A magistrate would preside and rule in all federal small claims procedure disputes. The plaintiff would not have a right to “trial by jury.” This could pose a constitutional problem in that, at first blush, it appears to violate the 6th [sic: presumably 7th] Amendment. However, the federal small claims procedure contemplates that a losing litigant may appeal the decision to the district court where the case would be tried “de novo.” This would overcome the constitutional objections. However, to thwart continuous appeals to the district court, thereby frustrating the purpose of the federal small claims procedure if the appellant loses on “appeal,” then the appellant would pay all costs, including attorneys’ fees to the appellee. This would be a

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<sup>22</sup> *Federal Small Claims Procedure*, 1990 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. COMM. REP. 194 (report of Ronald L. Yin, Chairman, Subcomm. B).

deterrent to all appellants in that only “meritorious appeals” will be maintained.

Similarly, because this would be an expedited procedure, provisions should not be made for willful damages or for attorneys’ fees. Further, the plaintiff could not seek equitable remedies; the federal small claims procedure is only for damages. However, a prevailing litigant could use the judgment obtained in the federal small claims procedure as the basis for a motion to the district court judge for an entry of equitable remedies. The fairness or the thoroughness of the small claims proceedings could be examined by the district court judge in determining whether or not to issue equitable remedies. Since equitable relief considers all the circumstances, the fact that the judgment was obtained through the federal small claims procedure would be a factor to be considered by the federal district court.

In addition, there should be some limitations on discovery and/or trial. Because the purpose of the federal small claims procedure is to resolve disputes in an expedited and inexpensive manner, discovery limitations and trial date limitations should be specifically set forth in the procedure.

Finally and most importantly, although the resolution proposes a limitation of \$100,000, the committee is not in unanimous agreement as to this amount. There is a lot of sentiment for increasing the amount. Clearly, with the passage of 28 U.S.C. 1332 increasing the limit for diversity purposes from \$10,000 to \$50,000 indicating Congressional sentiment that the federal judiciary should not be the forum for diversity actions less than \$50,000, \$50,000 seems to be the smallest amount which should be considered as the ceiling for the small claims procedure. There are many members of the committee who have expressed the view that the amount should be between \$100,000 and \$500,000. In fact, the AIPLA has a proposal similar to the current proposal, suggesting a One Million Dollar (\$1,000,000.00) limit for resolution of disputes of small claims.<sup>23</sup>

The ABA Section knew it was not working in a vacuum. The detailed discussion of Resolution 401.4 states, “the AIPLA has a proposal similar to the current proposal . . . .”<sup>24</sup> Indeed, in subcommittee discussions leading to the resolution, the subcommittee members noted other groups were very much in favor of a patent small claims procedure.<sup>25</sup>

During subcommittee discussion of the resolution, minutes show one member moved to amend the text to make explicit that the resolution suggested a “mandatory” procedure. In the process, he noted the enthusiastic support that already existed for such a

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<sup>23</sup> *Id.* at 195–96.

<sup>24</sup> *Id.* at 196.

<sup>25</sup> See *Division IV—Related Legal Issues*, 1990 A.B.A. SEC. PAT., TRADEMARK & COPYRIGHT L. PROC. 82.

proposal:

Mr. Dunner then moved to amend: “The amendment would be in line 2, to delete the word ‘an’ before ‘expedited’ and to insert in its place ‘a mandatory.’” The motion was duly seconded, and Mr. Dunner spoke on the motion: “I make this motion because I am convinced that that was the intent of the proposal, and, in fact, that is the intent of related proposals that have been floating around in the AIPLA and other groups, which have received a lot of support from a lot of leaders of the profession.

There was a conference at the Franklin Pierce Law School in New Hampshire within the last year, and there were at least 20 or 30 opinion leaders in the profession who are almost unanimous in their excitement about this kind of procedure. But their excitement was keyed to it being mandatory; but if it is voluntary, you have nothing more or less than you have today.”<sup>26</sup>

Resolution 401.4 did not catch on, nor did the other work by “AIPLA and other groups”<sup>27</sup> and the 20 or 30 “leaders of the profession.”<sup>28</sup> That is understandable, in light of (a) the fairly complex Seventh Amendment accommodations; (b) the use of magistrate judges nationwide; (c) removability to an ordinary court by a defendant.

First, under the procedure envisioned by the ABA Section, a plaintiff is restricted to a nonjury trial for the first adjudication of its claim. Since patent cases must be tried to a jury under the Seventh Amendment,<sup>29</sup> the ABA Section proposes a constitutional cure for this facially defective approach: a *de novo* jury trial “appeal” for the loser. Plaintiffs would find this cure both unappealing and radical—unappealing because the first non-jury adjudication would doubtless get some sort of deference and radical because no such “jury appeal” has existed before in the federal judiciary. Nor is it clear that such a cure would pass the necessary test of constitutionality.

Second, proposing a single nationwide change to the court system, without proper testing, was likely too ambitious. Without a record of success in a limited environment, advocates of patent small claims courts would find it difficult to interest members of Congress in a major structural change benefiting a single species of federal litigant. In addition, the resolution presupposes that magistrate

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<sup>26</sup> *Id.*

<sup>27</sup> *Id.*

<sup>28</sup> *Id.*

<sup>29</sup> *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 377 (Fed. Cir. 1996) (holding that patent infringement actions descended from actions at law and, consequently, must be tried to a jury as required by the Seventh Amendment).



judges would support such an increase in their workload. Any concerted opposition by the nation's magistrate judges might doom such an ambitious legislative proposal.

Third, removability would defeat the purpose of a "mandatory" small claims procedure. If a defendant removed a case, its commencement in small claims court would end up having been a wasted expense with nothing gained. Even a defendant who removed under pretext would gain a tactical advantage, for the threat and actuality of removal would incrementally increase the plaintiff's costs. The perceived risk of magnified expense, whether it is the prospect of ending up in an ordinary court or the prospect of spending money to stay out, would deter the use of the small claims procedure. This would dilute any positive *ex ante* behavioral changes among patentees and accused infringers pre-suit that would otherwise increase the frequency of negotiated settlements.

The final section of this article contains a proposal that avoids all of these pitfalls of Resolution 401.4.

#### B. 1992 PATENT REFORM COMMISSION APPROVAL

During the wave of patent reform proposals in the early 1990s, the U.S. Department of Commerce itself took action. In 1990 Commerce formed the Advisory Commission on Patent Law Reform.<sup>30</sup> Among the many issues on which the Commission sought public comment was the possibility of a small claims court for patents. In a Federal Register notice, the Commission included the following topic in its request for comment: "Is there a need for a 'small claims' type of patent proceeding in the Federal courts . . . ."<sup>31</sup>

At least one of the Commission's numerous members, Donald Dunner, was also a subcommittee member involved in drafting Resolution 401.4.<sup>32</sup> In the Commission's final report to the Secretary of Commerce, the Commission indicated, albeit in a faintly positive way, that the matter needed to be studied further:

The Commission also recommends consideration and use of other

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<sup>30</sup> ADVISORY COMM'N ON PAT. LAW REFORM, A REPORT TO THE SECRETARY OF COMMERCE, at ii (1992) (letter from Commission chairman to Commerce Secretary).

<sup>31</sup> Request for Comments for the Advisory Commission on Patent Law Reform, 56 Fed. Reg. 22, 702, 22, 703 (May 16, 1991).

<sup>32</sup> See *Division IV—Related Legal Issues*, *supra* note 25; see also Biography of Donald R. Dunner (2005), <http://taiwan-ip.org/bios/DunnerDonaldBio.pdf> (listing Mr. Dunner's accomplishments, including terms of service as a member of the Secretary of Commerce's Advisory Commission on Patent Law Reform and as an AIPLA President and member).

means of resolving patent disputes. For example, the Commission urges greater awareness and use of alternate dispute resolution to resolve patent disputes, as well as consideration of special procedures to conduct patent litigation. The Commission urges that three proposals be studied further, specifically,

- designating specialized patent courts,
- intra-circuit sharing of judges with experience in patent litigation, and
- adoption of a “small claims” procedure for patent cases in Federal courts.<sup>33</sup>

This is where the trail goes cold.<sup>34</sup> There do not appear to be any actions in support of a small claims procedure for United States patent cases since 1992. Thus, despite support from the AIPLA, the ABA, numerous “opinion leaders,” plus “a lot of leaders of the profession,” and Commerce’s own Advisory Commission on Patent Law Reform, no parties thereafter have taken any serious steps to augment the U.S. court system with a small claims court for patent disputes. Additionally, apart from the shortcomings of some details within such proposals, which are eliminated by the new proposal set forth here, no one seems to have suggested any reason to abandon the general idea of a Patent Small Claims Court.

### III. THE PATENTS COUNTY COURT AS A POTENTIAL MODEL

While practitioners in the United States were merely talking about a small claims court, England and Wales were actually forming one. This established court supplies a comparative law example that can teach much about how to craft a successful small claims court for the United States.

By way of background, ordinary patent cases in England are tried to a specialized court—the Patents Court. Presently, seven judges sit on the Patents Court, which is part of the High Court.<sup>35</sup> There are no jury trials.<sup>36</sup>

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<sup>33</sup> ADVISORY COMM’N ON PAT. LAW REFORM, *supra* note 30, at 13–14 (1992).

<sup>34</sup> In an email to the author, Mr. Dunner reflected, “I don’t recall anybody picking up on it and doubt if anyone is considering it today.” E-mail from Donald Dunner to author (Dec. 30, 2008) (on file with author).

<sup>35</sup> See THE PATENTS COURT GUIDE § 3 (2008), [http://www.hmcourts-service.gov.uk/cms/files/Patents\\_Court\\_Guide\\_as\\_revised\\_on\\_18\\_November\\_2008.pdf](http://www.hmcourts-service.gov.uk/cms/files/Patents_Court_Guide_as_revised_on_18_November_2008.pdf) (authorized by the Chancellor of the High Court, United Kingdom).

<sup>36</sup> John B. Pegram, *Should There Be a U.S. Trial Court with a*

In the late 1980s a group of English practitioners suggested the creation of a Patents County Court (“PCC”) as an alternative to the High Court for patent litigation.<sup>37</sup> Enabling legislation passed in 1988, and the first (and only) PCC formed in London in 1990.<sup>38</sup> One judge, Judge Michael Fysh, QC, sits on the PCC.<sup>39</sup>

As Judge Fysh has written, the purpose of the PCC is “to cater for the needs principally of medium and small size firms in litigating patents, registered designs and certain other cases involving similar rights.”<sup>40</sup> Others have remarked that “[t]he intention was to provide a court which had procedures which were designed to reduce costs and increase the speed of patent litigation,”<sup>41</sup> primarily for “private inventors or smaller companies.”<sup>42</sup>

As the PCC has evolved, it has kept its focus on small companies and fast cases more through court practice and custom than through rules or thresholds. The PCC and the Patents Court of the High Court do not have any formal jurisdictional division in relation to patent disputes.<sup>43</sup> There is, rather, “an understanding that the ‘simpler’ cases will find their way to the PCC, but there is no formal threshold of value or complexity.”<sup>44</sup>

The only true difference between the PCC and the regular Patents Court is that patent agents (who are not necessarily qualified lawyers) can initiate and prosecute cases in the PCC.<sup>45</sup> In addition, unlike in the High Court, patent agents, solicitors, and barristers all have the

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*Specialization in Patent Litigation?*, 82 J. PAT. & TRADEMARK OFF. SOC'Y 766, 774 (2000) (contrasting the Patents Court and the Patents County Court).

<sup>37</sup> Michael Burdon, *UK Patents County Court—Phoenix Risen?*, PATENT WORLD, July–Aug. 2003, at 19. The creation of a Patents County Court was suggested by the so-called Committee of Interested Parties in response to a 1986 white paper calling for all patent disputes to be handled by the Patent Office rather than by the courts. *Id.*

<sup>38</sup> *Id.*

<sup>39</sup> *Id.*

<sup>40</sup> Michael Fysh, *The Work of the Patents County Court*, OXFORD INTELL. PROP. RES. CENTRE E-JOURNAL OF INTELL. PROP. RTS., 2003, at 1, <http://www.oiprc.ox.ac.uk/EJWP0303.pdf>.

<sup>41</sup> *United Kingdom—Revival of the Patents County Court*, LADAS & PARRY MAY 2006 INFORMATION NEWSLETTER (Ladas & Parry LLP, New York, N.Y.), May 2006, <http://www.ladas.com/BULLETINS/2006/20060500/UKPatentCountyCourt.shtml>.

<sup>42</sup> *Id.*

<sup>43</sup> Burdon, *supra* note 37, at 19.

<sup>44</sup> *Id.*

<sup>45</sup> Fysh, *supra* note 40, at 2.

right of “audience,” meaning the right to appear and advocate.<sup>46</sup>

Both the Patents Court and the PCC allow for parties to agree to, or for a judge to impose, a so-called “streamlined procedure.”<sup>47</sup> In the default form of the streamlined procedure, all factual and expert evidence is in writing, there is no requirement to give document discovery, there are no experiments, cross-examination is only permitted on isolated topics, and the total trial duration is fixed (normally capped at one day) and takes place about six months after the order setting the streamlined procedure.<sup>48</sup> The judge may depart from these default parameters, however.<sup>49</sup> Legal advisors are under a duty to draw their clients’ attention to the availability of a streamlined procedure.<sup>50</sup>

The PCC seems to be garnering positive reviews from the English legal community. One reviewer reports that under its first judge, the “experiment’ seemed to have failed.”<sup>51</sup> But now under Judge Fysh, the court is “back in business”<sup>52</sup> and “showing excellent recovery and promise for the future.”<sup>53</sup> In addition, the same reviewer suggests that rigorous application of the streamlined procedure might help the PCC differentiate itself from the Patents Court.<sup>54</sup>

The United States can import some lessons of the PCC, but there are limits due to institutional and legal differences. The English system lacks patent jury trials, whereas, in the United States, jury trials are constitutionally required for patent cases, unless waived.<sup>55</sup> In addition, the English have a long experience with a specialized patent trial court; the United States has no experience. Nevertheless, what successes there are seem auspicious for any small claims patent effort in the United States. The very existence of a sophisticated court system that, at least for bench trials, seems successful at cleaving small patent cases from large ones and ushering the small cases consistently toward resolution within six months shows that a Patent Small Claims Court is possible. One other lesson emerges—it is

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<sup>46</sup> Burdon, *supra* note 37, at 19.

<sup>47</sup> THE PATENTS COURT GUIDE § 10(d) (2003), [http://www.hmcourts-service.gov.uk/infoabout/patents/crt\\_guide.htm](http://www.hmcourts-service.gov.uk/infoabout/patents/crt_guide.htm) (authorized by the Chancellor of the High Court, United Kingdom).

<sup>48</sup> *Id.* § 10(a).

<sup>49</sup> *Id.* § 10(d).

<sup>50</sup> *Id.* § 10(e).

<sup>51</sup> Burdon, *supra* note 37, at 20.

<sup>52</sup> *Id.* at 19.

<sup>53</sup> *Id.* at 21.

<sup>54</sup> *Id.* at 19.

<sup>55</sup> See *supra* note 29 and accompanying text.

important to staff such a court with a judge (or judges) dedicated to its mission and enthusiastic for its success.

#### IV. A PROPOSED PATENT SMALL CLAIMS COURT SOLUTION

Proposals for other specialized patent trial courts have gone unheeded in the past. Perhaps they were too ambitious, seeking nationwide changes all at once.<sup>56</sup> This new proposal carefully avoids that pitfall, as well as the pitfalls previously identified in the 1990 ABA Section Resolution 401.4. A Patent Small Claims Court can be instituted locally in one district court on an experimental basis, using an existing Article III judge.<sup>57</sup> Then, if that experience justifies nationwide expansion, Congress may step in to implement it.

##### A. IMPLEMENTATION VIA LOCAL RULES ON A TRIAL BASIS

Patent reform does not necessarily require an act of Congress. There are already instances of patent reform that United States District Courts have implemented via local rule. For example, the Northern District of California implemented its own Patent Rules, which govern the scheduling and exchange of contentions during patent litigation.<sup>58</sup> The Northern District of California Patent Rules have been emulated by many district courts around the country. The Court of Appeals for the Federal Circuit upheld challenged aspects of those Patent Rules as a valid exercise in local rulemaking in *O2 Micro International Ltd. v. Monolithic Power Systems, Inc.*<sup>59</sup>

In *O2 Micro* the Federal Circuit observed that to be valid, a local rule must be consistent with both acts of Congress and the Federal Rules of Civil Procedure.<sup>60</sup> The court explained that a local rule inconsistent with the purposes of a federal rule is invalid.<sup>61</sup> In *O2*

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<sup>56</sup> See, e.g., Pegram, *supra* note 36; 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 (1995). Mr. Pegram advocated initially in 1995, and later in 2000, that the International Trade Commission (ITC) become a specialized patent trial court for the entire United States for all patent cases, large and small. Pegram, *supra* note 36, at 782–83.

<sup>57</sup> Having an Article III judge, versus a magistrate judge, keeps the levels of potential appeal to a minimum.

<sup>58</sup> N.D. Cal. Patent R. 1-1 to 4-7 (2008).

<sup>59</sup> *O2 Micro Int'l Ltd. v. Monolithic Power Sys., Inc.*, 467 F.3d 1355, 1363–66 (Fed. Cir. 2006).

<sup>60</sup> *Id.* at 1365 (citing 28 U.S.C. § 2071(a) (2000) and FED. R. CIV. P. 83(a)(1)).

<sup>61</sup> *Id.*

*Micro* a litigant challenged the aspect of the Northern District of California Patent Rules that required a party to supplement its contentions diligently upon learning new information revealing those contentions to be incomplete.<sup>62</sup> After analyzing the purpose and spirit of the discovery regime codified by the Federal Rules of Civil Procedure, the court held, “we see nothing in the Federal Rules that is inconsistent with local rules requiring the early disclosure of infringement and invalidity contentions and requiring amendments to contentions to be filed with diligence.”<sup>63</sup> The court cautioned, however, that “[i]f a local patent rule required the final identification of infringement and invalidity contentions to occur at the outset of the case, shortly after the pleadings were filed and well before the end of discovery, it might well conflict with the spirit, if not the letter, of the notice pleading and broad discovery regime created by the Federal Rules.”<sup>64</sup>

Implementation via local rules carries a second distinct advantage beyond postponing the need for legislative approval. It allows a single district court to serve as an experimental or trial forum for a Patent Small Claims Court. This obviates one of the pitfalls that seems to have cursed prior proposals, namely, overambitious goals to bring change to the entire federal court system in one swoop.<sup>65</sup>

#### B. SUMMARY OF GOOD DESIGN PRINCIPLES FOR A PATENT SMALL CLAIMS COURT

Summarizing, any successful small claims court for patent disputes should incorporate the following elements:

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<sup>62</sup> *Id.* at 1363.

<sup>63</sup> *Id.* at 1366.

<sup>64</sup> *Id.*

<sup>65</sup> In an interview with the author, the Honorable Brian Barnett Duff suggested that the idea might achieve greater success if rolled out in three locations at once—e.g., a west coast court, an east coast court, and a midwest court. Interview with Hon. Brian Barnett Duff, Senior U.S. District Judge, retired (Jan. 13, 2009). A multi-court rollout has the added advantage of allowing each court to impose slightly different rules, even different thresholds of “small,” allowing subsequent evaluation of which rules work best. Judge Duff, who once sat by designation at the Court of Appeals for the Federal Circuit (which has exclusive jurisdiction over patent appeals, 28 U.S.C. § 1295(a)(1) (2000)), also suggested that each local rules committee might be well served to seek the participation of a sitting Circuit Judge from the Federal Circuit. Interview with Hon. Brian Barnett Duff, *supra*. The participation of a Federal Circuit judge would lend such efforts added credibility, not to mention a useful appeals court perspective.

- the court should be good at what it does (i.e., prone to reach the right result) and have procedural rules to bring cases to resolution quickly;
- the court must meet the constitutional requirements of the Seventh Amendment;
- the court should be established at first via local court rules in one district, and those rules must be consistent with acts of Congress and the Federal Rules of Civil Procedure;
- the court should be staffed by one or more judicial officers who will not feel overburdened by the role, and who will enthusiastically support its mission, and
- the court should be mandatory once invoked by a litigant, with no right of removal.

### C. THE AUTHOR'S PROPOSAL OF A SPECIFIC FRAMEWORK

In light of the discussion above, I now set forth what I believe are basic parameters for a successful U.S. Patent Small Claims Court. These parameters should not be read as exhaustive, but rather as a starting point for any United States district court to begin drafting amendments to local rules.

#### 1. Thresholds

A small claims court for patent disputes should be established, setting the definition of "small" at less than one million dollars in claimed damages. The threshold should serve as an initial claim, not as a binding judicial admission. In other words, a plaintiff's initial pleading should be required to state on a sworn verification page that it believes its claim for damages by the time of trial will be less than one million dollars.<sup>66</sup> If discovery reveals the claim is more valuable than that, so be it; the plaintiff may seek more than one million dollars. However, the rules should expressly provide that an opponent may use the sworn verification to cross examine the plaintiff or its experts who stray over the one million dollar line. As a result, plaintiffs will dread crossing that line, lest their financial witness gets impeached. These measures will separate the small cases from the large, while preserving a plaintiff's right to use new information revealing that the infringement has caused more damage than

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<sup>66</sup> The discussion in this section assumes the patentee is the plaintiff, but mirror-image rules can be drafted that contemplate the same basic principals where an accused infringer is a plaintiff seeking a declaratory judgment.

previously thought.

## 2. Jury Trials

The court should allow a jury trial to either party who requests it, as in the regular court system. This overcomes the defect in ABA Resolution 401.4 which eliminated a jury trial in the first instance. However, there is no reason to deny the inherent merit of speed and efficiency when matters are tried to the court. Those merits include the possibility of using procedures akin to the Patents Court and PCC streamlined procedures. Thus, this proposal provides incentives for litigants to waive a jury trial, as follows:

(a) If both parties waive a jury trial, the court will take all case-in-chief evidence as written evidence, allowing live cross-examination during trial. All issues may be presented (i.e., no issue will be bifurcated).

(b) If, however, the plaintiff demands a jury, it gets one. However, its case-in-chief will be limited to one full day of evidence, and the issue of damages will be bifurcated (to be tried to the same jury, but only after a liability verdict). While facially neutral, bifurcation of damages will be viewed negatively by most plaintiffs.

(c) Finally, if the plaintiff waives a jury but the defendant demands one, there will be a jury. Now, however, it is the defendant who suffers time limits and bifurcation. If the defendant's demand necessitates a jury trial, the defendant will be limited to one full day of rebuttal evidence, and all affirmative defenses (including invalidity and unenforceability) will be bifurcated.<sup>67</sup>

## 3. Contentions and Discovery

Some mechanism should exist to ferret out contentions and conclude document, written, and oral discovery quickly. For example, every party who pleads a legal conclusion is automatically under an obligation, within thirty days, to report all known facts and legal theories supporting it (subject to supplementation). In effect, every legal claim set forth in a pleading automatically volunteers the

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<sup>67</sup> While it would be "patently unconstitutional" to impose "a penalty in a manner that needlessly penalizes the assertion of a constitutional right," *United States v. Jackson*, 390 U.S. 570, 583 (1968), the right to a jury trial is not "needlessly penalize[d]" under this scheme. It is allowable to condition electing a jury trial on the right to introduce "slightly different evidence" before a judge versus a jury, where the same remedies exist under either type of trial. *Sims v. Eyman*, 405 F.2d 439, 445-46 (9th Cir. 1969), *vacated on other grounds*, 408 U.S. 934 (1972).



claimant to respond to a contention interrogatory seeking a full explanation of the nature of that claim. In practice, a plaintiff who pleads that a specific product infringes must automatically disclose, within thirty days, the factual and legal basis for infringement. Likewise, a defendant who pleads an affirmative defense must make complementary automatic disclosures. An opponent receiving such contentions must then base its document collection and production on those contentions, regardless of whether individual requests have been served. Supplementation in light of an opponent's document production will be allowed (preserving the validity of this framework under *O2 Micro*). Customized follow-up discovery requests will be allowed only after the first round of automatic disclosures and production. This customized discovery may be limited to, for example, ten document requests and three interrogatories. Finally, the default number of depositions should be reduced to four without leave of court.

Such automatic disclosures and exchanges should make it a simple matter to schedule a trial date within six to eight months after the filing of the complaint.

#### 4. The Judicial Officer

As the PCC experience shows, much of the success of a Patent Small Claims Court will depend on those who staff it. To guarantee the first judge's enthusiasm for the project and competency over patent matters, the first district court to implement a Patent Small Claims Court should poll its senior judge ranks. Senior U.S. district judges have some discretion over their own caseloads. Better still, the U.S. taxpayers are already paying for their services. If one, or even two, senior district judges volunteer to substitute small claims patent cases for cases they would otherwise adjudicate, the program might begin with an experienced judiciary at the outset. There will be no need for additional court staff or legislative appropriations. It is even possible that the right judge who is already drawing a pension will come out of full retirement, minimizing taxpayer costs for maximum taxpayer return.

Many federal judges actually like patent cases.<sup>68</sup> A senior judge who enjoys presiding over patent cases might feel honored to become

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<sup>68</sup> See, e.g., Hon. James F. Holderman & Halley Guren, *The Patent Litigation Predicament in the United States* (Mar. 26, 2007) (unpublished manuscript, on file with the Univ. of Ill. Journal of Law, Tech. & Policy), available at <http://www.jltp.uiuc.edu/works/Holderman.htm>. Judge Holderman writes, "As a United States District Court Judge, I enjoy patent cases." *Id.*

the first judge to preside over the first specialized United States patent trial court in history (albeit one which takes only small cases). A federal judge who is enthusiastic for the project and focused on the task at hand is more likely to issue thoughtful, cost-sensitive, reversal-proof rulings.

#### V. CONCLUSION

A federal Patent Small Claims Court, if properly designed and run, has every chance of being a positive development for all stakeholders in the U.S. patent system. As a side benefit, it might also reduce some of the burdens on a clogged regular court system. Prior proposals never achieved sufficient momentum, despite the opinion leaders who enthusiastically and unanimously backed the general concept. This article has identified and proposed cures for some of the problems that may have kept a small claims court for patent disputes from being implemented.