

Should there be a Patent Small Claims Court?

By John P. Costello, Esq.*

As a patent attorney representing individual clients and small corporations, I often run into situations where my client's patents are being infringed. With the smaller client, these infringement situations often involve potential damages under a half million dollars. If these matters cannot be settled, my clients' only present option is to file a case for damages and/or an injunction in a United States district court.

The district courts are located in "circuits" which are territories of legal jurisdiction partitioned across the United States. The district courts are also called "trial" courts, because this is where the initial patent trial takes place. For example, the district courts of the Eastern and Northern Districts of California are located within the ninth circuit, which encompasses California and further extends from Hawaii to Nevada. If a district court judgment is in error, a patent owner has the option to appeal his case to the Federal Circuit, located in Washington D.C., rather than to the circuit in which the district court resides.

The Federal Circuit is a court that was organized in 1982, for the main purpose of deciding patent infringement appeals. The Federal Circuit judges, unlike the judges sitting on the district courts are trained in science or engineering and have usually had extensive real world experience as practicing intellectual property attorneys, prior to rising to their judgeships. They are highly qualified to decide appeals of patent cases. Finally, if a patent owner still feels that there are flaws in a decision from the Federal Circuit, he can further appeal to the United States Supreme Court. There is no guarantee that the Supremes will take on the final appeal, as they employ a screening process prior to accepting a case for a final appeal. The issues presented must be unresolved issues of law that are so important that the Supremes need to settle the matter once and for all. For all practical purposes, the Supremes take very few cases, and even fewer patent cases, therefore, realistically, the buck usually stops at the Federal Circuit.

The present option of filing in district court and possibly facing one or more appeals is very costly, and usually too costly for the small patent owner. The average patent case through trial at the district (trial) court level can range from \$500,000 to \$1.5 million in attorney's fees alone. On top of this, costs might range from fifty to several hundreds of thousands of dollars in a normal case. From the attorney's fees perspective, the bloated legal maneuverings of endless discovery motions, attorney's trying to sanction each other for various infractions (real or perceived), and appeals of numerous issues results in the astronomical legal bills seen in patent cases. Moreover, because most patent

cases that get to the trial stage are between large companies that can well afford the costs, patent cases are cash cows for lawyers who work for large firms that represent large clients. The incentive to engage in inefficient legal overkill and over bill for their services is tremendous for large firm lawyers. Also, from the costs perspective, expert's fees often eat up most of the budget. Top notch experts paid to testify in their technical area can often garner fees of \$400 per hour and up.

If a small patent owner is faced with an infringement, the legal and costs bills at even the trial court level are, most of the time, beyond reach. Moreover, for the individual or small company, many infringements are too small to be worth paying such fees and costs. It is hardly worth the patent owner's effort and expense to spend 1 million in fees and costs to recover \$500,000 in damages. Under current law, the patent owner almost will never recover his fees and costs, except in special situations where it can be proven that the defendant's infringement was willful. Under the present trial court scheme of enforcement, there is simply no incentive for a patent owner to pursue infringers, unless damages in the several millions of dollars can be shown.

In my practice, if a client comes to me with a "small" damage case, of say, under \$500,000, I usually tell him not to waste his time with a trial court. Also, contingent fee lawyers are unlikely to take on such a small case. If the infringer refuses to take out a license, and/or refuses to stop infringing, the patent owner can only hope to either 1) file in trial court and hope that his case is so strong that a quick summary judgment will happen or 2) wait six years (the time the law allows a patent owner to go back in time to seek patent damages) and hope that the damages will eventually add up enough to make it worthwhile to file in trial court. In my experience, the first option, filing and hoping for a quick judgment is unrealistic, especially when a large defendant is involved. While things might settle, it is just as likely that the large defendant will so cloud the patentee's case, that the issues will no longer be clear. What seemed like a "slam-dunk" case in the beginning can so often be manipulated by a crafty defendant (and its well paid lawyers) that suddenly, the small patentee finds himself in a war of attrition that he cannot win, no matter how strong the evidence supports his case. As to the second option, of waiting six years, this is just simply tragic. There should be no reason why a patentee should forgo royalties and/or have to wait and see its business suffer for years until enough damages accrue to make it worthwhile in going after a defendant.

Clearly, the present system favors large company litigants in patent cases. If you don't believe this simple fact, then just take a look at the names of the litigants listed on complaints filed in patent cases throughout the country. The names usually reflected are "Microsoft v. Apple Computers" or "General Motors Corp v. Subaru of America." Rarely do you see cases with "Bobby Jones v. Microsoft" or "Sheryl Smith v. Honda Corp." As

such, patent enforcement has been hijacked by a small club of large companies who have the money to seek redress. Patent litigation has become a sport of kings where only the kings can play.

The answer for small patent owners is to have Congress pass the "Patent Small Claims Court Act," which, at present, is only a seed in this attorney's mind. Also, while the following features of the Patent Small Claims Court are entirely my thoughts, I have to give credit for the general idea of a patent small claims court to John Christensen, a prominent inventor in Manteca, Ca, who suggested it to me several years ago.

The "Act" would be designed to increase efficiency and greatly lower the cost of patent litigation for small litigants. However, unlike civil small claims court, the Patent Small Claims Court would encourage litigants to avoid representing themselves, and, instead hire an attorney. The reason for this is that patent litigation is really too complex for amateurs. While an amateur litigant is certainly capable of representing himself in a civil small claims matter, the average patent owner is not equipped to deal with matters of patent interpretation, invalidation arguments, discovery, damages models, etc. which are normal in patent cases. However, in hiring an attorney, the rules of the Patent Small Claims Court would be designed to make smaller stakes patent litigation hyper-efficient, more on the order of an arbitration or mini-trial. This would bring down costs exponentially and make the smaller infringements worthwhile to pursue for any patent owner, be it a large corporation or individual inventor.

The Patent Small Claims Court should have the following features to prevent proceedings therein from turning into the bloated, extended and expensive proceedings found in the trial courts today.

Panel of Five Judges Would Hear Each Case - The litigants would get the benefit of a panel of five independent judges where a majority of judges would determine the outcome. This would avoid the bias of one judge from rendering unjust rulings. It would also eliminate the need for appeals, because if a majority of five judges say it is so, then it is likely so. No need to go to another level. Also, the judges should, like the Federal Circuit, have patent law experience, as this would avoid problems of judges that are unfamiliar with patent law or not proficient with technological issues. Also, without a jury, there is no need to engage in an expensive jury selection process, hire jury consultants, etc.

No Appeals - Like civil small claims court, no right to appeal should apply. If a plaintiff doesn't like this, then he could always go and file in the trial court (and endure its expense). Also, see previous reference with regard to five judges negating the need for

appeals.

Damages Capped - Damages should be capped at a level where beyond the cap it would be worthwhile to pursue a case in trial court. Whether the cap is \$500,000 or \$1 million, a capped figure would create certainty that liability will be limited. As time goes on, the maximum amount could be adjusted upward with inflation.

Markman First - A Markman hearing is a hearing in trial courts that determines the meaning of a patent. In trial courts, the Markman hearing can happen at any time, which leads to a lot of unnecessary discovery because litigants often try to exhaust every avenue uncovering evidence which could affect the patent's meaning. In the Patent Small Claims Court, the patent will be interpreted by the panel of judges in a Markman hearing as one of the initial steps in the case. The purpose would be to have an interpretation of the patent claims early to prompt early settlement and to avoid unnecessary discovery. If a plaintiff receives an interpretation which fails to cover the defendant's product, then the likely result will be that the case will be dismissed voluntarily by the plaintiff.

Court-Appointed Technology Expert - A court-appointed expert versed in the technology will be assigned to each case. This is done in the patent courts of countries like Brazil, so it is not new. Experts must be free of any conflicts regarding the litigants. The expert will advise the five-judge panel on the issues of infringement (according to the interpretation given the patent by the judges) and invalidity. The conclusions of the expert will be made available to the judges and litigants in an expert's report. If the litigants wish to rebut the report with their own technology experts, they may. The court expert's fees could potentially be paid with a slush fund having its source being inventor's filing fees (see further discussion below about misused inventor's PTO filing fees).

Initial Review and Trial Stage - The court's process will be split into an initial review stage and a trial stage. As to initial review, this will happen after the Markman hearing, and perhaps after some initial discovery. The judges could relay their initial impressions regarding the case to the litigants as well as their recommendations as to settlement terms or outright dismissal. If the parties fail to settle or dismiss and instead wish to go to trial on the issue of liability, one of the parties would be going into it with the majority of judges already recommending against his position. However, a party could also concede liability and only go to trial on the issue of damages if the parties cannot agree on a figure.

Limited Discovery - The parties would be kept to strict discovery calendars. Use of interrogatories would be encouraged. Depositions would be limited in number. Motions for discovery problems would be limited. Other than for privileged communications,

both sides would have to submit all evidence requested in discovery. Defendants withholding evidence would face a presumption of "bad faith" and have the damages in the case potentially trebled, up to the cap limit. Plaintiffs withholding evidence would have their cases dismissed with prejudice.

No Wilful Infringement - Claims of wilful infringement would be eliminated. There would be no need to engage in discovery and legal shenanigans over whether a defendant acted wilfully or not. However, see above regarding defendant's bad faith in discovery. If a defendant acted wilfully during the infringement and does not clean up his act in discovery, he can be sanctioned up to the cap amount for bad behavior.

Loser Pays the Winner's Attorney's Fees and Costs - If things advance to the trial stage on the issue of liability or damages the court will decree who the "prevailing party" is at the end of the proceedings. The losing party must pay the prevailing party's attorney's fees and costs. This amount could potentially be capped to prevent overcharging attorneys from inflating their legal bills. This will encourage settlement without trial. "Loser pays" will only occur in the trial stage and not at the initial review stage where the parties will be responsible for their own respective fees and costs.

Damages - Damages could be analyzed by a single court-appointed expert who will review the damage briefs of each party and make recommendations to the judges during the initial review and trial stages.

Trials Last Five Days or Less - This will encourage efficiency by limiting the evidence presented to only the best evidence and reduce lawyer's posturing and maneuvering.

Final Judgement is Res Judicata - The final judgement of the court is res judicata as to the issues brought therein. The Patent Small Claims Court's judgement will be a final judgement, and those same issues could not be re-litigated at the trial court level.

At the very least, the suggestions I noted above create the basis for discussion with regard to the creation of a Patent Small Claims Court. There can always be additions or changes, as long as the goal of making things easier and less expensive for the patent owner with a small damage case is kept at the forefront. Of course determining whether the Patent Small Claims Act is needed is up to the community of inventors. There has to be enough interest generated in the technology community to make the creation of Patent Small Claims Courts worthwhile. This, at its heart, is really a grass roots issue.

Finally, the problem with regard to funding one or more Patent Small Claims Courts throughout the country would not really be a problem at all. The monies could

come from the inventors filing fees that are presently being misdirected by Congress and much of which is not being used by the Patent Office or by the inventors. Just to understand this problem, during the Clinton administration, \$960 million dollars were appropriated from the Patent Office, by Congress, to pay for various non-inventor related government programs or budget shortfalls. The inventors in this country are being charged fees for Patent Office functions only to see those fees being misdirected for other purposes. Luckily, in 2005, the Bush Administration has decreed that this will be the first year in a long time where fees will not be diverted. The simple fact is that if some of those funds were used to set up a Patent Small Claims Court, the Court would pay its way, without having to levy further taxes. The filing fees are paid by the inventors, both large and small, and the inventors should be able to have those funds directed to setting up a Patent Small Claims Court, if that is their desire.

* John P. Costello is a registered patent attorney who is licensed in California and Washington state. His law office is located in Sacramento, California. He would enjoy comments on this article and feedback regarding interest in a Patent Small Claims Court. Mr. Costello can be reached at his e-mail address: patents@cwnet.com