



## US INVENTOR OPPOSES THE PREVAIL ACT WITHOUT BALANCING INCENTIVES

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### **PREVAIL Will Have Little to No Positive Effect on Small Entities**

In June 2023, Senators Coons, Tillis, Durbin, and Hirono introduced the PREVAIL Act (S.2220) intended to address some of the Patent Trial and Appeal Board's (PTAB) failures. They are now pushing it to markup.

The PTAB is a failed experiment caused by a perverse incentive structure. PREVAIL does not fix the perverse incentives, so it may have no effect leaving US innovation broken and stuck in a failed PTAB experiment.

In 2011, Congress passed the America Invents Act creating the PTAB. The PTAB is a demonstrated disaster for US innovation [invalidating 84% of the patents it fully adjudicates](#) in whole or in part. No other country, including China, has a similar system; the PTAB handicaps US innovation in ways no other country handicaps their own. Damage is severe in emerging technologies like artificial intelligence, cybersecurity, 5G/6G, quantum computing, fintech and many other critical technologies. [Investment that once fueled](#) US startups has [fled to startups in China](#). [China now leads the world in 37 of 44 technologies](#) critical to our national security and economic growth. The PTAB also helped Big Tech monopolize because the PTAB's unconscionable invalidation rate encouraged Big Tech's theft of technology from startups and small entities.

PREVAIL projects improvements that do not work. For example, PREVAIL attempts to put in place Article III standing, yet it is not Article III standing because third parties still have standing. PREVAIL raises the standard of evidence to clear and convincing, but it is applied against a subjective analysis and will have no effect on invalidation rates.

Passing PREVAIL leaves the US innovation engine in state of failure for at least another decade. We simply don't have that much time. US Inventor will continue to oppose PREVAIL unless it is amended to address the root cause of the PTAB's failure – the perverse incentives that drive the PTAB's behavior.

### **Perverse Incentives Drive the PTAB's High Invalidation Rate**

Perverse incentives cause the PTAB to invalidate patents at a rate significantly higher than federal court just so it can stay in business. Only those seeking to invalidate a patent can file a petition with the PTAB, making the sole customer an infringer or its agent. The only thing that PTAB trials do are invalidate patents. The PTAB is funded solely by fees paid for petitions. Therefore, the PTAB's *customer value proposition* is to encourage infringers to file petitions by its *invalidation rate*.

If the PTAB's invalidation rate is not significantly higher than federal court, its customers will not file petitions. A loss of petitions causes a loss of revenue, and if the petition count gets too low, the PTAB goes out of business.

No legislation can fix the PTAB's systemic enticement to invalidate patents without first addressing the perverse incentives. PREVAIL intends to lower the PTAB invalidation rate by fixing the corrupted PTAB rules, but it does not fix the incentives that drive the PTAB to invalidate patents at a high rate. If PREVAIL is made law, the PTAB will simply change different procedures and guidance to push the invalidation rate back up. Congress will be forced to act again and again to correct whatever the PTAB does to sustain customers and revenue. There is no way to know how many years this whack-a-mole process will take. In the meantime, US innovation will remain mired in this failed experiment allowing our other countries to advance their technological lead.



### **PREVAIL'S Standard of Evidence Will Have Little or No Effect**

PREVAIL tells us that the PTAB's extremely high invalidation rate is caused by a low standard of evidence (preponderance of evidence) to invalidate a patent. They say that changing it to *clear and convincing* evidence will bring the invalidation rate down. But it won't.

Over 90% of PTAB invalidations are under obviousness. In a 2007 case, [KSR Int'l Co. v. Teleflex Inc.](#) (KSR), the Supreme Court eliminated the decades old, objective obviousness test called the teaching-suggestion-motivation test (TSM). Under the new KSR test, the adjudicator puts themselves into the mind of an imaginary person having ordinary skill in the art (PHOSITA) to see if it would conclude that two or more references would yield a "predictable result" or are "obvious to try." The KSR test is subjective and unpredictable, where reasonable people come to opposite conclusions, and nobody can say who is wrong.

It just doesn't matter what the standard of evidence is when it is applied to a subjective and unpredictable test. Changing the standard of evidence will do little to improve the PTAB's invalidation rate.

### **PREVAIL's Article III Standing Provision Allows Third Party Petitions**

The proponents of PREVAIL mistakenly claim that it establishes Article III standing to file a petition. Instead, PREVAIL allows third parties to file petitions for someone that pays them. This is not Article III standing.

Instead, PREVAIL preserves third party petitions and its parasitic business models like Unified Patents (Unified). Unified claims over 3,000 subscribers who pay a monthly subscription fee. In exchange, Unified petitions the PTAB to invalidate patents for its subscribers. Unified will only settle their petitions for a zero-value license that applies to all its subscribers.

Many undisclosed Unified subscribers are likely Chinese multinationals that use Unified to mask their identity as Unified clears the US market of patents that affect them. Under PREVAIL, this practice continues. Unified must list one real party in interest or privy but need not list all. This means that Unified can simply name a different real party in interest to mask the identity of their Chinese subscribers.

To frustrate the problem of serial petitions, PREVAIL limits petitions filed by the same party against the same patent using the same prior art. But serial petitions will not be frustrated because, while Unified may only be allowed one petition, different Unified clones will pop up to file more petitions naming different real parties in interest. PREVAIL's third party standing provision risks making its limiting of serial petitions provision ineffective.

### **PREVAIL Fails to Address Other Key PTAB Problems**

The PTAB is rife with structural problems. PREVAIL attempts to address some, albeit not well. Others, it completely ignores. For example, the argument supporting the PTAB's existence is that some patents never should have been issued, therefore the presumed USPTO agency expertise of PTAB administrative patent judges (APJ) is needed to double check examiners, who are the USPTO's actual agency expertise.

However, in 91.8% of petitions last year, one or more APJs on a panel did not have the requisite educational background to adjudicate the technology in question. In 43.7% of petitions, none of the APJs had the requisite education. APJs with degrees in Biology, Chemistry, and Chemical Engineering regularly adjudicate computer software and hardware technologies. APJs with degrees in Public Health adjudicate mechanical and software technologies. A Political Science major adjudicated microfiber and software technologies. Aerospace Engineers adjudicated wireless, software, and mechanical technologies.



There are many structural PTAB infirmities not addressed. It is impossible for Congress to clean up all of them. Even if it did, more would be created because of the perverse incentives driving the PTAB.

### **Balancing Incentives Amendment**

To balance incentives, the invalidity rate must be taken off the table. This is easily accomplished by requiring patent owner consent before PTAB institution of a petition. If the invalidation rate is too high, nobody will consent. If it is too low, nobody will petition. If the PTAB's invalidation rate is within a reasonable range of federal courts rate, the PTAB will outcompete the federal courts on speed and cost, because that is how Congress set it up. Both parties will benefit from faster and cheaper invalidity adjudication, and the PTAB will stay in business.

Among the most damaging facets of the PTAB, staying federal court litigation during the pendency of a petition is near the top. This current practice enables the infringer to continue infringement for during the three or more years of PTAB litigation and appeals. Most small companies go out of business long before the litigation ends. Balancing incentives solves this because the patent owner can negotiate with the petitioner for agreement not to stay litigation during PTAB litigation.

US Inventor will fully support PREVAIL if the incentives are balanced by requiring patent owner consent to the petition before it can be instituted, and proffers preferred language:

#### **REQUIREMENT FOR PATENT OWNER TO CONSENT TO THE FILING OF PETITION FOR INTER PARTES REVIEW OR POST-GRANT REVIEW.**

- 1 Title 35, United States Code, is amended—
- 2 (1) in section 312(a)—
- 3 (A) in paragraph (4), by striking “; and”
- 4 and inserting a semicolon;
- 5 (B) in paragraph (5), by striking the pe-
- 6 riod at the end and inserting “; and”; and
- 7 (C) by adding at the end the following:
- 8 “(6) the owner of the patent consents to the fil-
- 9 ing of the petition.”; and
- 10 (2) in section 322(a)—
- 11 (A) in paragraph (4), by striking “; and”
- 12 and inserting a semicolon; and
- 13 (B) in paragraph (5), by striking the pe-
- 14 riod at the end and inserting “; and”; and
- 15 (C) by adding at the end the following:
- 16 “(6) the owner of the patent consents to the fil-
- 17 ing of the petition.”.