



THE PREVAIL ACT WON'T WORK UNLESS PERVERSE INCENTIVES DRIVING PTAB INVALIDATION RATES ARE BALANCED

The Patent Trial and Appeal Board (PTAB)¹ was established in the U.S. Patent and Trademark Office (USPTO) by the Leahy Smith America Invents Act (AIA) in 2011. Its intent was to serve as an *alternative* forum for challenging the validity of issued patents that is *faster and cheaper* than federal court.

However, the PTAB has proven to be an utter failure, invalidating 84% of the patents it fully adjudicates, adding years to court cases, and increasing costs by hundreds of thousands of dollars.

US Inventor commends Senators Tillis (R-NC), Coons (D-DE), Durbin (D-IL), Hirono (D-HI), and Representatives Buck (R-CO) and Ross (D-NC) for introducing the PREVAIL Act ([S.2220](#) and [H.R.4370](#)) to address some of the PTAB's failures.

Nevertheless, it is important to recognize that the PREVAIL Act, while a step in the right direction, will have a marginal effect at best and may have no effect at all.

The PREVAIL Act fails to address the root cause of the extraordinarily high invalidation rates it aims to fix, which will leave the failed PTAB experiment in place and just as damaging to U.S. innovation.

The root cause of the PTAB's high invalidation rates is a perverse incentive system that drives the PTAB to invalidate patents at extremely high rates just to stay in business.

Without addressing the underlying root cause of the PTAB's failure, no legislation can curb the PTAB's systemic seduction to invalidate patents at very high rates. PREVAIL will launch a multi-year game of Whack-a-Mole as Congress passes legislation to reduce invalidation rates, only for the PTAB to devise new rules that drive the invalidation rate back up. Congress then must respond with additional legislation to counter those changes, and so on. It's impossible to predict how many years this process will continue until every conceivable rule is corrected and codified into law.

¹ The PTAB has two functions: it takes appeals from patent examination before issuance, and it invalidates issued patents. In this document, PTAB refers only to the side that invalidates issued patents.

Perverse Incentives Drive Patent Invalidation

The PTAB's sole function is to invalidate issued patents. Only those seeking to invalidate patents are allowed to petition the PTAB for an invalidation procedure. Patent owners are explicitly barred from petitioning their own patents to a review.

This one-sided framework positions the PTAB as a patent invalidation service solely catering only to those who seek to invalidate patents – infringers and their agents.

The PTAB is funded solely by petition fees it collects for conducting patent invalidation procedures, specifically Inter Partes Reviews (IPR) and Post-Grant Reviews (PGR). Without fees generated via invalidation procedures, the PTAB cannot cover its operational costs. As a result, it is a high priority for USPTO management to ensure a significant flow of petitions to invalidate patents.

Because the PTAB's sole function is to invalidate patents, its invalidation rate is the predominant customer value proposition that incentivizes infringers to file petitions.

Therefore, to ensure enough petitions to sustain PTAB operations, the PTAB must maintain a significantly higher invalidation rate than federal courts. Failure to do so would result in a lack of petitions, jeopardizing the PTAB's very existence.

These perverse incentives heavily bias the PTAB to invalidate patents at an extraordinarily high rate (currently 84%) creating a system that cannot facilitate an unbiased evaluation of patent validity.

The USPTO Acts on the PTAB's Perverse Incentives

USPTO management has demonstrated that it will respond to these perverse incentives by taking actions to increase invalidation rates while neglecting actions that reduce invalidation rates.

For example, petition fees charged for IPRs and PGRs do not cover the PTAB's cost of conducting patent invalidation procedures by as [much as 50%](#). Presumably because increasing fees would result in fewer petitions, USPTO management has refused to bring petition fees in line with costs each time it has increased fees since the PTAB was formed. Additionally, the USPTO has introduced incentives for infringers to file petitions, [offering substantial refunds](#) of the infringer's petition fees if the PTAB does not institute the petition.

Furthermore, administrative patent judges ("APJ") have no code of conduct and sometimes handle cases where their [former employer is a party](#). A conflict of interest of this sort increases the likelihood of invalidating the patent. Any USPTO Director since 2011 could have put in place a code of conduct, yet none did. On multiple occasions, when an original panel of APJs refused to invalidate a patent, the USPTO stacked the panel with new APJs so the patent would be invalidated. The [USPTO retaliated against the whistleblower](#) who brought this to light. Shockingly, the USPTO implemented a bonus program for APJs that incentivizes higher rates of



invalidation – [APJs actually receive higher bonuses to invalidate patents](#) than they do to hold them valid.

These examples clearly illustrate that USPTO management acts in response to perverse incentives to achieve high invalidation rates.

The PREVAIL Act Will Not Help Unless It Addresses Perverse Incentives

The array of potential rules, policies, and incentives (collectively “rules”) within the PTAB is virtually limitless. The PREVAIL Act aims to address existing rules that allow huge corporations to engage in predatory tactics against small inventors, startups and other patent owners that tilt the field to invalidating their patents. It introduces limited standing requirements, establishes a clear and convincing evidence standard for patent invalidation, mandates the implementation of an APJ code of conduct, and more.

While these changes are well-intended, the perverse incentive structure within the PTAB will limit the PREVAIL Act’s effectiveness, likely rendering it ineffective altogether.

Congress cannot realistically anticipate and codify every conceivable rule that could impact patent invalidation procedures at the PTAB. What Congress doesn’t specifically codify is left to the discretion of USPTO management to formulate rules, which will ultimately determine the effectiveness of the PREVAIL Act.

The USPTO will continue to act on the perverse incentive structure to keep invalidation rates extraordinarily high and will form new rules to that end. Notably, the USPTO has demonstrated a reluctance to engage in APA rulemaking, causing Big Tech and US Inventor to sue the USPTO on different fronts, unsuccessfully demanding that the USPTO adhere to APA rulemaking.

Like a game of Whack-a-Mole, when the USPTO establishes new rules to counteract those codified in PREVAIL, and these new rules prove harmful, Congress must pass yet more legislation to correct the errant rules. Unless the perverse incentives are balanced, this cycle will repeat itself year after year until all potential rules are codified by Congress.

It’s anybody’s guess how many years that will take. In the meantime, investors, overall a pretty smart lot, will not invest in many startups due to the ease with which patents covering their core technologies can be invalidated at the PTAB. American businesses will continue to be destroyed, jobs will continue to be lost to China and elsewhere, and U.S. innovation will continue to fall behind other countries, including China.

Balancing Incentives

Fixing the PTAB’s astronomical invalidation rates unquestionably requires balancing incentives.

The first step toward balancing incentives is to create opposing customers for the PTAB so petitions can be generated from either party involved in a patent dispute. This can be accomplished by allowing patent owners to petition the PTAB for an invalidity procedure of their own patents. Allowing both sides to file a petition will position the PTAB's invalidation rate to be attractive to one side or the other. If the PTAB's invalidation rate is higher than the courts, it will incentivize infringers to file petitions. If it is lower, patent owners will be encouraged to file petitions. This opens the possibility to balance invalidation rates with the courts without the risk of the PTAB becoming obsolete.

This can be accomplished by deleting just eight words, “*who is not the owner of the patent*”, from §311 *Inter partes review* and §321 *Post-grant review*:

(a) In General.—Subject to the provisions of this chapter, a person ~~who is not the owner of a patent~~ may file with the Office a petition to institute an inter partes review of the patent. ...

However, that alone will not change the incentive structure, as infringers typically possess significantly greater financial resources to cover petition fees compared to most patent owners. Since those with money can file more petitions than those without money, a perverse incentive structure remains.

The second step creates that balance by requiring mutual consent from both parties to initiate a petition. In this framework, when an infringer petitions the PTAB, the patent owner must consent, and vice versa. This aligns patent law with copyright law and, importantly, takes invalidation rates off the incentive table.

If the PTAB's invalidation rates do not align reasonably with those in federal court, it will lose petitions because one party or the other will choose to avoid the PTAB and instead stay in federal court. On the other hand, if the PTAB brings its invalidation rate reasonably in line with the court, the PTAB's value proposition will be that it is *faster and cheaper*, as it was originally constructed under the AIA, encouraging both parties to consent to the petition.

This can be accomplished in §312 *Petitions* and §322 *Petitions*, the requirements that must be met for the PTAB to institute a petition, by simply adding an additional requirement: “(6) *All parties, including the patent owner, consent to the petition.*”

Rebalancing incentives encourages the PTAB to become an impartial forum because invalidation rates can no longer be used as an incentive to attract petitions. Instead, the PTAB becomes an *alternate* venue that must use its inherent ability to be *faster and cheaper* to attract petitions, finally fulfilling the original intent of the AIA.



US Inventor Position on the PREVAIL Act

For the foregoing reasons, US Inventor offers an amendment that balances incentives.

If this amendment is incorporated into PREVAIL, US Inventor will support and advocate for its passage.

USI offers the following amendment:

Chapter 31 of title 35, United States Code:

- a) Under §311. Inter partes review.
 - a. Under §311(a), Delete “*who is not the owner of a patent*”, and delete “*the patent*” and add “*a patent*”;
 - b) Under §312. Requirements of Petition.
 - a. §312 (a)(5), Delete the last period (.) and add “, *and*”.
 - b. §312 (a), add “(6) *All parties, including the patent owner, consent to the petition.*”

Chapter 32 of title 35, United States Code:

- a) Under §321. Post-grant review.
 - a. Under §321(a), Delete “*who is not the owner of a patent*” and delete “*the patent*” and add “*a patent*”;
 - b) Under §322. Petitions.
 - a. §322 (a)(5), Delete the last period (.) and add “, *and*”.
 - b. §322 (a), add “(6) *All parties, including the patent owner, consent to the petition.*”