



US INVENTOR STRONGLY OPPOSES THE PREVAIL ACT WITHOUT AMENDMENT.

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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](#)) intended to address some of the PTAB's failures.

Nevertheless, it is important to recognize that the PREVAIL Act will have a marginal effect at best and may have no effect at all. This paper states US Inventor opposition to PREVAIL and the rationale of opposition. However, US Inventor would support the PREVAIL Act if it is amended with US Inventor's reasonable and constructive amendment below that ensures it achieves the goals of its sponsors and of U.S. inventors.

Patent Trial and Appeal Board

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 original 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.

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. It also suffers from many other systemic flaws discussed below.

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.

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 an invalidation procedure. This one-sided framework positions the PTAB as a patent invalidation service 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,

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.



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.

Petitioners have a choice of litigating patent validity in district court and/or the PTAB. 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 Work Unless It Corrects Perverse Incentives

The array of potential rules, policies, and incentives (collectively "rules") within the PTAB is virtually limitless. The PREVAIL Act aims to address some 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 again legislate 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.

Other Reasons Why the PREVAIL Act Won't Work

Changing the Burden of Proof to Clear and Convincing Evidence.

Currently, the burden of proof to invalidate a patent at the PTAB is a *preponderance of the evidence* – a very low standard, which is met when the Board thinks a patent is “more likely than not” invalid – it's slightly more than a coin toss. But in district court the burden of proof is *clear and convincing evidence*, the most exacting burden recognized by federal civil law. PREVAIL proponents claim this difference in burden is the reason for the PTAB's high invalidation rate.

However, there is much more going on here. First, the vast majority of patent invalidations are based on obviousness, so understanding how inventions are determined obvious is important to verify that the burden of proof matters in the first place.

For decades, an objective test for obviousness called the [Teaching-suggestion-motivation test](#) (TSM) was used. TSM requires that the adjudicator find some teaching, suggestion, or motivation to combine elements in the prior art to form the claimed invention. This left little room for hind-sight bias because something prior to the invention had to teach or suggest that the combination would work. It was an objective test.

In a 2007 case called [KSR Int'l Co. v. Teleflex Inc.](#) (*KSR*), the Supreme Court eliminated the objective TSM test and lent new weight to a completely subjective test. Under this *KSR* test, an imaginary *person having ordinary skill in the art* (PHOSITA) is the decision maker. The test giver puts themselves into the mind of the PHOSITA to determine if the PHOSITA would find that two or more references would yield a “*predictable result*” or that combining the references is “*obvious to try*”. *KSR* is a subjective test and invites hindsight, where reasonable people can come to opposite conclusions. Nobody can prove the test giver is wrong, so it doesn't matter what evidence standard is applied to the test. Elevating the level of evidence from a *preponderance of evidence* to *clear and convincing evidence* will have, at best, only a marginal effect on PTAB invalidation rates.

No Standing Requirement for Third-Party Interlopers

Currently anyone can petition the PTAB to kill a patent because there is no standing requirement. This lack

of standing has spawned many problems. Third party interlopers have petitioned the PTAB on a patent in litigation with a different party only to offer to drop the petition if the patent holder pays the interloper. Effectively, this is legalized extortion. Others short sell shares of a company and then petition the PTAB to kill its key patents. When the stock price drops, the interloper completes the short sale for a substantial profit.

But another third-party interloper has emerged, [Unified Patents](#). Unified Patents is a subscription-based firm. Over 3,000 corporations pay Unified Patents a monthly fee. In exchange, Unified Patents uses those fees to fund petitions the PTAB to kill patents that affect its subscribers. Unified Patents does not restrict its subscribers to U.S. corporations. Therefore, Chinese Communist Party (CCP) controlled corporations are likely Unified Patents subscribers. When a patent holder settles with Unified Patents, Unified Patents drops its PTAB petition in exchange for a zero-cost license to the patents that extends to all its subscribers. That means the entire subscriber base of Unified Patents are, in fact, real parties in interest to a Unified Patents filed PTAB petition, including any CCP controlled multinationals named, or not named, in the petition.

PREVAIL's Standing Requirement is Not a Standing Requirement

First it is important to understand the scale of the standing provision. [More than 85% of IPRs](#) are filed with co-pending district court litigation, so the standing provision effects less than 15% of IPRs. As such, fixing standing only fixes a small part of the overall problems at the PTAB. Even so, the standing provision does not stop third-party interlopers from filing IPRs and will still be able to hide the identity of U.S. adversaries, like CCP controlled multinationals, that are, in fact, *real parties in interest* of the IPR.

PREVAIL creates a standing requirement that is represented to be similar to district court. However, it adds confusing language that exempts third party interlopers like Unified Patents. Here is the PREVAIL's legislative text (emphasis added):

“(a) Standing and real parties in interest.—Section 311 of title 35, United States Code, is amended by adding at the end the following:

(d) Persons that may petition.—

“(1) DEFINITION.—In this subsection, the term ‘charged with infringement’ means a real and substantial controversy regarding infringement of a patent exists such that the person would have standing to bring a declaratory judgment action in Federal court.

*“(2) NECESSARY CONDITIONS.—A person may not file with the Office a petition to institute an inter partes review of a patent unless the person, **or a real party in interest or a privy of the person,** has been—*

“(A) sued for infringement of the patent; or

“(B) charged with infringement of the patent.

*(e) **Real party in interest.**—For purposes of this chapter, **a person that, directly or through an affiliate, subsidiary, or proxy, makes a financial contribution to the preparation for, or conduct during, an inter partes review on behalf of a petitioner shall be considered a real party in interest of that petitioner.**”.*

So, if a person is being paid by someone else who has standing, that person can file a petition, which effectively preserves and perpetuates Unified Patents as a third-party interloper.

Unified Patents has never disclosed its 3,000 subscribers, and its subscribers pay Unified Patents subscription fees to file petitions. This means that any petition Unified Patents files could conceivably make all its subscribers *real parties in interest* to the petition. However, subscribers who were never charged with

infringing the patent would likely not qualify as *real parties in interest*.

To show standing, Unified Patents must disclose a single real part in interest in the petition,. But Unified Patents will not be required to disclose further subscribers who are also a *real party in interest* to Unified Patents but would be time-barred from filing a challenge, under the pre-existing one-year time bar. Likewise, omitted *real parties in interest* could escape existing estoppel provisions upon a Unified Patents loss of the IPR, further mocking existing provisions of the law that exist for the benefit of patent owners.

This is a gaping hole in PREVAIL that grants Unified Patents and its subscribers with plausible deniability of being a *real party in interest* in the Unified Patent's file petition, and therefore, retain the right to file petitions when it has none. This is an escape hatch from being estopped when Unified Patents presents a losing case. It will allow Unified Patents, as an agent of a time-barred infringer, to skirt and launder existing rules that would otherwise prevent that petition from getting filed. It will allow infringers to evade important protections that are supposed to protect winning patent owners from serial attacks.

Likewise, if Unified Patents does not ask subscribers if they are a *real party in interest*, or if the subscriber does not disclose it to Unified Patents, both can deny knowledge of *real party in interest* status. Alternatively, Unified Patents could just identify ANY *real party in interest*, whether that party is a privy to Unified or not, so they could possibly identify a *real party in interest* that is not a member of Unified Patents, which would allow Unified Patents to never disclose its subscribers as *real parties in interest*.

It is very likely that many CCP controlled multinationals are among the undisclosed list of 3,000 Unified Patents subscribers. Thus, the PREVAIL Act will not prevent Unified Patents from acting as an agent of a hostile government in a manner that blinds the USPTO from protecting our Republic from the foreign threat. PREVAIL creates a stealth mechanism by which U.S. adversaries, without revealing their identity, can clear U.S. markets of important patents so they can import their products. If such adversaries acted directly (not through a shell like Unified Patents), the PTAB can use its discretionary authority to deny review on national competitiveness grounds.

The proponents of PREVAIL claim that the standing requirement will address third party petitions, but the clear language of PREVAIL does not do that.

Balancing Incentives Makes the PREVAIL Act Work

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, bringing in their infringer-adversary as a respondent. 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 to estop their adversaries and dispose of the invalidity question in Article III court proceedings. This opens the possibility to balance invalidation rates with the courts without the risk of the PTAB becoming obsolete.

This can mainly 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 (for example, the opt-in nature of the new Copyright Small Claims tribunal) 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 opposes the PREVAIL Act. If this amendment that balances the PTAB incentives 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.”