

## SPARK Innovation Opposes the PREVAIL Act without Amendment

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### PREVAIL is Ineffective for Critical Emerging Technology Startups

#### China will continue to Lead the World in Technology

SPARK Innovation is dedicated to advancing the future of critical emerging technology startups, entrepreneurs, and inventors through effective policy reform in the United States. We strive to create a policy environment where the conception, protection, and commercialization of technologies critical to American economic and national security prosper thereby enabling the United States to take back the global technological lead from China.

S.2220, the Promoting and Respecting Economically Vital American Innovation Leadership Act (PREVAIL) was introduced in the Senate by Senators Coons, Tillis, Durbin, and Hirono. Its identical companion (H.R.4370) was introduced in the House by Representatives Deborah Ross, Nathaniel Moran and a others.

PREVAIL is intended to fix some of the Patent Trial and Appeal Board's (PTAB) failures, which are handicapping U.S. innovation in ways no other country handicaps their own innovation engines. These PTAB failures have enabled China to take the lead in 37 of 44 technologies critical to our economic and national security.

The PREVAIL Act is a product of the corporate lobby, who steal patented critical emerging technologies from inventors and startups to protect their monopolistic markets. As a result, PREVAIL will have little positive effect and will leave the failed PTAB experiment just as damaging to U.S. innovation.

SPARK Innovation opposes PREVAIL as written but will support it with an amendment that ensures it achieves its stated goals, which are the same goals of critical emerging technology startups, entrepreneurs, and inventors.

#### Patent Trial and Appeal Board

The PTAB<sup>1</sup> was established in the U.S. Patent and Trademark Office (USPTO) by the 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 an abject failure, effectively invalidating 84% of the patents it fully adjudicates, adding years to litigation, and increasing costs for patent owners by millions of dollars. This has reduced early-stage investment in U.S. startups, particularly those in critical emerging technologies.

China overtook the U.S. in funding of A.I. startups almost a decade ago. As reported by The Verge, a 2018 report by C.B. Insights showed that “[China] accounted for 48 percent of the world’s total A.I. startup funding in 2017, compared to 38 percent for the U.S.” Reuters reports that startup

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<sup>1</sup> 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.

funding is down 30% in 2023. Unsurprisingly, China took the global lead in 37 of 44 technologies critical to our national security and economic growth last year

While PREVAIL is advertised as fixing the PTAB's serious problems, it misses the cause of its high invalidation rates. The PTAB operates under a perverse incentive structure that drives it to invalidate patents at extremely high rates just to stay in business. PREVAIL does nothing to address the incentives, and it provides unworkable solutions to the problems it claims to address.

### **The PTAB's Perverse Incentive Structure**

The PTAB's sole function is to invalidate issued patents; it can do nothing else. Only those seeking to invalidate a patent are permitted to challenge the patent at the PTAB (called a petition). This means that the PTAB is a patent invalidation service catering to infringers and their agents.

The PTAB is solely funded by fees paid for conducting petitions to invalidate patents, specifically Inter Partes Reviews (IPR) and Post-Grant Reviews (PGR). Without petition fees, the PTAB cannot cover its operational costs. That means USPTO management must maintain a significant flow of petitions or the PTAB will not generate enough funds to stay in business.

Nearly all new PTAB petitions have copending litigation in federal court. Because the PTAB is an *alternative* to federal court litigation, infringers must decide to file a PTAB petition. That means the PTAB must offer an invalidation rate that is significantly higher than the federal court to generate a flow of petitions sufficient to stay in business.

This perverse incentive structure strongly biases the PTAB to invalidate patents at a very high rate.

### **The USPTO Acts on the Perverse Incentives**

USPTO management has a demonstrable history of acting on perverse incentives by taking actions to increase invalidation rates and ignoring actions to reduce invalidation rates.

For example, because increasing petition fees will result in fewer petitions, USPTO management has refused to increase fees to a level that covers the PTAB's costs of performing the petition. Fees do not cover the PTAB's costs by as much as 50%. Additionally, the USPTO offers substantial refunds to the petitioner if the PTAB does not institute the petition.

Administrative patent judges ("APJ") have no code of conduct and often handle cases where their former employer is a party. This sort of conflict biases APJ's to invalidate the patent. While PREVAIL puts in place a code of conduct, any USPTO Director could have put one place, but none did.

In most petitions, APJ's do not have proper education nor experience to understand the technology in question. Most APJ's have no experience in the technology. In 91% of petitions, at least one APJ lacks the requisite education, and, in 43% of petitions, all APJs lack the requisite education.

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 actually gives [APJ's significant bonuses to invalidate patents](#).

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

### **PREVAIL Will Fail Under the Perverse Incentive Structure**

PREVAIL's multinational proponents tell us that PREVAIL addresses the problems in existing rules that allow huge corporations to engage in predatory tactics against critical emerging technology startups, entrepreneurs, and inventors. For example, PREVAIL introduces standing requirements, establishes clear and convincing evidence standards to invalidate a patent and mandates a code of conduct.

However, the perverse incentive structure will thwart PREVAIL's effectiveness. The possible rules, policies, and incentives (collectively "rules") within the PTAB is virtually limitless. Congress cannot anticipate every conceivable rule that could influence patent invalidation procedures.

What Congress doesn't codify is left to the discretion of USPTO management to formulate rules. If PREVAIL passes, USPTO management must keep the PTAB's invalidation rates significantly higher than the federal courts or the PTAB will go out of business. To that end, USPTO management will simply create new rules to bring the invalidation rate back up. Congress will be forced to once again pass legislation to fix the new rules and USPTO management will just make more. This cycle will repeat itself for years until all potential rules are codified by Congress.

In the meantime, investment in early-stage U.S. startups will remain depressed because their patents can so easily be invalidated. U.S. innovation will continue to be handicapped against China and elsewhere. In the end, U.S. innovation may never recover enough to take back the lead from China.

### **PREVAIL Won't be Effective**

#### **PREVAIL's Evidence Standard**

Currently, the evidence standard to invalidate a patent at the PTAB is a *preponderance of the evidence* – a very low standard – which is met when the PTAB thinks a patent is "more likely than not" invalid. But in federal court the evidence standard is *clear and convincing evidence*, the highest evidence standard in civil law. PREVAIL proponents claim this difference in evidence standards is a primary reason for the PTAB's high invalidation rate in relation to federal court.

However, there is more here than meets the eye. Nearly all PTAB patent invalidations are based on obviousness, so understanding the test for obviousness is important.

For decades, obviousness was determined under an objective test called the [teaching-suggestion-motivation test](#) (*TSM*). *TSM* requires that something in the prior art history teaches, suggests, or motivates a person to combine prior art elements to form the claimed invention. For example, a researcher may have written a paper suggesting that certain elements could be combined to make

the invention. *TSM* was an objective test because it required evaluation of hard evidence in the prior art record.

In a 2007 case called [\*KSR Int'l Co. v. Teleflex Inc.\*](#) (*KSR*), the Supreme Court eliminated the objective *TSM* test and created a new subjective test. Under the new *KSR* test, an imaginary *person having ordinary skill in the art* (PHOSITA) decides if the invention is obvious. The test giver puts themselves into the PHOSITA's mind to determine if the PHOSITA would think combining two or more references would yield a "*predictable result*" or is "*obvious to try*".

*KSR* is subjective and invites hindsight bias. Two reasonable people can come to opposite conclusions, and nobody can prove who is wrong. It doesn't matter what evidence standard is applied to the *KSR* test. Elevating the evidence standard from a *preponderance* to *clear and convincing* will have little to no effect on PTAB invalidation rates unless *KSR* is abrogated.

### **PREVAIL's Standing Requirement**

Currently anyone can petition the PTAB; there is no standing requirement. As a result, third-party interlopers have extorted patent owners by petitioning patents in litigation and then offering to drop the petition if the patent holder pays the interloper a percentage of the winnings. Others have short sold shares of a public company and then petitioned their critical patents to drop its share price and profit from the short sale.

Another insidious third-party interloper has emerged, [Unified Patents](#) that clears the market of patents so their concealed Chinese Communist Party (CCP) controlled multinationals can import product into the U.S.

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 PTAB petitions to invalidate patents that affect its subscribers.

Unified Patents does not restrict its subscribers to U.S. corporations. It is known that CCP controlled corporations like Chongqing Cable Networks, Guangzhou Digital Media, Shenzhen Topway Video, and many others are Unified Patents' subscribers.

Unified Patents files PTAB petitions as the petitioner and does not identify *real parties in interest*. When a patent holder settles with Unified Patents, it drops its petition in exchange for a zero-cost license to the patents that extends to all its subscribers, including the concealed CCP multinationals. That means the entire subscriber base of Unified Patents are *real parties in interest* to any Unified Patents filed PTAB petition.

In effect, Unified Patents uses the PTAB to invalidate U.S. patents so its concealed CCP multinationals can flood the U.S. market with their products, which thwarts investment into U.S. critical emerging technology startups.

### **PREVAIL's Standing Requirement**

The PTAB's lack of a standing requirement is a well-known and documented problem. PREVAIL's proponents assert it establishes Article III federal court standing for PTAB petitions.

Article III federal court standing means you have either been sued or threatened to be sued and a third-party interloper cannot stand for you.

However, PREVAIL's standing requirement creates a loophole allowing third party interlopers to stand for someone else with Article III standing. PREVAIL's loophole allows third party standing if the person with Article III standing (called the *real party in interest* or *privy*) pays the costs of the PTAB petition and is identified.

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 with standing is paying a third party for petition costs, that third party has standing to file the petition if the person is identified as the *real party in interest* or *privy*.

PREVAIL preserves Unified Patents' business model as a third-party interloper concealing the identity of CCP multinationals. Unified's subscribers pay it a subscription fee to file petitions. This means that if any one of Unified Patents' subscribers have Article III standing, Unified Patents has standing under PREVAIL to petition the PTAB.

This grants Unified Patents and its *real parties in interest* plausible deniability. To show standing, Unified Patents must disclose a single real part in interest. If Unified 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.

This plausible deniability loophole does at least two damaging things: (i) it conceals CCP controlled multinationals, and (ii) it conceals parties that could be time-barred from filing a petition allowing them to escape existing estoppel provisions if Unified Patents loses the petition. This gaping hole in PREVAIL mocks existing provisions of the law that are supposed to protect winning patent owners from serial attacks.

PREVAIL perpetuates a stealth mechanism at the PTAB by which U.S. adversaries, without revealing their identity, can clear U.S. markets of important patents so they can import their products. PREVAIL 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.

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 PREVAIL Work**

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

Currently, when an infringer or its agent files a PTAB petition, the patent owner is forced into the PTAB and must respond. This mandatory participation biases the PTAB to favor of the infringer because the PTAB's invalidation rate must be higher than federal court to attract the PTAB petition.

Any legislation intended to fix the broken PTAB must balance these perverse incentives to remove systemic bias from the PTAB.

Requiring mutual consent from both parties before the PTAB institutes a petition removes that systemic bias. If the patent owner can say no, the PTAB will remove its invalidation rate from incentives that attract new petitions. That is because if the PTAB invalidation rate is too high, the patent owner will refuse, and conversely, if the PTAB invalidation rate is too low, infringer will not petition the PTAB. The PTAB's invalidation rate must be aligned with the federal courts rate if it is to attract petitions.

The PTAB was created by Congress to be *faster and cheaper* than federal court, so the PTAB's value proposition to attract petitions becomes that it is a *faster and cheaper alternative* to federal court, which aligns the PTAB with the original intention of the AIA.

Furthermore, mutual consent aligns with copyright law. For example, the Copyright Small Claims tribunal created under the Copyright Alternative in Small-Claims Enforcement Act of 2020 requires both parties to consent.

### **SPARK Innovation's Position on the PREVAIL Act**

SPARK Innovation opposes PREVAIL as written because it will little to no positive effect. However, if PREVAIL is amended to balance the incentives, SPARK Innovation will support and advocate for PREVAIL's passage.

SPARK Innovation offers the following amendment from the Balancing Incentives Act (H.R.8132):

- 1 **SEC. 2. REQUIREMENT FOR PATENT OWNER TO CONSENT**
- 2 **TO THE FILING OF PETITION FOR INTER**
- 3 **PARTES REVIEW OR POST-GRANT REVIEW.**
- 4 Title 35, United States Code, is amended—
- 5 (1) in section 312(a)—
- 6 (A) in paragraph (4), by striking “; and”
- 7 and inserting a semicolon;
- 8 (B) in paragraph (5), by striking the pe-

9           riod at the end and inserting “; and”; and  
10           (C) by adding at the end the following:  
11           “(6) the owner of the patent consents to the fil-  
12           ing of the petition.”; and  
13           (2) in section 322(a)—  
14           (A) in paragraph (4), by striking “; and”  
15           and inserting a semicolon; and  
16           (B) in paragraph (5), by striking the pe-  
17           riod at the end and inserting “; and”; and  
18           (C) by adding at the end the following:  
19           “(6) the owner of the patent consents to the fil-  
20           ing of the petition.”.