



Statement for the Record of

The Alliance of Startups and Investors for Jobs

U.S. Senate Committee on the Judiciary

Subcommittee on Intellectual Property

Hearing on *“Reforming the Patent Trial and Appeal Board – the PREVAIL Act and Proposals to Promote U.S. Innovation Leadership”*

November 8, 2023

The Alliance of U.S. Startups and Investors for Jobs (“USIJ”) writes in strong support for enactment of S.2220, the “Promoting and Respecting Economically Vital American Innovation Leadership Act,” also known as the “PREVAIL Act.” USIJ is a coalition of 23 companies – startups, entrepreneurs, inventors and investors – all of which depend on stable and reliable patent protection as a foundational prerequisite for making long term investments of capital and time commitments to high-risk businesses developing new technologies. USIJ was formed in 2012 and is committed to promoting a strong intellectual property system that supports innovation, investment, and breakthrough technologies that change our world. Our mission is to ensure that this system continues to thrive for the benefit of American startups and inventors, and most importantly, American leadership in science and technology. USIJ collaborates with several other associations that are similarly concerned with the declining availability of U.S. patents essential to protect our country’s most important inventions that will define the future of technology.

The PREVAIL Act addresses several shortcomings in the American Invents Act (“AIA”), the comprehensive revision to the Title 35 of the U.S. Code enacted into law in 2011. Twelve years of experience with the AIA, and particularly the post-issuance challenge procedures to the validity of previously issued patents, the Inter Partes Reviews and Post Grant Reviews set forth in 35 U.S.C. §§ 315 *et seq.* and 325 *et seq.*, respectively, have enabled large incumbents to render the patent system essentially unavailable to innovative and brilliant inventors, startups, small companies and their investors, all of whom require stable, predictable and reliable patents to justify the risks inherent in investing time and resources in new technologies and new products.

There is little question that abuse of the property rights of these individuals and small companies began with implementation of the AIA and continues to this day to be one of the most salient features of post-grant reviews – particularly IPRs – from the viewpoint of entrepreneurs, startups and their investors – to the point that many have simply withdrawn from trying to invent anything that requires reliable U.S. patents to justify the risk. Harassment, opportunistic petitions, and flat refusals to respect the property rights of inventors and small companies were clearly not what Congress had in mind when it enacted the AIA. Unfortunately, however, a few very large companies, over the 12 years since enactment of the AIA, have developed highly sophisticated tactics for using IPRs to squelch competition and to beat down innovation by smaller companies. Exemplary is the filing of serial petitions by the same petitioner attacking the validity of the **very same patent** owned by a smaller company. This became a common practice used by many corporate giants to harass patent owners, contrary to what Congress expressly sought to avoid.¹ The IPR process was well-intentioned, to be sure, but despite the congressional intent to **reduce** the cost of litigation, IPR petitions are often filed by the world’s wealthiest and most profitable digital technology companies, both domestic and foreign, for the specific purpose of **increasing** the cost of litigation to small companies with limited resources. Restoring balance to this procedure is essential if the objectives of the patent system intended by Congress are ever to be realized.

USIJ strongly supports the PREVAIL Act in its entirety, and in particular several of the corrective amendments to the AIA provided in the PREVAIL Act that are of direct concern to this cohort, including (i) the imposition of a standing requirement and the efforts to determine with certainty the real parties in interest in situations involving surreptitious deals between large petitioners and their surrogates that perform as “stalking horses;” (ii) limiting abuse of the joinder provisions that currently allow time-barred challengers to avoid the bar by joining some other petition; (iii) limiting the ability of defendants to complicate litigation by maintaining parallel challenges to the validity of the same patent in both the IPR process and district court litigation involving the same parties; (iv) refusals to entertain petitions that rely on prior art the PTO has previously considered barring “exceptional circumstances;”² (v) raising the legal standard for invalidating an issued patent by requiring clear and convincing evidence of invalidity instead of a preponderance of the evidence as is currently the case; (vi) prohibiting further challenges following a final decision by the PTAB or a district court judge that a patent is not invalid, thus making better use of the concepts of *res judicata* and collateral estoppel to achieve finality, and (vii) addressing the issues raised by serial and parallel petitions and proceedings.

¹ See, e.g., USIJ Research Paper, “How One Bite at the Apple Became Serial Attacks on High Quality Patents,” <https://www.usij.org/research/2018/serial-attacks>.

² It is not entirely clear what the legislation contemplates by way of “exceptional circumstances,” but we do believe that language should be more carefully defined, lest the exception swallow the basic rule protecting patent owners from having to fight the same battle on multiple occasions.

USIJ's comments reflect several fundamental truths we believe to be incontrovertible. First, individual inventors, startups and the investors who fund them have for decades been primarily responsible for breakthrough innovation in many of our country's most important strategic technologies. This is the cohort of stakeholders that relies most heavily on a functional and reliable regime of intellectual property protection, particularly patents. It is also the cohort that has been most severely damaged by abusive practices that have been a prominent feature of post-grant procedures since the outset. We do not deny that large, well-established and successful companies can contribute to innovation in their own way, but R&D in that environment is much more likely to be low-risk work focused on improving already established products and services rather than disruptive new technologies that make old products obsolete and move an entire technology forward.³ Further, when large companies do add innovative products and features to their existing product lines, close examination often reveals that these were conceived and proven by an individual inventor or a small company and either purchased or copied by the larger company.

Second, without reliably enforceable patents, few if any startups can survive in head-to-head competition with large incumbents that copy their new technology. Once a new technology is proven to be feasible, incumbents enjoy tremendous advantages of scale and the benefit of established engineering, distribution and marketing infrastructure already in place, whereas most smaller companies need to build these things from scratch or form joint ventures and partnerships to advance their technology from a proof-of-concept stage to a deliverable product. Only patents that are respected by the community prevent incumbents from running roughshod over a startup. Even the negotiations essential to forming joint arrangements become far more precarious and riskier without enforceable patents, and this inhibits the most effective way for a small company to bring products to market.

More troublesome than the inherent economic disparity that startups suffer is an intentional effort by some of the largest digital technology companies to neutralize patents altogether, a business strategy euphemistically called "efficient infringement." This is a strategy that is effective in major part because the PTAB procedures encourage or at least allow it. The strategy comes in several flavors, one being to invite a startup to engage in potential licensing discussions, get a good look at its new technology, then assign a few engineers to copy what they have learned about the new technology. Another is to copy new technology without regard to whether or not it is patented and refuse to take a license. Still another is to entice away the most knowledgeable technical people from an innovative startup, using salaries and stock options that startups cannot match. Most of the time there is no reprisal in these situations, but even if sued for infringement, the infringer predictably will hire the very best lawyers and litigate aggressively until the case goes

³ Numerous academic studies link a strong patent system with widely diversified innovation by inventors and entrepreneurs. *E.g.*, Barnett, *INNOVATION, FIRMS AND MARKETS: THE ORGANIZATIONAL LOGIC OF INTELLECTUAL PROPERTY* (Oxford University Press 2021); Stephen Haber, "Patents and the Wealth of Nations," *Geo. Mason L. Rev.*, 23:4, pp. 811 *et. seq.*

away or can be settled for a tiny fraction of its value. The PTAB provides opportunities for driving up litigation costs and delaying final resolution of almost any case. These strategies are a direct outgrowth of the declining enforceability of U.S. patents, particularly the loss of injunctive relief, the propensity of the Federal Circuit to cut back or reverse large damage awards, and the undeniable vulnerability of critical patents to IPRs. This type of predation has become an all too frequent phenomena, as can be seen in Apple’s misappropriation of the medical device technologies of Masimo and AliveCor,⁴ Google’s misappropriation of Sonos’ internet audio technology,⁵ Samsung’s misappropriation of Netlist’s memory technology,⁶ Cisco’s misappropriation of Centripetal’s network security technology,⁷ etc.

Third, patent litigation has become prohibitively expensive for most startups and small companies. The cash reserves available to large infringers allows them intentionally to make litigation so expensive that few startups can even consider litigation to stop infringement of their patents, let alone obtain the resources needed to initiate litigation or even licensing discussions. A patent infringement case from start to finish can cost the plaintiff tens of millions of dollars and can tie up most of the management team of a small company for years, as the case works its way through the courts. Startups funded by venture capital may be able to raise large amounts of capital, but typically are not allocated more than they need for hiring people and conducting the R&D needed to get a product to market and achieve profitability. Few investors are willing to support litigation by increasing their investments, because the outcomes are extremely unpredictable and returns are seldom worth the risk. The creation of post-grant procedures may have been envisioned by Congress as a way to reduce these costs of litigation for all parties, but in reality, these may have made litigation less costly for large corporate entities that comprise the primary users of IPR procedures, but they have made it **vastly more expensive**, risky and difficult for startups and small companies.

Finally, the extraordinary rate of cancellation of the patents that the same agency examined and issued a few months or years earlier, the absence of a standing requirement for an IPR petition, the emergence of bounty hunters such as Unified Patents, the gamesmanship involved when both an IPR proceeding and district court litigation co-exist, the lack of finality as to patent validity – all of these factors have created a nightmarish scenario for the startup cohort that is going to be difficult to overcome. The PREVAIL Act is a major step toward restoration of a patent system that inventors, startups and their investors want to use. Patents only perform their intended purpose

⁴ <https://www.medtechdive.com/news/apple-masimo-itc-patent-vote-AAPL-MASI/650511>

⁵ <https://www.reuters.com/legal/us-jury-says-google-owes-sonos-325-million-smart-speaker-patent-case-2023-05-26>

⁶ <https://www.reuters.com/legal/samsung-hit-with-303-mln-jury-verdict-computer-memory-patent-lawsuit-2023-04-21>

⁷ <https://money.usnews.com/investing/news/articles/2022-12-05/u-s-supreme-court-rejects-centripetal-appeal-in-cisco-patent-fight>

of incentivizing innovation when they are **perceived** by those who must commit time, money and other resources to the task of developing new technologies and products as providing genuine protection from infringers, predatory or otherwise. This perception arises in major part from “outcomes,” *i.e.*, whether patent owners win or lose, not the minutia as to how that came about. The regular and frequent cancellation of patents that play a central role in the business model of a small company echoes loudly throughout the entire cohort and is a major factor in the growing irrelevance of patents to this community. From the earliest days of the PTAB, startups and their investors have paid close attention to the cancellation statistics, which have been extremely troublesome. At the moment, U.S. patents are no longer perceived by a strong and growing majority of this community as a reliable way to protect new technology.

Faced with the foregoing, many entrepreneurs and investors have stopped considering their patents as a key part of their business strategy, which in many cases means that fewer and fewer of our most talented scientists and inventors are pursuing the types of innovation that America needs most, as investment dollars move to other countries or to enterprises that do not need patents – such as fashion, social platform apps, recreation and the like. There also has been a shift toward technologies and business models that rely on trade secrets and subscription models to defeat the public disclosure incentive of patents, precisely the opposite effect of why Congress wants patents in the first place. Put succinctly, U.S. patents are increasingly irrelevant to the investment of time and resources in new and unproven technologies, and that is a long-term disaster for this country.⁸ The U.S. has led the world for more than two centuries in the development of science and technology. Allowing patent protection to become irrelevant to innovation has enormous and ominous implications for this country and should be a grave concern to everyone. The PREVAIL Act is a good step in the right direction and USIJ strongly supports it.

⁸ See, Mark Schultz, “The Importance of an Effective and Reliable Patent System to Investment in Critical Technologies,” USIJ Research Paper (2020) <https://www.usij.org/research/2020/8/3/usij-releases-report-on-the-importance-of-an-effective-and-reliable-patent-system-to-critical-technologies>. Professor Schultz demonstrates the shift in venture capital away from patent essential technologies and toward less risky investments such as fashion, smartphone apps, hotels and the like.

APPENDIX A – USIJ White Paper “THE PREVAIL ACT PROVIDES MUCH-NEEDED REFORMS TO REDUCE HARASSMENT OF STARTUPS AND INVENTORS”

THE PREVAIL ACT PROVIDES MUCH-NEEDED REFORMS TO REDUCE HARASSMENT OF STARTUPS AND INVENTORS

The Importance of Reliable Patent Rights: Patents are the lifeblood of innovative startups, particularly those with significant research and development costs. Robust and enforceable intellectual property protections attract capital and ensure a seat at the table across from much larger, highly resourced, and heavily entrenched competitors. But patent rights have been under assault in recent years, and much of the resulting uncertainty can be traced to abuses of the *Inter Partes* Review (IPR) and Post Grant Review (PGR) proceedings for challenging the validity of issued patents at the Patent Trial and Appeal Board (PTAB), an administrative tribunal within the United States Patent and Trademark Office (USPTO).

The Problems Facing Inventors and Startups: When Congress created these proceedings as part of the *America Invents Act (AIA)* in 2011, it recognized the potential for abuse and harassment of patent owners.⁹ But it could not have envisioned the extent of the predatory infringement strategies, extortion and stock-market manipulation schemes, tactics designed to secure leverage in unrelated disputes, and duplicative litigation loopholes exploited by opportunistic parties and clever attorneys.¹⁰ As a result, the PTAB has become an *additional* litigation tool for mercenaries, Big Tech, and Chinese competitors to impose costs on inventors and small businesses seeking to enforce their patent rights¹¹ rather than the “quick and cost-effective *alternatives* to litigation” envisioned by Congress.¹² Moreover, the AIA included structural flaws that subjected patent owners to lower invalidation standards, permitted anyone to file petitions, and omitted sufficient ethical safeguards, among other shortcomings. Rather than curbing unnecessary litigation, the PTAB has multiplied proceedings and costs for all involved.

The Legislative Solution: *The Promoting and Respecting Economically Vital American Innovation Leadership Act (PREVAIL) Act* represents a much-needed course correction that would restore confidence in our patent system and reinvigorate entrepreneurs to invest in the research and development necessary to realize the full scope of critical, next-generation technologies and drive our innovation economy. It would do so by, among other things, providing a standing requirement for filing petitions, applying the same standards as district courts, prohibiting parallel litigation in multiple forums, limiting serial and duplicative petitions, recognizing district court validity adjudications, closing a loophole

⁹ See H.R. Rep. No. 112-98, pt. 1, at 48 (2011) (recognizing “the importance of quiet title to patent owners to ensure continued investment resources,” and warning that AIA trial proceedings should not “be used as tools for harassment or a means to prevent market entry through repeated litigation and administrative attacks on the validity of a patent”).

¹⁰ See, e.g., Lamar Smith, *Don’t Weaken the Leahy-Smith America Invents Act*, Bloomberg Law (March 30, 2022), <https://news.bloomberglaw.com/ip-law/dont-weaken-the-leahy-smith-america-invents-act> (“In the decade since the AIA took effect, the wording in the law to prevent that harassment has proved unequal to the task, and entire industries have emerged to perpetuate these abuses.”).

¹¹ See Innovation Alliance, *Infographic: Big Tech Companies Are Biggest Users of PTAB, 2012-2022* (Jan. 31, 2023), <https://innovationalliance.net/from-the-alliance/infographic-big-tech-companies-are-biggest-users-of-ptab-2012-2022/>.

¹² H.R. Rep. No. 112-19, part 1, at 48 (emphasis added).

permitting time-barred petitioners to join subsequent proceedings, providing transparency, and requiring the establishment of a PTAB code of conduct.

Case Studies: The following real-life examples are but a small sample of the harassment and abuses suffered by patent owners, demonstrating the need for the PREVAIL Act and its potential impact:

1. Intel Corp., OpenSky Industries LLC, and Patent Quality Assurance LLC v. VLSI Technology LLC

Perhaps the most controversial IPR proceedings in recent memory involve petitioners OpenSky and PQA, which were formed *solely* to challenge two VLSI patents that a jury had recently found Intel to have infringed to the tune of over \$2 billion in damages. The USPTO Director personally sanctioned both entities for filing abusive petitions, but perplexingly permitted the IPRs to continue. Despite the fact that Intel had already had its own petitions denied at the PTAB, and despite the fact that Intel was statutorily barred from filing additional petitions due to the now-concluded jury trial in which it had the opportunity to litigate validity, Intel itself was joined to the proceedings initiated by OpenSky and PQA and was permitted to stand in their shoes for purposes of maintaining the challenges to the validity of VLSI's patents.¹³ Despite the pending appeal from the district court judgment, the PTAB has now issued decisions finding VLSI's claims unpatentable.¹⁴

If the PREVAIL Act had been enacted: None of these shenanigans would have been possible under the PREVAIL Act. For example, neither OpenSky nor PQA could have satisfied the standing requirement to file petitions in the first place, which in turn would foreclose Intel from seeking joinder or further review. Intel's petitions would also have been rejected in view of the prior district-court adjudication, and Intel would have been subject to a rebuttable presumption against joinder in view of its otherwise time-barred status. Moreover, had Intel nonetheless succeeded in securing review at the PTAB, it would have been required to abandon its invalidity defenses in the district court litigation and appeal. The final outcome of the IPRs may also have been different in view of the presumption of validity and the heightened clear-and-convincing-evidence burden of proof, which mirror the standards applied in district court.

2. Cisco Systems, Inc. and Palo Alto Networks, Inc. v. Centripetal Networks, Inc.

Centripetal is an American network security company that has fought to vindicate its intellectual property rights against large, incumbent technology companies. Like VLSI, Centripetal prevailed in district court against a Big Tech giant, Cisco, securing a damages award of well over \$2 billion based on the judge's determination that Cisco had willfully infringed Centripetal's patents. Palo Alto Networks then filed a petition challenging one of those patents, despite not having been accused of infringing it, and Cisco was permitted to join that proceeding despite the fact that—like Intel—it was statutorily time-barred from filing its own petition challenging that patent. As a further twist, the district court judge's infringement and damages decision was vacated on appeal due to his wife's purchase of a few thousand dollars of Cisco stock, but when Centripetal discovered that one of the PTAB judges adjudicating its patents held a similar amount of Cisco stock, the IPR was permitted to

¹³ See, e.g., Riddhi Setty, *VLSI Challenges Draw Sanctions from Patent Office Director*, Bloomberg Law (Dec. 22, 2022), <https://news.bloomberglaw.com/ip-law/patent-office-director-issues-sanctions-in-vlsi-challenges>.

¹⁴ See *OpenSky Indus., LLC v. VLSI Tech. LLC*, IPR2021-01064, Paper 135 (PTAB May 12, 2023); *Patent Quality Assurance, LLC v. VLSI Tech. LLC*, IPR2021-01229, Paper 129 (PTAB June 13, 2023).

proceed.¹⁵ Despite the pending remand of the infringement case, the PTAB has now issued a decision finding Centripetal's claims unpatentable.¹⁶

If the PREVAIL Act had been enacted: This case would likewise have proceeded very differently under the provisions of the PREVAIL Act. For example, the standing requirement likely would have foreclosed Palo Alto Networks' petition altogether because it had not been accused of infringing the relevant patent, and at minimum Cisco's joinder petition would have been barred due to the prior, final judgment of validity in the district court litigation. Cisco would be barred from pursuing invalidity in the district court remand proceedings upon securing institution of an IPR, but Cisco—who was otherwise time-barred—would have been subject to a rebuttable presumption against joinder with the Palo Alto Networks proceeding. Additional PREVAIL Act provisions that may have altered the outcome here include the presumption of validity and the heightened clear-and-convincing-evidence burden of proof for establishing unpatentability, both of which mirror the district-court standards. Additionally, the code of conduct requirement likely would have precluded the PTAB judge holding Cisco stock from sitting on the panel adjudicating the challenge to Centripetal's patents that would directly benefit Cisco and to which Cisco had been joined as a party.

3. Code200, UAB et al. v. Bright Data Ltd.

While this IPR proceeding may not have benefited from the media profile of the VLSI or Centripetal matters, it also reflects many of the harms that the PREVAIL Act seeks to remedy. The patent owner, Bright Data, prevailed in front of a jury against a validity challenge brought by some of the petitioners who subsequently sought review at the PTAB. Code200, one of the petitioners, had previously filed an unsuccessful IPR petition on the same patent. All of the petitioners were statutorily time-barred from filing their own petitions, so they sought to join a proceeding initiated by NetNut Ltd., which had already been terminated from the proceeding after settling with the patent owner. Despite the statutory bar, the “zombie” nature of the NetNut proceeding, and the prior district court decision, the PTAB permitted this challenge to proceed against Bright Data.¹⁷

If the PREVAIL Act had been enacted: Here again, the patent owner would have been spared significant harassment had the PREVAIL Act been enacted. For example, the PTAB would have been required to recognize the prior district court adjudication of validity, and the petitioners involved in that litigation would have been required to choose whether to litigate validity at the PTAB or in the district court. Additionally, the new joinder provisions likely would have precluded otherwise time-barred Code200 from joining NetNut's proceeding, particularly because that proceeding no longer included an active petitioner following NetNut's settlement and termination. Bright Data may also have benefited from the PREVAIL Act's limitations on serial and duplicative petitions, as well as the presumption of validity and heightened burdens noted above.

¹⁵ See, e.g., Kelcee Griffis, *Patent Probe Can Proceed Despite Judge's Cisco Stock Ownership*, Bloomberg Law (May 16, 2023), <https://news.bloomberglaw.com/ip-law/patent-probe-can-proceed-despite-judges-cisco-stock-ownership>.

¹⁶ See *Palo Alto Networks, Inc. v. Centripetal Networks, Inc.*, IPR2022-00182, Paper 67 (PTAB May 23, 2023).

¹⁷ See *Code200, UAB v. Bright Data Ltd.*, IPR2022-00861, Paper 19 (PTAB Oct. 19, 2022).