

# FOR STARTUPS, INNOVATION IS THRIVING

Startups need balanced laws that protect new ideas while preserving a framework that promotes innovation. Two key developments in patent law have fostered growth and innovation in the startup ecosystem.

## 1

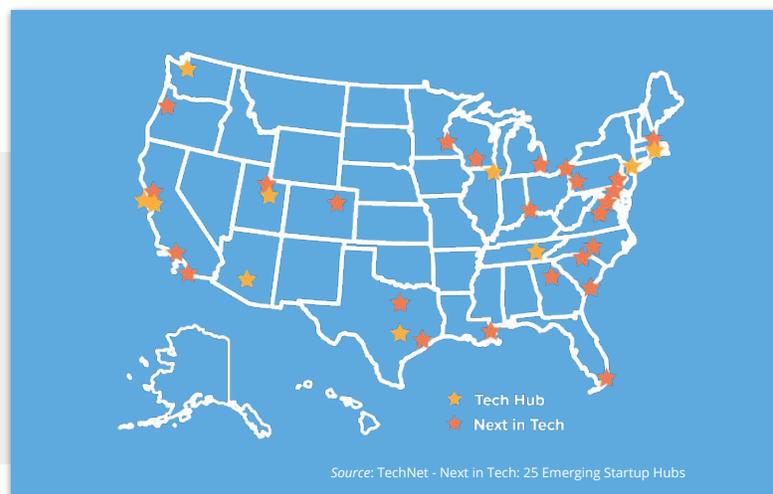
The 2011 **America Invents Act** (AIA) brought important reforms for improving patent quality, including the *Inter Partes Review* (IPR) procedure by which the Patent Office can fix its mistakes in issuing invalid patents. This legislation helped even the extreme imbalance of the costs of litigation and included provisions to allow defendants who are merely end users of a product to halt litigation until the plaintiff first sued the manufacturer. Since startups are frequently targeted by trolls for being end users of technology, this was a critical protection.

### Since the enactment of the AIA and the institution of IPR, according to the Kauffman Index Report and the National Venture Capital Association:

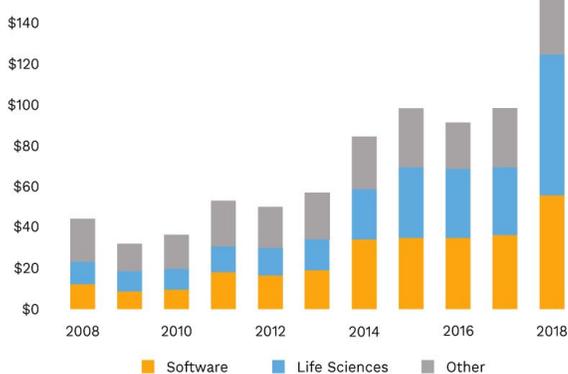
- Startup activity has increased by 194 percent
- Capital investment has reached an all-time high
- Startup hubs have spread outside of top metro areas

## 2

The 2014 Supreme Court **Alice Corp. v. CLS Bank** decision confirmed that patents can be issued for actual inventions and not for abstract ideas. This decision addressed the problem of vague software patents that had been issued in the early 2000s, while confirming that advances in software technology are patentable.



### US VC deals (\$B) by sector



Source: PitchBook - NVCA Venture Monitor

Venture capital investment has risen consistently over the last 15 years. In 2018, venture capital investors deployed nearly \$131 billion in the US, an all-time high and the most since 2000, the only other year to break the \$100-billion mark. This follows consistent growth in funding that was most pronounced after the AIA went into effect, when VC funding nearly doubled from 2012 to 2016, from \$32.8 billion to \$61 billion, an 86% increase. Capital invested into life sciences companies also reached a decade high of \$23.3 billion this year.

Furthermore, startups are thriving not just in Silicon Valley but across the country. Between 2014 and 2016, the areas in the U.S. outside the top 35 metro areas accounted for almost half of net new startups. Arguments that the Alice decision and IPR have hampered VC funding are baseless.

**What does have a chilling effect on startups and innovation? Patent troll litigation. Reforms that address abusive patent litigation ensure that startups will continue to thrive.**