Intellectual Property Law Section of the State Bar of Nevada

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U.S. Patent and Trademark Office
600 Dulany Street
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RE: Request for Information regarding the current state of patent eligibility jurisprudence in the United States for use in the Patent Eligibility Jurisprudence Study: Docket Number PTO-P-2021-0032

The Intellectual Property Law Section of the State Bar of Nevada (the "Nevada IP Section") is pleased to have this opportunity to present information on the current state of patent eligibility jurisprudence in the United States and its impact on the stakeholders of Nevada.

The current state of patent eligibility jurisprudence is an important issue to the members of the State Bar of Nevada as several members represent entities that are significantly involved in obtaining patent protections for their clients. The gaming industry in particular has been significantly affected by the USPTO's interpretation of the U.S. Supreme Court's decision in *Alice Corp. Pty v. CLS Bank Int'l,* 134 S. Ct. 2347 and its application to patent applications related to gaming machines and wagering games.

This position is being presented only on behalf of the Intellectual Property Law Section of the State Bar of Nevada. This position should not be construed as representing the position of the Board of Governors or the general membership of the State Bar. The Intellectual Property Law Section is a voluntary section composed of lawyers practicing in intellectual property law.

The Nevada IP Section has had a longstanding interest in patent eligibility, having previously submitted (1) an amicus brief to the U.S. Supreme Court in *Bilski v. Kappos*, urging the Court to abandon the use of the "machine or transformation" test; and (2) comments to the USPTO applauding the implementation of the 2019 Revised Patent Subject Matter Eligibility Guidance while encouraging their revision to ensure that Examiners did not apply Section 101 overly broadly.

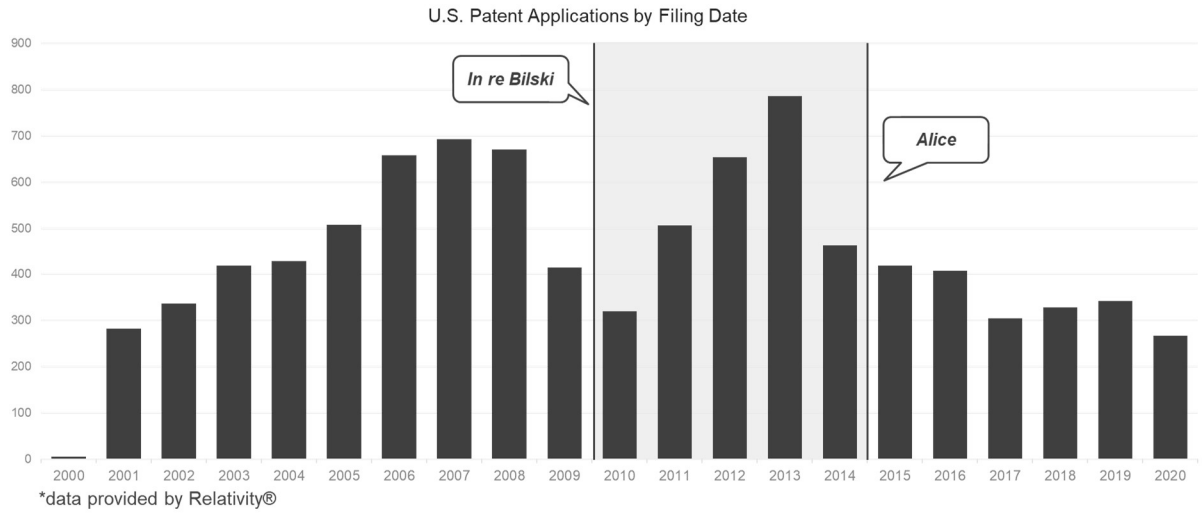
The Nevada IP Section has taken this previous interest because its members believed that businesses in Nevada, especially in the field of automated systems, including novel gaming, financial, political organization, and medical analytics and diagnostic systems and applications, would be negatively impacted if they were not able to count on adequate and predictable patent procurement and enforcement.

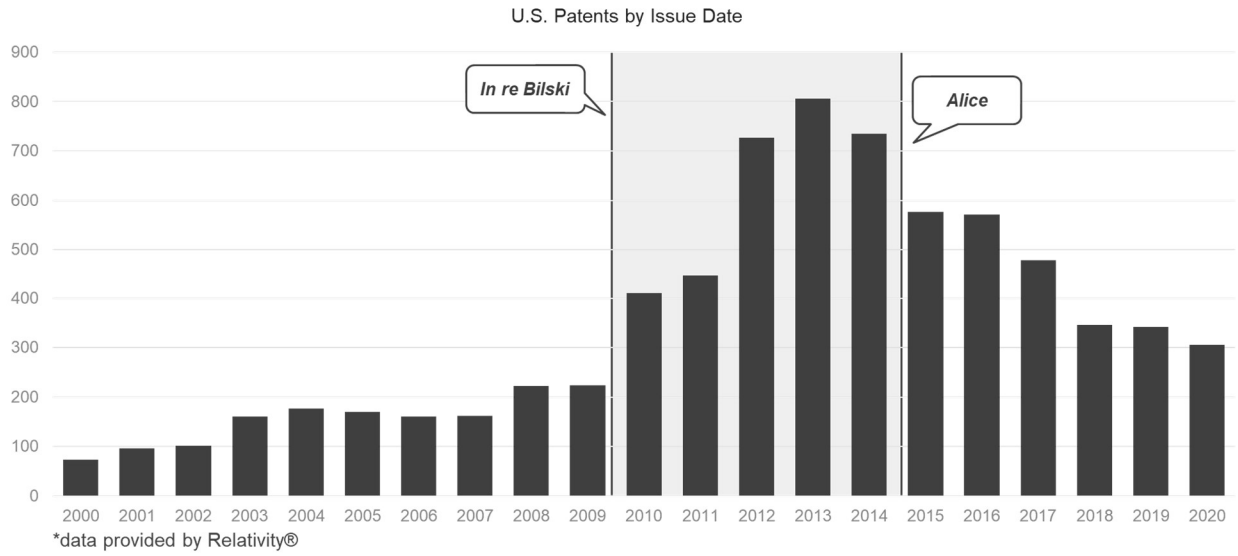
Unfortunately, the Nevada IP Section's concerns have come to fruition. It now strongly believes that the state of patent eligibility jurisprudence has seriously negatively impacted those businesses and others in Nevada. Specifically, members of the Nevada IP Section report:

Patent prosecution strategy and portfolio management:

The need to deal with subject matter eligibility rejection during patent prosecution has dramatically driven up the cost of patent prosecution and time to procurement of patents in the fields identified above. It has also rendered patent procurement in these fields of law much less predictable. For example, patent Examiners routinely do not apply the USPTO 2019 Guidance on Subject Matter Eligibility. Nevada IP Section members advise their clients and potential clients of these facts and risks, and clients and potential clients will often abandon patenting efforts as a result. In any event, the substantial increase in patent prosecution costs in dealing subject matter eligibility rejections increases the cost associated with the given system or application.

As illustrated by the charts below, both the number of new patent applications filings and the number of issued patents among Nevada-based gaming companies have dropped significantly since the *Alice* decision and the USPTO's interpretation of its holding.





Specific issues that have been reported by Nevada IP Section members include inconsistency in patent prosecution, such as:

- Significant increase in Section 101 rejections since *Alice* decision.
- Inconsistent application of examination guidance outlined in MPEP §2106 by Examiners;
- Significant increase in Appeal filings due to Examiner Section 101 rejections;
- Examiners maintaining Section 101 rejections despite Examiner acknowledgment that the claims satisfying the Conditions of Patentability under Section 102 and 103; and
- Overly broad application of the *In re Smith, 815 F.3d 816 (Fed. Cir. 2016)* in rejecting electronic gaming machine inventions under Section 101.

Ability to grow business operations utilizing patents:

Businesses, and especially small businesses, depend on patent protection in negotiating deals with other entities, which deals often result in partnerships between entities, investment, acquisition, or other transactions that lead to increased economic activity. Nevada businesses report decreased confidence in the ability of a patent to protect their developments such that they are able to disclose those developments to a counterpart in a negotiation. In some instances, Nevada businesses decline to even initiate such negotiations due to the fear that their technology will not be protected by patents, and that such communications will lead to a competitive entity utilizing the development without permission. The consequences of this approach include lost opportunities for Nevada businesses to grow.

Patent enforcement and litigation

Similarly, as has become well-known, the state of subject matter eligibility is highly unpredictable in litigation, having evolved to be far afield from the holding in *Alice* that a fundamental building block transaction in industry is an abstract concept, and mere automation of such an abstract concept does not add anything sufficiently inventive to render the concept patent eligible. *E.g., Chamberlain* (Fed. Cir. 2020) (holding a wireless garage door opening system to be abstract and subject matter ineligible without consideration of whether the system is directed to a fundamental building block). This has led to reduced enforcement and reliability of patents in litigation.

A comparison of cases before and after *Alice v. CLS Bank International*, 573 U.S. 208 (2014) show a staggering increase in findings of patent invalidity based on Section 101. Specifically, in the six years prior to *Alice* (from June 19, 2008 to June 19, 2014), approximately 2,104 patent cases were filed in federal district courts, of which 874 cases resulted in findings of patent invalidity. 179 (or 20.5%) of those findings of patent invalidity were based on Section 101.

In contrast, in the six years after *Alice* (from June 20, 2014 to June 20, 2020), approximately 1891 patent cases were filed in federal district courts, of which 941 cases resulted in findings of patent invalidity. 432 (or 45.9%) of those findings of patent invalidity were based on Section 101. In other words, the number of cases resulting in findings of patent invalidity increased by 141.3%.

Patent counseling and opinions

The state of subject matter eligibility has driven up the complexity and cost of patent counseling (including licensing transactions and other patent transactions) and opinions.

Research and Development and Employment

The state of subject matter eligibility has also led to diminished investment in the fields of technology identified above. One Nevada IP Section member had a leading University client that had funded a substantial start-up entity to further develop and market a medical analytic and diagnostic system for use in identifying and treating seizure disorders. Based on the state of subject matter ineligibility law in the United States, however, the University terminated the start-up and its employees and ceased all effort to patent, further develop, and commercialize the technology. The technology is not available in the market as a result.

That same member has had numerous other U.S. start-up clients lose all funding, and terminate their business, due to the state of subject matter ineligibility law; these start-ups have been in the fields of financial systems, gaming systems, and political organization systems, among many others.

Finally, that same member has also observed the state of subject matter ineligibility in the U.S. reduce the incentive of foreign entities to seek to patent and deploy possibly ineligible subject matter in these fields in the U.S., even terminating foreign entity entry into the U.S. market, and employment, competition, and innovation in the U.S. market.

Disincentive to Practice Patent Law

It has long been well known that the leading area of technology development today is automated system development, with the or an important aspect of novelty being the automated functionality provided by novel software or firmware in a system. Yet, this is precisely the type of automated system that is now subject to routine attack in the USPTO and courts, and in patent-related transaction negotiations, as being subject matter ineligible.

This continues to create a substantial disincentive to practice patent law, particularly for those who would seek to practice in the fields of patent prosecution, patent transactions, and enforcement.

Conclusion

The Nevada IP Section strongly believes that the state of patent eligibility jurisprudence has seriously negatively impacted the businesses and stakeholders in Nevada. We commend the USPTO for undertaking this Patent Eligibility Jurisprudence Study and appreciate the opportunity to provide these comments.

Respectfully submitted,

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