DOMINION HARBOR
GROUP, LLC

COMMENTS OF DOMINION HARBOR GROUP, LLC
IN SUPPORT OF PATENT ELIGIBILITY JURISPRUDENCE STUDY

Dominion Harbor Group, LLC submits these comments as (a) an owner[1] of more than 12,000 patents and patent applications; and (b) an entity that represents inventors and patent owners. Our comments are directed to the following topics:

Section I – Observations and Experiences

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2. Please explain what impacts, if any, you have experienced as a result of the current state of patent eligibility jurisprudence in the United States. Please include impacts on as many of the following areas as you can, identifying concrete examples and supporting facts when possible:

> *…*
> *b. patent enforcement and litigation;*
> *…*
> *j. licensing of patents and patent applications;*

Executive Summary: The uncertainty of Section 101 law is:

1. Substituting unnecessary and costly patent litigation for what should otherwise be routine commercial patent licensing transactions, thereby giving large, well-funded corporations yet another mechanism to increase costs for innovators and divert license fees to lawyers; and

2. Devaluing intellectual property and dampening investment in innovation, an important factor driving the U.S. economy.

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[1] Patent ownership is through affiliates of Dominion Harbor Group, LLC.

COMMENTS

A. Background

Dominion Harbor owns and licenses patents to the mutual benefit of both itself and the innovators behind the inventions. We evaluate patent portfolios, contact potential licensees, create and present claim charts detailing real-world applications and benefits of the patented technologies, and negotiate license fees and terms. As part of that process, we have merits discussions with potential licensees covering a variety of aspects of patent law. Many of these are well-settled (claim construction, patent marking, anticipation, obviousness, and the like), making it easy for each party to frame its positions and assess risk. Accurate risk assessment, in turn, allows the parties to agree on a value for the portfolio, memorialized in a patent license agreement.

Uncertainty in any area of patent law creates a drag on this previously efficient process, and there is no area in patent law more uncertain than subject matter eligibility. For decades, courts had narrowly construed the judicially-created exceptions to patent eligibility (laws of nature, natural phenomena, and abstract ideas) and rarely struck down patents under 35 U.S.C. § 101. In recent years and culminating in the *Alice* decision,[2] however, the Supreme Court has stretched the exceptions to unknowable bounds. In *Alice*, the Court refused "to delimit the precise contours"[3] of the judicially-created abstract idea exception, and that lack of guidance has sent lower courts into a tailspin. As acknowledged by Federal Circuit Judge Plager, current Section 101 law is an "incoherent body of doctrine" that makes it "near impossible to know with any certainty whether the invention is or is not patent eligible."[4] Federal Circuit Judge Linn has opined that

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[2] *Alice Corp. Pty. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014).
[3] *Alice*, 134 S. Ct. at 2357.
[4] *Interval Licensing LLC v. AOL, Inc.*, 896 F. 3d 1335, 1348 (Fed. Cir. 2018) (J. Plager, concurring and dissenting-in-part)

the abstract idea test is "indeterminate and often leads to arbitrary results."[5] Federal Circuit Judge Newman describes the adjudication of Section 101 law as "inconsisten[t] and unpredictab[le]" and lamented that it has "destabilized technologic development in…all fields."[6]

B. Eligibility Uncertainty Incentivizes Litigation

The uncertainty of Section 101 law has led to an explosion of companies accused of infringement "taking their shot" at having patents declared ineligible. Over 1,100 eligibility motions have been filed since *Alice*, compared with a mere handful in the years prior.[7]

Motion Success by Year

The Federal Circuit has incentivized companies to litigate the issue by allowing district court judges to decide eligibility at the outset of a case under Fed. R. Civ. P. 12. At this early stage, no discovery has been taken (despite eligibility purportedly turning on underlying factual issues[8]), allowing judges to invalidate

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[5] *Smart Systems Innovations v. Chicago Transit Auth.*, 873 F. 3d 1364, 1377 (Fed. Cir. 2017) (J. Linn, dissenting and concurring-in-part)
[6] *Yu v. Apple Inc.*, No. 2020-1760, 2021 WL 2385520, at *18 (Fed. Cir. June 11, 2021) (J. Newman, dissenting)
[7] Source: Docket Navigator report of eligibility motions.
[8] *Aatrix Software, Inc. v. Green Shades Software, Inc.*, 882 F.3d 1121, 1126 (Fed. Cir. 2018).

patents based on implicit, untested "findings of fact."[9] The cost of preparing a motion to dismiss at this stage is insignificant given the 40% chance to successfully render the patent ineligible.

The same uncertainty that fuels eligibility-related litigation also fuels inefficient ancillary tactics, like forum shopping. If the test for eligibility was well-defined, it would matter little where the dispute was heard. Because it is not, a particular court's interpretation of the test is important. At the time of a 2019 study, the Southern District of New York and the Eastern District of Virginia granted more than 80% of eligibility challenges, while the Eastern and Western Districts of Texas granted less than half.[10] Parties jockey over declaratory judgment jurisdiction, personal jurisdiction, and *forum non conveniens* transfers to secure an interpretation of *Alice* to their liking.

Nor does the litigation uncertainty end at the district court. The Federal Circuit judges, too, have their own interpretations of the eligibility test, making the outcome of appeals highly dependent on the constitution of three-judge panels. A wide gap separates the Federal Circuit judge *least* likely to find a patent eligible (1 in 20) from the judge *most* likely to find a patent eligible (1 in 3).[11] Thus, the parties face an additional round of delay, expense, and uncertainty to have yet more judge-specific interpretations of *Alice* applied to the patents-in-suit.[12] In short, *Alice* and its progeny have brought to fruition Justice Stevens' warning that the Supreme Court's course of action "could result in confusion or upset settled areas of the law."[13]

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[9] *See, e.g., Gabara v. Facebook, Inc.*, 484 F. Supp. 3d 118, 125 (S.D.N.Y. 2020) (finding ineligible a method for using the movement of a portable device to display different portions of images, reasoning – without evidence – that the invention was analogous to "moving a telescope across the night sky").

[10] Source: Docket Navigator, *Alice* Through the Looking Glass, January 2019.

[11] https://www.ipwatchdog.com/2020/09/02/lessons-quantitative-analysis-federal-circuits-section-101-decisions-since-alice/id=124790/

[12] These layers of uncertainty sit on top of a determination already made by the USPTO that the patent *is* eligible – the delay and cost of which the inventor has already had to incur and on which she can place little reliance in the courts.

[13] *Bilski v. Kappos*, 561 U.S. 593, 618 (2010) (Stevens, J., concurring).

This incentive for would-be licensees to litigate is a trend we have seen across many of our licensing engagements and is at odds with our core business: creating an efficient market for patent licensing outside of litigation. In that world, innovators are rewarded in return for their technology being distributed for the marketplace's use. In the uncertain Section 101 world, lawyers are rewarded and patented technology stagnates.

C. Eligibility Uncertainty Devalues Patents

A well-known feedback loop underpins the United States' innovation economy. Companies or investors fund innovation. They realize a return. More money is available to fund more innovation. Repeat. If investments yield no return, the loop breaks. Why would an innovator (whether a company or individual) bear the brunt of research and development costs if a competitor can simply make a copy for a fraction of those costs?

Enter the patent system, the principal guardian of returns on investments in innovation.[14] It allows patent-holding entities to – for a limited period of time – enjoin competitors or, at a minimum, extract a royalty on an infringing product. *Or it would*, if eligibility uncertainty was not eroding the value of U.S. patents.[15]

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[14] Copyrights protect against the direct copying of, say, software, but not against writing different code to accomplish the same result. Trademarks protect consumers from source confusion, but not against a competitor copying a product and simply branding it differently. Trade secrets protect against copying products that cannot be reverse engineered, a product set that is shrinking quickly as reverse-engineering technology advances.

[15] The United States lost its top spot in the U.S. Chamber of Commerce Global Intellectual Property Center's patent rankings in 2017 and has never regained it. U.S. Chamber International IP Index, 2017 Fifth Edition (https://www.theglobalipcenter.com/wp-content/uploads/2017/02/GIPC_IP_Index_2017_Report.pdf). The current (2021) report explains: "[S]ince the Supreme Court decisions in the *Bilski*, *Myriad*, *Mayo*, and *Alice* cases, there has been a high and sustained level of uncertainty as to what constitutes patentable subject matter in the United States…. Lower and circuit court decisions … have not always been consistent. The net result is that rights-holders are left without a clear sense of how decisions on patent eligibility will be made …." International IP Index, 2021 Ninth Edition (https://www.theglobalipcenter.com/report/ipindex2021/).

Patent holders face the stark choice of either potentially receiving *no* return on their investments if the matter is left to chance with the courts or accepting an out-of-court value weighed down by ineligibility uncertainty.

This is a dynamic we see across many of the dozens of license negotiations we routinely engage in. Would-be licensees not willing to take their shot in court nevertheless use the threat of that shot to insist on lower license fees or as a justification for refusing to engage in licensing discussions at all. That means we, in turn, must pay innovators less to acquire patents – or sometimes pay nothing at all if the eligibility uncertainty is too high. Future innovation thus goes un- or under-funded, many times becoming an opportunity cost that cannot be regained.

This break in the innovation investment feedback loop is not confined to particular subject matter, either. To be sure, software initially bore the brunt of eligibility uncertainty, but creative litigants have since taken advantage of the "I know it when I see it" test to convince courts to hold ineligible patents relating to:

- Charging electric cars[16]
- Prenatal genetic testing[17]
- Monitoring power grids[18]
- RFID-based object tracking[19]
- Combatting voter fraud[20]
- Digital cameras[21]
- Automotive axles[22]

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[16] https://www.ipwatchdog.com/2019/04/02/federal-circuit-just-swallowed-patent-law-chargepoint-v-semaconnect/id=107917/
[17] https://www.ipwatchdog.com/2015/08/30/federal-circuit-should-reconsider-ariosa-v-sequenom-the-panel-decision-threatens-modern-innovation/id=61171/
[18] https://patentlyo.com/patent/2016/08/distinctions-section-analysis.html
[19] https://www.fr.com/alice/automated-tracking-solutions-v-the-coca-cola-company/
[20] https://www.fr.com/alice/voter-verified-v-election-systems-software/
[21] *Yu v. Apple Inc.*, No. 2020-1760, 2021 WL 2385520 (Fed. Cir. June 11, 2021)
[22] https://www.iptechblog.com/2020/08/the-federal-circuit-finds-a-hooke-to-patent-ineligibility/

The loop is broken not only with respect to issued patents, but also at the patent application stage where scholars have identified nearly 1,700 patent applications, many of which represent "innovative and life-saving inventions," nevertheless rejected by the USPTO as a direct result of *Alice* jurisprudence.[23] While investors ultimately abandoned their efforts to obtain U.S. patent protection for these advancements, which include "diagnostic cancer treatments, medical devices, and ultrasound imaging," foreign patent offices granted protection in Europe and China.[24]

This steady expansion of ineligibility emboldens would-be licensees to leverage uncertainty in a growing number of licensing discussions, thereby increasing costs and decreasing revenue for innovators. The resulting devaluation of patents disrupts the innovation economy during an era where strong protection of intellectual property is a lynchpin to continued investment in the technologies that undergird modern society.

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[23] Kevin Madigan & Adam Mossoff, Turning Gold to Lead: How Patent Eligibility Doctrine is Undermining U.S. Leadership In Innovation, 24 Geo. Mason L. Rev 939, 942 (2017)
[24] *Id.* at 942. *See also*, *id*. at 957-58 (highlighting examples of inventions meeting the above criteria).