

2020-1400

**UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

NEW VISION GAMING & DEVELOPMENT, INC.,
Appellant,

v.

SG GAMING, INC., f/k/a Bally Gaming, Inc.,
Appellee,

and

KATHERINE K. VIDAL, Undersecretary of Commerce for
Intellectual Property and Director of the United States Patent
and Trademark Office,
Intervenor.

On Appeal from United States Patent and Trademark Office, Patent
Trial and Appeal Board in No. CBM2018-00006

**BRIEF OF APPELLANT NEW VISION GAMING &
DEVELOPMENT, INC. ON RETURN FROM REMAND**

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CERTIFICATE OF INTEREST

Counsel for Appellant New Vision Gaming & Development, Inc. states the following:

1. **Represented Entities.** Provide the full names of all entities represented by undersigned counsel in this case. Fed. Cir. R. 47.4(a)(1).

New Vision Gaming & Development, Inc.

2. **Real Party in Interest.** Provide the full names of all real parties in interest for the entities. Do not list the real parties if they are the same as the entities. Fed. Cir. R. 47.4(a)(2).

Not applicable.

3. **Parent Corporations and Stockholders.** Provide the full names of all parent corporations for the entities and all publicly held companies that own 10% or more stock in the entities. Fed. Cir. R. 47.4(a)(3).

None.

4. **Legal Representatives.** List all law firms, partners, and associates that (a) appeared for the entities in the originating court or agency or (b) are expected to appear in this court for the entities. Do not include those who have already entered an appearance in this court. Fed. Cir. R. 47.4(a)(4).

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5. **Related Cases.** Provide the case titles and numbers of any case known to be pending in this court or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal. Do not include the originating case number(s) for this case. Fed. Cir. R. 47.4(a)(5). See also Fed. Cir. R. 47.5(b).

New Vision Gaming & Development, Inc. v. Bally Gaming Inc.,
2:17-cv-01559-APG-BNW (D. Nev.).

6. **Organizational Victims and Bankruptcy Cases.** Provide any information required under Fed. R. App. P. 26.1(b) (organizational victims

in criminal cases) and 26.1(c) (bankruptcy case debtors and trustees).
Fed. Cir. R. 47.4(a)(6).

None.

I certify the preceding information is accurate and complete to the
best of my knowledge.

Date: September 6, 2022

/s/ Matthew J. Dowd

Signature of counsel

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INTRODUCTION

The overall structure of the PTAB creates impermissible incentives for PTO and PTAB leadership and the individual administrative patent judges (“APJs”). The AIA decisionmaking structure falls squarely within the ambit of *Tumey v. Ohio*, 273 U.S. 510 (1927), and related cases, where courts have held that a “temptation” from “structural bias” can violate the Due Process Clause—even in the absence of any actual bias.

The AIA review process operates under a unique set of conditions in the federal government. The PTO operates as a “revenue-generating entity,” and the PTAB operates as a “business unit” with its own budget responsibilities. About 40% of the approximately \$57 million in annual AIA fee collections depends on granting petitions to institute. The PTAB leadership APJs have dual roles as executive and adjudicator—managing the PTAB budget and making decisions on the merits. The APJs are subjected to performance reviews and management tools by PTAB leadership, and the APJ’s salary and bonus structures incentivize higher “production,” which means more institutions.

Since this appeal was first briefed, the Government Accountability Office investigated the PTAB operations and revealed non-public details

that further confirm how PTO and PTAB leadership exert pressure on APJs to change their decisions and remove APJs from panels if the desired outcome is not achieved. The GAO reported that this management pressure “leaves a ‘bad taste that permeates into decision-making on other cases,” including institution decisions.

It is not difficult to see how PTO and PTAB leadership face conflicting interests between their adjudicatory responsibilities to decide AIA petitions and their management responsibilities to ensure sufficient revenue generation for the PTAB business unit. It is also not difficult to see how the average APJ could be seen as being tempted to grant borderline petitions, in order to ensure continued workflow, bonuses, and robust PTAB fee collections. Indeed, a study noted during a recent congressional hearing found a financial benefit inured to APJs who worked on AIA cases and more frequently granted institution.

The structural bias ingrained in the AIA decisionmaking process, as applied to New Vision’s patents, violated due process. It created the types of “temptations” that courts have repeatedly warned against to ensure that the administrative adjudicatory process is not only fair and

impartial but appears fair and impartial. The PTO can fix its review structure to ensure impartiality in AIA reviews.

STATEMENT OF RELATED CASES

Pursuant to Federal Circuit Rule 47.5, there is no prior appeal (in any appellate court) in or from the PTAB proceedings in this case. The patent in dispute is at issue in *New Vision Gaming & Development, Inc. v. Bally Gaming Inc.*, No. 2:17-cv-01559-APG-BNW (D. Nev.).

A panel of this Court in *Mobility Workx LLC v. Unified Patents LLC*, 15 F.4th 1146 (Fed. Cir. 2021), decided a similar due process argument. In that case, the appellant had used New Vision’s arguments and documents presented earlier when this appeal was first briefed. Since then, additional evidence has come to light that rebuts several conclusions set forth in *Mobility Workx*.

STATEMENT OF JURISDICTION

This Court has jurisdiction under 28 U.S.C. § 1295(a)(4)(A), 35 U.S.C. §§ 141(c), 144, and 329 because the appeal arises from a final decision in a covered business method (“CBM”) review. The PTAB had jurisdiction under Pub. L. No. 112–29, § 18(a), 125 Stat. 311, 329-30 (2011), and 35 U.S.C. § 328. The notice of appeal was timely filed on

January 18, 2020, after the PTAB denied rehearing on November 20, 2019. The appeal is from a final agency decision and Director Review disposing of all claims. ECF 123; Appx9228.

STATEMENT OF THE ISSUES

1. Whether the structure for instituting and funding AIA post-grant reviews violates the Due Process Clause in view of *Tumey v. Ohio*, 273 U.S. 510 (1927), and its progeny, which establish “structural bias” as a violation of due process.

2. Whether the Director’s and the PTAB’s decisions should be set aside under 5 U.S.C. § 706(2)(A) because the Director and the PTAB (a) wholly ignored a contractual obligation that precluded an AIA post-grant challenge, (b) placed the burden on the patent owner to identify a “contractual estoppel defense,” and (c) overlooked the ability to terminate under 37 C.F.R. § 42.72.

STATEMENT OF THE CASE AND FACTUAL BACKGROUND

I. Procedural Background

The decision on appeal arises from a CBM review. On December 15, 2017, SG/Bally filed two CBM petitions against U.S. Patent Nos.

7,451,987 and 7,325,806, challenging all twelve claims of each patent. Appx2002-2039. The '987 patent has expired, and that appeal was dismissed. ECF 127. On June 22, 2018, the PTAB instituted CBM review of all patent claims. Appx0206-0240. The PTAB issued a final written decision on June 19, 2019, cancelling all claims under 35 U.S.C. § 101. Appx0121-0187. The PTAB later denied rehearing on November 20, 2019. Appx0188-0205.

On January 19, 2020, New Vision appealed the PTAB's decision. Appx3548. On May 13, 2021, the Court vacated and remanded the case for further proceedings. ECF 99, 101. On May 21, 2021, the PTO filed a petition for writ of certiorari, which was granted in view of *United States v. Arthrex, Inc.*, 141 S. Ct. 1970 (2021), thus vacating and remanding the case. ECF 108. On December 3, 2021, after supplemental briefing, *see* ECF 102, this Court remanded the case to the PTO "for the limited purpose of allowing appellant to request Director rehearing." ECF 110.

After New Vision's motion for reconsideration was denied, *see* ECF 121, New Vision filed its Request for Director Review on March 7, 2022, ECF 123; Appx9207. That Request was summarily denied on June 7,

2022. *Id.*; Appx9228. On June 28, 2022, this appeal was reinstated with re-briefing ordered. ECF 125.

II. Factual Background

A. John Feola's Novel Gaming Invention

Inventor John Feola has a long history of inventing new games for the gaming industry. Appx1165-1167. Mr. Feola has invented numerous games for industry-leading casinos, as well as for various state lotteries. Despite never graduating high school, Mr. Feola has earned about thirty U.S. patents for his inventions, and his company New Vision Gaming (“New Vision”) licenses his inventions. *Id.*

The '987 patent is directed to a novel bonus feature for a card game. The inventive concept creates a bonus hand by combining cards from two or more hands in a base game (such as poker or blackjack). Appx2049. Each card used from the players' hands to form the bonus hand may be selected by rule (such as the first-dealt card, the second-dealt card, or the last-dealt card), or may be selected by the player. Appx2048. Bonus hands that combine cards from a single player and the dealer are known, Appx2047, but a bonus hand made up of cards from a plurality of independent hands is an inventive concept. Appx2049. The assembly of the

bonus hand from multiple players balances strategy and randomness in a way that makes a good card game.

The invention has several advantages. Because the bonus hand can have more cards than an individual player's hand, uncommon card combinations become available, which enables a payout schedule with higher potential payouts, unavailable in the normal rules of poker, blackjack, or other games. Appx1316-1317.

B. SG/Bally Agrees to License New Vision's Game

After the patents issued, New Vision offered the bonus hand invention to Roger Snow, SG/Bally's director of table games. Appx1164. Mr. Feola recalled that SG/Bally's Mr. Snow not only liked the game's bonus feature but also said, "Bally would love to have a patent on the game so that they could better market the game." *Id.*

In June 2014, SG/Bally signed an agreement with New Vision, under which SG/Bally agreed to pay royalties for using the game's bonus feature. Appx1096-1111. Recognizing the natural connection between the gaming industry and Nevada, the parties agreed that any dispute about the agreement or the patents would be resolved in Nevada courts. Appx1102 ¶ 13(f) ("[T]he parties agree and consent to the exclusive

jurisdiction of an appropriate state or federal court located within the State of Nevada, Clark County, to resolve any such dispute.”).¹

The agreement’s royalty structure is unconventional in three respects. First, royalties flow from the use of a specific game, not from practicing the patents. Appx1098-1099 ¶ 5. The agreement thus does not condition SG’s royalty payment on infringement. *Id.* SG/Bally agreed to pay to use Mr. Feola’s game, independent of whether that game infringes or not, and even if the agreement itself were terminated. Appx1098 ¶ 5(a), ¶ 13(a). Using other games that might practice the patents owes no royalty. *Id.* ¶ 5.

Second, New Vision committed to assisting SG/Bally’s compliance with the “highly regulated nature” of the gaming business. Appx1101 ¶ 13(b). Breach of this commitment was grounds for SG/Bally to terminate royalty payments. Appx1098 ¶ 5.

Third, royalties are to continue one year past any final adjudication of invalidity. Appx1098 ¶ 4(e). A severability/salvage clause obligates the parties to effectuate those economic terms. Appx1102 ¶ 13(g).

¹ The agreement has several unconventional terms not directly at issue on appeal and that the parties agree are confidential. Appx1096-1104.

New Vision and SG/Bally also agreed to specific conditions for termination, Appx1097-0098 ¶ 4, and separate conditions for royalty termination, Appx1098 ¶¶ 4(e), 5(a). Either party could terminate for cause or for acts that could compromise the other's gaming license. *Id.* ¶ 4(c). There is no provision for terminating based on noninfringement, and any remedy for invalidity is handled in a specific clause. *Id.* ¶ 4(e).

C. Pursuant to the Forum Selection Clause, New Vision Sues in Nevada District Court to Enforce the Agreement

Despite the agreement, SG/Bally informed New Vision on February 8, 2017, that it would not be renewed “upon the expiration of the Initial Term,” which did not expire until June 3, 2017. Appx0494. SG/Bally did not commit to stop using New Vision's games or to continue paying usage fees for use after termination. Appx0494. SG/Bally's February 2017 letter does not allege that the patents are invalid. *Id.*

New Vision counsel responded on June 7, 2017, by reminding SG/Bally that the agreement required payments to continue as long as SG/Bally continued to use the game, even after termination. Appx0496.²

² New Vision's June 2017 letter observed: “Bally's obligation to make quarterly payments is simply not dependent upon the use or applicability

New Vision requested an accounting and estimated that SG/Bally owed about \$500,000. Appx0495. New Vision included a copy of a district court filed complaint (but not yet served) for contract damages and invited SG/Bally to discuss possible settlement. Appx0496.

SG/Bally responded on August 3, 2017—several months after the three-month window for contract termination. Appx0506. SG/Bally argued that the patents were invalid and refused to pay what was owed or to discuss settlement. *Id.* SG/Bally threatened only to vigorously defend and to seek attorney fees. *Id.*

New Vision then served its district court complaint, consistent with the parties' forum selection clause. Appx0764-0771. New Vision alleged that SG/Bally breached by not paying royalties due without a legally justifiable reason, and that nonpayment violated the implied covenant of good faith and fair dealing under Nevada law. Appx0766-0768. SG/Bally's answer raised contract defenses and asserted patent invalidity counterclaims. Appx0746-0762.

of the patents but is based upon time and use of specific games. Again, none of the contractual conditions that would allow Bally to stop payment have occurred." Appx0496.

New Vision moved to dismiss and for partial summary judgment. Appx0772-0784; Appx0952-0976. The district court granted New Vision's motion in part, dismissing three of SG/Bally's contract defenses and rejecting SG/Bally's request for a refund of paid royalties. Order, *New Vision Gaming & Dev., Inc. v. Bally Gaming Inc.*, No. 2:17-cv-01559-APG-PAL (D. Nev. Mar. 13, 2018) (ECF 40).

SG/Bally then disregarded the forum selection clause and filed its CBM petitions. Appx2002-2039. After unsuccessfully opposing the petitions, New Vision moved to stay that patent part of the district court case to avoid litigating it in two different proceedings. *New Vision* (D. Nev. July 14, 2018) (ECF 49). The court stayed the entire case. (D. Nev. Nov. 26, 2018) (ECF 82).

D. The PTAB's Adjudicatory, Fee, and Compensation Structure

1. The Two-Step AIA Review Process

The AIA fundamentally altered the process for challenging patents. The PTAB comprises the "Director, the Deputy Director, the Commissioner for Patents, the Commissioner for Trademarks, and the administrative patent judges." *Id.* § 6(a), (b)(4).

Under the AIA, the PTAB first decides whether to institute review based on the filed petition. *Id.* §§ 311, 321. Although the Director has the statutory authority to decide institution, the Director has delegated that authority to the PTAB. *See generally Ethicon Endo-Surgery, Inc. v. Covidien LP*, 812 F.3d 1023 (Fed. Cir. 2016). Upon institution, the review continues to a “trial phase,” and the PTAB makes a final written decision on patentability. 35 U.S.C. §§ 318, 328; *see also Arthrex*, 141 S. Ct. at 1987 (holding that the Director must “have the discretion to review decisions rendered by APJs”).

Some view AIA review as an unqualified success. As of April 2020, over 11,401 AIA petitions were filed—more than 1,300 per year since September 2012. Appx4604. Overall, 62% of completed post-grant challenges have cancelled all patent claims, and 80% have invalidated one or more claims. Appx4611. Institution rates have ranged from 55% to 87%. Appx4607.

2. The Substantial Revenue Generated by AIA Reviews

The funding scheme for AIA post-grant proceedings is unlike most other Federal adjudicatory processes. The PTO requires the payment of two fees upon filing. One is for the PTAB to decide the petition; the

second applies to the trial phase, if the PTAB grants the petition. 37 C.F.R. § 42.15(a)-(c). If the petition is denied, the trial phase fee can be returned. *Setting and Adjusting Patent Fees, Final Rule*, 78 Fed. Reg. 4212, 4233-34 (Jan. 18, 2013). Under this structure, the PTAB generates substantially more revenue when it grants AIA petitions.

Unlike other agencies, the PTO sets its fees without congressional approval. *See* 35 U.S.C. §§ 311(a), 321(a). The PTO sets the AIA fees at whatever it deems a “reasonable” amount, taking into account “aggregate costs.” *Id.* The PTO’s current authority to set its fees is a significant departure from past practice, when the PTO needed congressional approval for fee increases. *See, e.g.*, Pub. L. No. 108-477, § 801, 118 Stat. 2809, 2997 (2004).

The PTO sets the AIA fees at a level of its estimated cost recovery. 35 U.S.C. § 321(a); Appx4128. The institution and trial phase fees are set to cover the estimated costs of those phases. Appx4259; Appx4127-4128. This permits the PTAB to operate within its budget and to fund APJ salaries, substantial bonuses, and the other expenses. For 2021, the PTO proposed to charge a fee of \$20,000 plus \$475 per claim over twenty claims based on the estimated 2018 cost of a CBM institution phase as

\$21,465. Appx4128. For the trial phase, the estimated cost is \$29,842, and the proposed fee is \$27,500 plus \$1,050 per claim over twenty. Appx4128.

The PTO also estimates future PTAB workflow in connection with fee and budget setting. Appx4315-4318; Appx4319-4350.³ For fiscal year 2021, the PTAB's projected total fee collections (ex parte appeals and AIA proceedings) at about \$94 million. Appx4338 (cell R326). Of that total, about \$57 million were for AIA post-grant proceedings. Appx4335-4338.⁴ Projected institution-phase fees were about \$34 million, and projected trial-phase fees were about \$23 million. Appx4335-4336. Of all AIA-

³ Appx4319-4350 is the PTO's spreadsheet that provides, among other information, estimated fee collections, broken down by PTO business units. See Aggregate Revenue Tables, https://www.uspto.gov/sites/default/files/documents/Agg_Rev_Tables_July2019.xlsx. Using the second-row column labels, the sum of cells R291:R326 provide estimated fee collections for 2021 for all PTAB collections. Appx4335-4338. AIA-related total fee collections for FY2021 are provided by summing cells R296:R307, R309, and R310. Estimates for AIA-related fees for other years are calculated accordingly. For instance, FY2020 estimated AIA-related collections are the sum of cells O296:O307, O309, and O310 (FY2020), and FY2022 estimates are the sum of cells S296:S307, S309, and S310. *Id.*

⁴ Estimated FY2021 AIA petition request fees (institution phase) are calculated by summing R296, R299, R302, R305, and R310. Estimated FY2021 post-institution fees (trial phase) are the sum of R297, R298, R300, R301, R303, R304, R306, and R307.

related fees, about 60% are for the institution phase, and 40% are for the post-institution trial phase. *See* Appx4335-4336. In other words, about 40% of the AIA-related fees depend on granting institution of AIA petitions. This amounts to about 24% of the PTAB's collections being dependent on instituting petitions.

3. The PTO's Unique Business Model

As the agency itself has explained, the PTO “has evolved into a unique government agency.” Appx5094; Appx6150. It has declared itself a “revenue-generating entity.” Appx6591. In other words, the PTO “operates like a business.” *Setting and Adjusting Patent Fees During Fiscal Year 2017*, 82 Fed. Reg. 52,780, 52,780 (Nov. 14, 2017). Along those lines, the PTO has recognized that “the AIA could make the PTAB the preferred tribunal” for patent disputes and “drive business away from district courts.” Appx5328.

Unlike other agencies, the PTO has substantial autonomy over its budget and revenue. Since 2011, the PTO has been appropriated the full amount of revenue generated from AIA proceedings.

Importantly, the AIA established a special Patent and Trademark Fee Reserve Fund (“Reserve Fund”) within the Treasury. 35 U.S.C. § 42.

The Reserve Fund is for fees “collected in excess of the appropriated amount.” *Id.* § 42(c)(2). The fees in the Reserve Fund are available only to the PTO. *Id.* The PTO’s Reserve Fund enables it to use funds through a reprogramming mechanism. *See, e.g.*, Pub. L. No. 115-31, 131 Stat. 137, 186 (2017); Appx4842.⁵ For instance, in 2015 and 2021, the PTO accessed funds from the Reserve Fund without proceeding through the appropriations process. Appx5970; Appx6844; Appx6866.

The PTO also has an operating reserve, which “is available for use without further Congressional appropriation.” Appx5161. The operating reserve “is not tied to a specific event.” *Id.* In short, the PTO’s funding arrangement sets several of its functions, “particularly finance, apart from customary appropriations-based federal agencies.” Appx5514.

4. PTAB Organization, Financing, and Compensation

From 2011 to 2020, the PTAB grew from about 60 APJs to about 260 to handle the new AIA reviews. Appx3881-3887. The APJs are

⁵ The decision in *Mobility Workx* appears to have not fully addressed the reprogramming element of the PTO’s funding, which allows the PTO to use funds from the Reserve Fund with a notification to Congress. *See* Appx4844 (permitting the use of the Reserve Fund as long as “the House and Senate Committees on Appropriations are notified 15 days in advance of such reprogramming of funds”).

organized hierarchically, all supervised by the Chief APJ. Appx4614-4616. The Chief APJ and the Deputy Chief APJ are the PTAB's "senior level executive management." Appx4614. Below them are the Vice Chief APJs, who manage PTAB divisions consisting of judges and patent attorneys. Appx4615. Each division has six sections of APJs, and a "Lead APJ" manages each section of "line APJs." Appx4615.⁶

The Chief APJ, the Deputy Chief APJ, and the Vice Chief APJs have executive/administrative responsibilities, on the one hand, and judicial responsibilities, on the other. *See* Appx4004-4033; Appx4106-4113. The Chief APJ "perform[s] Business Unit Head functions" of the PTAB, which includes "execut[ing] the operating budget; prepar[ing] budget requests with justifications; and manag[ing] resources." Appx4004-4005; Appx3995-3996.⁷ The Deputy Chief APJ and the Vice Chief APJs are similarly involved in the financial management of the PTAB business unit. Appx4030-4031; Appx4108-4109.

⁶ "Line APJ" distinguishes the base APJ from other APJ positions.

⁷ The PTAB is a distinct "business unit" within the PTO's business-unit-based structure. *See* Appx4406; Appx4484.

While overseeing the PTAB's finances, PTAB leadership also make decisions on the merits of AIA proceedings. *See* Appx3903. The Chief APJ and others issue directives, such as the standard operating procedures ("SOPs"). Appx4351-4386. The PTAB leadership can participate on a Precedential Opinion Panel, which is "used to establish binding agency authority." Appx4375-4378.⁸

As compared to federal judges, APJs operate under fundamentally different employment rules, which PTAB leadership uses to incentivize and control the APJs. *See* Appx3818-3838; Appx3888-3901. An APJ is rated by supervisors. *E.g.*, Appx4036-4063. Lead and line APJs receive an overall "Performance Rating" (and a "Total Score" on a scale of 100 to 500) as part of the "Classification and Performance Management Record." Appx3818-3859; Appx4036-4063; Appx4074-4102. The numerical rating is the sum of four "Performance Elements," each of which is a numerical rating. *Id.* One Performance Element is "Production," which evaluates the number of "decisional units" an APJ produces. Appx3822-

⁸ The recent GAO Report reveals that PTO and PTAB management routinely interject themselves into the APJ decisionmaking process and require APJs to change their decisions. *See infra*.

3823.⁹ Each Performance Element independently controls the APJ’s final “Performance Rating” because each Performance Element is “critical.” *E.g.*, Appx3835 (noting that “if any critical element is less than fully successful[,] the rating can be no higher than the lowest critical element rating”). Therefore, if an APJ does not receive a “fully successful” rating for Production, the APJ will not receive the highest Performance Rating.

As an example, line and Lead APJs must earn 84 and 59 decisional units, respectively, to be eligible for the “Fully Successful” rating. Appx3823; Appx3935. If a line APJ produces only 83 decisional units, he/she cannot, according to PTO documents, be rated as “Fully Successful.” Appx3823; Appx3945; Appx3971; Appx3975; Appx4060; Appx4063; Appx4066; Appx4099; Appx4102; *see also* Appx3814 (instructing APJs to “seek efficiency gains and utilize available resources to enhance annual production”).

An APJ can receive higher compensation based on his or her “Total Score.” Appx3881-3887. An APJ can receive a bonus of \$4,000 to

⁹ A “decisional unit” equates to an action such as writing a decision or order in an AIA proceeding. *See* Appx3823; Appx4043-4046; Appx4081-4084.

\$10,000, according to PTO documents. Appx3881. The APJ's salary can be increased, up to five percent, depending on the APJ's numerical rating and final Performance Rating, Appx3881, which necessarily turns on the APJ's production of "decisional units."

5. GAO and Others Reveal the External Management and Financial Pressures Exerted on APJs

Since this appeal was first briefed, new reports have exposed the extent to which APJs are subjected to management and other external financial considerations that affect the decisionmaking process. This new information has not been considered by the Court.

The GAO undertook an investigation based on "identified concerns" among APJs about "oversight practices and policies." Appx9047. The GAO Report revealed stunning evidence that the majority of APJs who worked on AIA proceedings "felt pressure to change or modify an aspect of their decision in an AIA proceeding based upon the Management Review process." Appx9062. This pressure extended to "whether to institute a trial." Appx9047; Appx9063.

The GAO Report assessed the results of a survey of all non-management or Lead APJs as of September 2021. Appx9049. The large

majority (87 percent) of those APJs responded to the survey. Appx9049-9050. GAO also interviewed PTO and PTAB leadership. Appx9049.

The GAO Report revealed the existence of non-public PTO and PTAB policies, of which many patent owners were unaware. Appx9047. There are details about the AIA Review Committee (“ARC”) and how it operates. Appx9055. Also revealed is “Management Review,” a “process in which PTAB management conducts pre-issuance review and provides comments on select decisions drafted by judge panels.” Appx9056. “[I]n certain cases in the past, it may have been mandatory for judges to adopt comments” of Management Review. Appx9057. The policies on ARC and Management review were “not publicly available prior to May 2022.” Appx9055-9056.

Several key conclusions from the GAO Report are relevant here. “[T]he majority of [APJs] (75 percent) surveyed by GAO” responded that PTO and PTAB management oversight “affected their independence, with nearly a quarter citing a large effect on independence.” Appx9047. Some APJs “stated that on at least one occasion within their own cases, a director or PTAB management had, without notice to the parties, directly influenced the outcome of a particular AIA proceeding.” *Id.*

According to the Report, one APJ stated, “[M]anagement Review’s very existence . . . creates a preemptive chilling effect: consideration of management’s wishes is at least a factor in all panel deliberations, and is sometimes the dominant factor.” Appx9063 (alterations in original).

Another area of pressure is discouraging APJs from writing concurrences or dissents. *See* Appx3813. An APJ must ask permission from a Vice Chief APJ to receive any credit for writing a concurrence or dissent. *Id.* This pressure was likewise noted in the GAO Report. Appx9062.

PTO and PTAB management have also taken direct action to influence AIA proceedings. Some APJs reported that management had “contacted the panel members directly to mandate a change, and indicated, at times, that the panel could be changed to replace the judge that did not make the desired changes.” Appx9064; *see also* Appx9069 (“A former judge recounted being replaced on a panel, presumably because management wanted a unanimous decision, and this judge was not aware of the replacement until the decision was issued.”).

In addition to the GAO Report, Congress has taken note of the potential pecuniary bias that APJs confront. In a hearing before the House Judiciary Committee, Rep. Massey introduced an article into the

congressional record.¹⁰ The article analyzes APJ salaries and PTAB decisions and concludes that APJs experience “an annual average APJ pecuniary bias totaling \$5,760 out of an average annual APJ bonus of \$21,166.” Appx9096.¹¹

E. SG/Bally Violates the Contractual Forum Selection Clause and Files Its CBM Petitions

Turning back to the district court contract dispute, SG/Bally filed CBM petitions to cancel the patents, in violation of its agreement to resolve disputes in Nevada court. Appx2002-2039. The CBMs asserted that the claims were ineligible under 35 U.S.C. § 101. New Vision opposed institution on several grounds, including that the forum selection clause precluded institution. Appx0740-0742; Appx1070-1073.

The PTAB instituted, notwithstanding the parties’ Nevada forum selection clause. Appx0206-0240. The PTAB ruled that New Vision had not met its burden of identifying “a contractual bar/estoppel defense

¹⁰ Ron D. Katznelson, *The Pecuniary Interests of PTAB Judges—Empirical Analysis Relating Bonus Awards to Decisions in AIA Trials* (July 5, 2021) (Appx9096), available at <https://docs.house.gov/meetings/JU/JU03/20220721/115027/HHRG-117-JU03-20220721-SD004.pdf>

¹¹ This external pressure occurs in the context of APJs not having the employment protections that administrative law judges (“ALJs”) have. *See infra*.

against the institution” of the CBM review. Appx0213-0216. The PTAB also concluded that it was more likely than not that the patent claims are directed to the abstract idea of allowing bonus wagers in a game. Appx0232-0235. The PTAB did not discuss the gaming invention’s key aspect—forming the bonus hand from a plurality of hands—but it nonetheless stated that the remaining limitations of the claims were insufficient to integrate an “application” or add an “inventive concept.” Appx0235-0238.

New Vision moved to amend the claims, but the PTAB denied the motion. Appx1126-1135; Appx0167-0186. The amendment sought to add hardware-oriented language such as “providing a video screen on which said plurality of player hands are displayed.” Appx1130.

In its final written decisions, the PTAB declined to reconsider its institution decision. Appx0126-0131. The PTAB reiterated its position that the burden was on New Vision to identify a “contractual estoppel defense.” Appx0127-0128. The PTAB never stated whether it was exercising discretion. *Id.*

The PTAB held that all claims of the ’987 and ’806 patents were unpatentable “abstract ideas” under 35 U.S.C. § 101. Appx0143-0166.

To identify an “abstract idea” for *Alice* Step 1, the PTAB equated the game rules to the “rules for conducting a wagering game” of *In re Smith*, 815 F.3d 816 (Fed. Cir. 2016). Appx0143-0152. The PTAB then looked at the other claim limitations and found them insufficient to escape the “abstract” label. Appx0152-0157; Appx0160-0166. The proposed claim amendments were likewise held unpatentable. Appx0167-0186.

New Vision requested rehearing, Appx1938-1954, which was denied, Appx0188-0205, and subsequently requested Director review, which was also denied, ECF 126.

SUMMARY OF THE ARGUMENT

Due process requires that a tribunal maintain the appearance of impartiality. The AIA institution process, as applied in this case, does not meet the “jealously protected” due process standard. The inherent tie between the PTAB’s institution decisions and the substantial revenue generated by those decisions—which account for about 40% of the PTAB’s trial proceedings budget—has created a structural bias unlike any other in federal agencies. PTO and PTAB officials impermissibly mix administrative and judicial functions that create, at a minimum, an appearance of financial bias. Fees generated by granting institution allow the

“revenue-generating” PTO to continue with its APJ salary increases and bonuses. The same APJs make the decisions to grant institution and thus generate that revenue for the PTAB. Because the PTO operates a unique business-oriented agency, the PTAB’s budget could not be sustained without a continued flow of institutions.

The structural bias is magnified by an APJ’s lack of independence. APJs are subject to oversight and performance reviews by superiors, including other APJs as well as other PTO officials. Those performance reviews, which depend in part on productivity, determine the salaries and bonuses earned by the APJ. Further, as revealed in the GAO Report, PTO and PTAB management (who control the budgeting and performance review) will overrule and replace APJs who do not make the “right” decision—including the decision to institute.

The strong institutional bias for generating revenue for the PTAB, along with the financial incentive biases imposed on APJs from bonuses and salary raises, creates a perceived structural bias that exceeds any permissible arrangement under the Due Process Clause. As one former APJ explained, “You get more credit for doing the final written decisions,

and the only way to get those credits is to institute.”¹² Indeed, these unique features of the AIA post-grant review process—a bipartite payment scheme, APJs incentivized by production and bonus schemes, and an essentially self-funded adjudicatory board—create the structural bias the Supreme Court and appellate courts have repeatedly warned against.

Further, the unique funding structure of the PTO exacerbates the due process flaw. The PTO benefits from a unique Reserve Fund, as well as an operating reserve. Congress’s control of the PTO’s budget appears to be in form only, as the PTO sets its own fees without congressional approval and routinely gets full appropriation based on its revenue generated. If it falls short, it can tap its operating reserve. In short, and unlike any other federal agency, the PTO (and its business unit the PTAB) operate like a “revenue-generating entity”—the agency’s own words.

Second, the Director and the PTAB abdicated their obligation to exercise discretionary authority in the face of SG/Bally’s contractual

¹² IP Watchdog, *PTAB Masters 2021, Day 3* (Apr. 21, 2021), at 2:07:33 <https://www.ipwatchdog.com/video-archive/ptab-masters-2021-day-3-april-21-2021>.

obligation to not bring a PTAB challenge. The Director offered no reason for allowing the CBM to stand, notwithstanding SG’s violation of its contractual agreement. The PTAB improperly placed the burden on New Vision to identify a “contractual estoppel defense.” No such bright-line rule precluded the PTAB from considering, as a matter of discretion, whether the CBM petitions should have been denied pursuant to the contractual obligation that all disputes over the agreement are to be resolved in a Nevada court.

ARGUMENT

I. Standard Of Review

With a due process challenge contending a structural bias, the party must show that the decisionmaking process creates “a possible temptation to the average man as a judge” such that the adjudicator would not “hold the balance nice, clear and true.” *Tumey v. Ohio*, 273 U.S. 510, 532 (1927); *Ward v. Vill. of Monroeville*, 409 U.S. 57, 60 (1972).

This Court “review[s] Board decisions in accordance with the Administrative Procedure Act, 5 U.S.C. § 706(2).” *HTC Corp. v. Cellular Commc’ns Equip., LLC*, 877 F.3d 1361, 1367 (Fed. Cir. 2017). Under the APA, this Court reviews the PTAB’s legal conclusions *de novo* and its

factual findings for substantial evidence. *ACCO Brands Corp. v. Fellowes, Inc.*, 813 F.3d 1361, 1365 (Fed. Cir. 2016).

A reviewing court must set aside agency action that is arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law. 5 U.S.C. § 706(2)(A). An agency must also “cogently explain why it has exercised its discretion in a given manner.” *Motor Vehicle Mfrs. Ass’n of U.S., Inc. v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 48 (1983).

II. *Mobility Workx* Does Not Control The Outcome Here

Since this appeal was first briefed, the Court decided the *Mobility Workx* appeal, rejecting the due process argument. The appellant in that case had adopted verbatim New Vision’s earlier-briefed due process argument. Thus, because *Mobility Workx*’s argument was New Vision’s original due process argument, the *Mobility Workx* panel in effect rejected New Vision’s original argument. That outcome would ordinarily control the outcome here.

New Vision submits, however, that new developments and insight warrant the panel’s consideration. The GAO Report, as detailed herein, sheds remarkable new light on the extent to which PTO and PTAB management control APJ decisionmaking. *See* Appx9046. A separate

independent analysis concludes that APJs indeed experience a pecuniary benefit by granting institution. *See* Appx9096. Furthermore, New Vision’s present brief offers further explanation of why the PTO’s unique status of a “revenue-generating entity” contributes to the strong appearance of institution decisions being driven by an improper pecuniary interest.

If the Court believes that the present appeal is controlled by *Mobility Workx*, then New Vision respectfully submits that the case should be taken en banc to resolve an important question. *See* Fed. Cir. R. 35(a)(1).

III. The CBM Decision Should Be Vacated Because The AIA Institution Process As Applied Is Unconstitutional

A. Due Process Entitles a Party to a Tribunal Free of Possible Pecuniary Interest

The Due Process Clause prohibits procedures that “offer a possible temptation to the average man as a judge.” *Tumey v. Ohio*, 273 U.S. at 532. “The Supreme Court has jealously protected the due process requirement of impartiality when the decisionmakers stood to gain substantial, personal pecuniary benefits from their adjudicative decisions.” *Doolin Sec. Sav. Bank, F.S.B. v. FDIC*, 53 F.3d 1395, 1406 (4th Cir. 1995).

A procedure creates this unconstitutional temptation if the decisionmaker has a “direct, personal, substantial pecuniary interest” in the proceeding’s outcome. *Tumey*, 273 U.S. at 523. Unconstitutional bias also exists where a decisionmaker with administrative or executive responsibilities has a sufficiently “strong” “motive” to rule in a way that would aid the institution. *Id.* at 533; *see also Ward*, 409 U.S. at 60.

Unconstitutional bias exists in at least two forms. First, an institutional bias in procedures can create an impermissibly strong motive—or appearance of motive—to rule in favor of the organization or its members. *E.g.*, *Tumey*, 273 U.S. at 533-34; *Ward*, 409 U.S. at 60-61; *United Church of the Med. Ctr. v. Med. Ctr. Comm’n*, 689 F.2d 693, 700 (7th Cir. 1982). Second, a decisionmaker’s direct pecuniary or other personal interest in a proceeding’s outcome can violate due process. *See, e.g.*, *Gibson v. Berryhill*, 411 U.S. 564, 578 (1973) (revocation of licenses by the optometry board would “possibly redound to the personal benefit of members” of the board); *Tumey*, 273 U.S. at 520.

Three Supreme Court cases form the general basis for “structural bias” due process claims. In *Tumey v. Ohio*, a mayor could convict someone for unlawful liquor possession in a mayor’s court. 273 U.S. at 516-

17. The mayor received more compensation when he convicted and fined the defendant, and the extra compensation came from the criminal fines. *Id.* at 520. The fines also supported the village’s general treasury fund, which the mayor presided over as the village chief executive officer. *Id.* at 533. This was a due process violation for two reasons. First, the mayor had “a direct, personal, substantial, pecuniary interest” in fining the person, namely the mayor’s bonus pay tied to the convictions. *Id.* at 523. Second, the mayor had a strong “official motive to convict and to graduate the fine to help the financial needs of the village.” *Id.* at 535.

A year later, in *Dugan v. Ohio*, 277 U.S. 61 (1928), official motivations did not create an unconstitutional bias when the mayor, acting as a judge, was paid from a general fund into which the criminal fines he imposed were deposited. *Id.* at 65. This connection between the general fund and his pay was too “remote,” the Court held, to create an unconstitutional temptation. *Id.* The mayor was one of five on the city commission and had an insufficient connection to the general fund or the city’s financial policy to produce too strong a motivation to favor a particular outcome in a case. *See id.*

In 1972, another Ohio mayor's court was challenged in *Ward v. Village of Monroeville*. The mayor exercised judicial and executive responsibilities and was responsible for the village's finances. 409 U.S. at 58. The mayor (as executive) reported to the village council on budgetary matters, but a "major part of village income" came from the fines and fees imposed by the mayor (as judge). *Id.* This arrangement was unconstitutional as a "possible temptation" because "the mayor's executive responsibilities for village finances may make him partisan to maintain the high level of contribution from the mayor's court." *Id.* at 60.

B. "Structural Bias" Violates Due Process

With structural bias, the constitutional deficiency lies not with a decisionmaker shown to be biased but with an overall process that creates too strong a motive and unfair temptation for "the average man as a judge." *Ward*, 409 U.S. at 60. Indeed, "[t]he administrative process 'requires the appearance of fairness and the absence of a probability of outside influences on the adjudicator; it does not require proof of actual partiality.'" *Hammond v. Baldwin*, 866 F.2d 172, 176 (6th Cir. 1989) (quoting *Utica Packing Co. v. Block*, 781 F.2d 71, 77 (6th Cir. 1986)). Due process can "bar trial by judges who have no actual bias and who would

do their very best to weigh the scales of justice equally between contending parties.” *Aetna Life Ins. Co. v Lavoie*, 475 U.S. 813, 825 (1986).

A major contributing factor to an unconstitutional structural bias is the existence of “substantial” institutional funding that relies on a particular outcome. *See Ward*, 409 U.S. at 58 (unconstitutional where judge’s fines accounted for 35%-50% of village income); *Rose v. Village of Peninsula*, 875 F. Supp. 442, 450 (N.D. Ohio 1995) (O’Malley, J.) (unconstitutional where fines totaled over 10% of village’s revenue).

In both *Tumey* and *Ward*, “the Court put great emphasis on the fact that the revenues generated by the Mayor’s Court were very substantial and vitally important to the village’s fiscal well being.” *Wolkenstein v. Reville*, 694 F.2d 35, 43 (2d Cir. 1982). As Judge Wisdom explained, the Supreme Court in those two cases was “not as interested in the probity of the individual judge or perhaps even, of the great majority of judges,” but was instead concerned with “the inherent defect in the legislative framework arising from the vulnerability of the average man—as the system works in practice and as it appears to defendants and the public.” *Brown v. Vance*, 637 F.2d 272, 282 (5th Cir. 1981).

Another recurring feature of unconstitutional decisionmaking structures is when monetary fines imposed by a decisionmaker flow back to the decisionmaker's benefit, even if somewhat indirectly. *See, e.g., Esso Standard Oil Co. v. Lopez-Freytes*, 522 F.3d 136 (1st Cir. 2008) (holding as unconstitutional an agency account because, in part, "any fine imposed will flow directly to the [agency's] budget").

Another contributing factor to unconstitutional structural bias is the mixing of executive and adjudicatory responsibilities in a single agency decisionmaker. *Alpha Epsilon Tau Chapter Housing Ass'n v. City of Berkeley*, 114 F.3d 840, 847 (9th Cir. 1997) (Justice White, by designation) ("That the Board is both adjudicator of coverage and executor of its finances may be a less than optimal design for due process purposes.").

C. The PTAB's Organization, Decisionmaking Process, Fee Structure, and APJ Compensation Scheme Create a Structural Bias that Violates Due Process

The AIA review process operates under a set of unique conditions in the federal government: (1) 40% of the PTAB's AIA trial budget comes from fees generated by institution grants; (2) PTO and PTAB leadership have dual roles, as executives to manage PTAB finances and as adjudicators of AIA proceedings; (3) the line and Lead APJs who make most

institution decisions are subject to performance reviews by PTAB leadership; (4) an APJ's salary and bonus plan incentivizes higher "production," which leads to more institutions; (5) APJs are subject to PTO and PTAB oversight and interference, such as Management Review and ARC, that lead to changed AIA outcomes; (6) the PTO has a unique funding mechanism (including the Reserve Fund and the operating reserve), sets its own fees, currently receives funding equal to its fee collections, and operates as a "revenue-generating entity"; and (7) the PTAB operates as a "business unit" with its own budget expectations.

1. PTO and PTAB Leadership Mix Administrative, Financial, and Judicial Functions, Creating an Impermissible Appearance of Bias

The mixing of executive and judicial functions in a single agency position is consistently identified as a significant contributor to unconstitutional structural bias. *See Ward*, 409 U.S. at 60; *Rose*, 875 F. Supp. at 453 (identifying "the combination and level of his or her executive and judicial powers" as an important factor). Here, the PTO impermissibly combines significant executive and judicial responsibilities in PTO and PTAB leadership personnel who oversee a PTAB budget heavily

dependent on institution-generated revenue, participate in decisionmaking, and exert direct influence over APJ decisionmaking.

The Chief APJ, Deputy Chief APJ, and Vice Chief APJs each have some responsibility for institution decisions. They provide policy direction and ensure the quality and consistency of AIA decisions. *See* Appx4004-4006 (Chief APJ); Appx4030-32 (Deputy Chief APJ); Appx4108-4110 (Vice Chief APJ). Their oversight of AIA decisions is necessarily intended to maximize conformity in the institution and final written decisions. Those PTAB leaders also participate on PTAB institution panels, and in fact do so on occasion. *See* Appx4351-4374; Appx9046-9071.

At the same time, the PTO and PTAB leadership have significant responsibilities managing the PTAB's finances as a distinct "business unit" within the PTO. *E.g.*, Appx4005 (Chief APJ: "Manage allocation of budget resources to accommodate business unit needs."). They oversee fiscal planning and expenditures. They make business-unit decisions based on the availability of funds. All of these are high-level financial roles granting the PTO and PTAB leadership significant authority over a budget of \$94 million.

The combination of adjudicatory and executive decisionmaking authority is a major red flag under the *Tumey* line of cases. *See Ward*, 409 U.S. at 60; *Esso Standard Oil*, 522 F.3d at 146-47; *Rose*, 875 F. Supp. at 453. It puts PTAB leadership in an untenable dual role of managing the PTAB's finances in a "business-like sense" and deciding AIA petitions solely on the merits.

The internally conflicted judicial/administrative roles of PTO and PTAB leadership are even more troubling given the institution decision's criticality to maintaining a substantial percentage of the PTAB's finances. Post-institution fees (trial-phase fees) amount to about \$23 million (FY2021). Appx4335-4336. This is about 24% of the PTAB's total budget and about 40% of the PTAB's AIA trial proceedings budget. Appx4335-4338.

With 24%-40% of its budget dependent solely on granting petitions, the PTAB is in the same or worse situation compared to those cases finding an unconstitutional violation. *See Ward*, 409 U.S. at 58 (fines accounted for 35%-50% of village income); *Rose*, 875 F. Supp. at 450 (10% of budget); *see also DePiero v. City of Macedonia*, 180 F.3d 770, 780 (6th Cir. 1999) (adopting 10% from *Rose* as "articulate and persuasive").

The percentage of the PTAB budget dependent on post-institution fees (and thus institution decisions) is much higher than in those cases where due process challenges have fallen short. *See Hirsh v. Justices of Supreme Court of Cal.*, 67 F.3d 708, 713-14 (9th Cir. 1995) (no violation because attorney disciplinary fines amounted to 1% of state bar funds); *Commonwealth of N. Mariana Islands v. Kaipat*, 94 F.3d 574, 581-82 (9th Cir. 1996) (fines used to build courthouse only 5% of budget); *Alpha Epsilon Tau*, 114 F.3d at 847 (no violation where financial gain tied to board's decisions was only "two to five percent of the entire budget").

PTO and PTAB leadership also understand that the PTAB is self-funded by user fees. *See Appx4127-4128*. This self-funded approach conforms to the PTAB's "business unit" designation with "revenue-generating" policies. *See Appx4064-4073; Appx4004*. Under the current funding structure, any decrease in institution grants would very likely lead to decreased revenue for the PTAB as a business unit. *See Appx4127-4128; Appx4335-4336*. The imperative that the PTAB be fee-funded to cover costs further solidifies the direct connection between post-institution fees and PTAB overall budget.

The impermissible mixing of judicial and administrative/executive roles is perhaps at its extreme with the Precedential Opinion Panel. Appx4375-4386. The Precedential Opinion Panel purports to have the authority to designate PTAB decisions as “precedential,” thus effectively binding all future PTAB panels. Appx4377.

The Chief APJ is a default member of the Precedential Opinion Panel. Appx4378. The Chief APJ has the ability to participate in substantive policy decisionmaking that binds all PTAB panels, all while managing the PTAB’s entire budget. This scenario creates similar problems as in the mayor’s courts struck down in *Tumey*, *Ward*, and *Rose*.

The majority in *Mobility Workx* appears to have dismissed the intermingling of financial and judicial decisionmaking based on the view that Congress “ultimately sets” the PTO’s budget and “similarly controls” whether the PTO can access the Reserve Fund. 15 F.4th at 1154. But the reality is not as straightforward as *Mobility Workx* presents.

PTO fees collected above appropriations flow into the Reserve Fund, and it can be accessed by the PTO outside the normal appropriations process, through the “reprogramming” route. *See, e.g.*, Appx4849

(2018 Appropriations Act). All that is required is a notification from the PTO to Congress. Appx4850.

Moreover, to equate the PTO's unique, business-focused funding structure to that of other federal agencies such as FERC or INS, *see* 15 F.4th at 1154-55, overlooks the PTO's own characterization of its operations as "unique" and "revenue-generating," Appx5941 ("The USPTO has evolved into a unique government agency."); Appx6378 ("The USPTO is a performance-based, production-oriented, revenue-generating entity (i.e., zero dollars received in taxpayer funding), with a demand-driven workload and budgetary requirements."). During the CBM at issue, the PTO and PTAB leadership knew that every dollar generated by AIA institution would flow back into the PTAB operating budget to support salaries and bonuses. And any excess funds generated by the PTO would go to the Reserve Fund—for use by only the PTO, without additional appropriations.

While most APJs may not be directly responsible for setting the agency's budget, PTAB management do have budget and "business unit" financial responsibilities. Appx4004-4005; Appx3995-3996. The GAO Report also reveals that PTO leadership have directly influenced

decisionmaking for AIA institutions, and PTO leadership certainly have responsibility for PTO finances.

2. PTO Executives and APJs Make Institution Decisions in the Face of Revenue Consequences, Performance Reviews, Production Requirements, and Bonus Incentives

The line and Lead APJs, who make most institution decisions, also operate under a system that generates incentives to grant institution, regardless of the merits of the petition. In this system, the “average man as judge”—or more aptly “the average person as patent judge”—is exposed to temptations that undermine the appearance of impartiality. The APJs decide petitions knowing that denying a petition will adversely affect the PTAB “business unit” revenue and will likely affect their own financial and employment situation. This situation falls squarely within the ambit of *Tumey* and *Ward*.

Looming over the APJs are performance reviews and associated bonus incentives. *See, e.g.,* Appx3881. Every time an APJ decides to institute, that patent judge understands that his or her production scores will likely improve. *See* Appx4042-4045; Appx3881. The APJ also continues to work on the case through final written decision, which leads to more opportunities to create “decisional units.” That in turn increases the

likelihood that the APJ will receive a positive review, with possible salary and bonus increases. *E.g.*, Appx3881.

The institution decision has an immediate impact on an APJ's subsequent workflow. When an APJ votes to grant institution, that APJ is voting to ensure himself or herself work on that post-grant proceeding over the next 12 months. *See* Appx4356-4360. Upon institution, the APJ also knows that the PTO and PTAB earn the post-institution fee, thus increasing the revenue for the PTAB business unit as a whole.

Although a decision to institute does not absolutely guarantee an economic benefit for the APJ, a guarantee is not necessary. To violate due process, all that is necessary is a reasonable connection between the decision and the pecuniary benefit. *See Gibson*, 411 U.S. at 578. The *Gibson* Court found unconstitutional a review process whereby an optometry board revoked licenses of other licensed optometrists. The Court understood that the board's revocations would "*possibly* redound to the personal benefit of members of the Board." *Id.* (emphasis added). There was no need to show actual subjective bias; the existence of incentives is all that is required. *See also Rippo v. Baker*, 580 U.S. 285, 286 (2017) (reversing the Nevada Supreme Court on this basis).

These incentives are also very similar to the impermissible incentives in *Tumey*. There, the mayor’s financial compensation increased as he fined more people for alcohol possession. 273 U.S. at 523. Here, the APJs increase their likelihood of bonuses and salary increases through additional “decisional units.” See Appx3823; Appx3881.

More so, overall PTAB fee collections and funding are linked to the workload via AIA institution grants. Appx4127-4128. An average APJ is exposed to unfair influences due to this connection between the PTAB’s fee collection/budget and the need to generate revenue to cover costs and bonuses, as the PTO “operates as a business” and the PTAB is a “business unit.” If the PTAB’s overall workload decreases—through decreased institutions—then the PTO will likely decrease the PTAB budget and be left with a need for fewer line and Lead APJs.

The institution decision’s possible effect on the individual APJ’s financial situation cannot be overstated. For example, if the institution rate were reduced by 25%, that would equate to a reduction in trial phase work by about 25%. This reduction in APJ workload could very well cause many line APJs to fall short of the 84 decisional units required for the “Fully Successful” rating. See Appx4043; see also Appx4080-4084.

That in turn would diminish the possibility of salary raises and monetary bonuses. *See* Appx3881 (tying pay adjustments to numerical performance ratings, which in turn depends on productivity).

The majority in *Mobility Workx* decision minimized these concerns because, in its view, “there is a significant backlog of *ex parte* appeals,” 15 F.4th at 1156. But that backlog has fallen by over 80% in the last ten years. Further, one statistical analysis indicates a significant pay discrepancy between APJs who specialize in AIA trials versus those who specialize in *ex parte* appeals. Appx9118-9119.

This direct connection between granting institution and securing employment and bonuses is barely distinguishable from other situations where decisionmakers had a direct pecuniary benefit flowing from a particular decision. *Compare Cain v. White*, 937 F.3d 446, 448-49 (5th Cir. 2019), *with* Appx3823; Appx3881.

Additional systemic bias may result as “prejudging bias.” The same three APJs who granted institution will oversee the case during the trial phase. The APJ’s exposure to the case pre-institution—before seeing all of the evidence—exposes the APJs to possible bias. *See Withrow v. Larkin*, 421 U.S. 35, 51 (1975) (“That is not to say that there is nothing

to the argument that those who have investigated should not then adjudicate.”); *Valley v. Rapides Parish Sch. Bd.*, 118 F.3d 1047, 1053 (5th Cir. 1997) (affirming decision that school board members “had reached prehearing commitments on questions of [adjudicative] fact, thus establishing an unconstitutional level of impartiality”). While the prejudging bias might be insufficient by itself to violate due process, *Ethicon Endo-Surgery*, 812 F.3d at 1023, it adds to the flawed AIA institution process in this case.

Additionally, the Supreme Court’s recent decision in *Thryv, Inc. v. Click-to-Call Technologies, LP*, 140 S. Ct. 1367 (2020), further warrants correcting the improper structural bias. *Thryv* makes it even more difficult to challenge the PTAB’s institution decisions. By restricting judicial review, *Thryv* heightens the need to ensure impartiality—and perceived impartiality—in the AIA institution decisionmaking process. “The administrative process requires the appearance of fairness and the absence of a probability of outside influences on the adjudicator.” *Hammond*, 866 F.2d at 176 (quotation omitted).

Ultimately, when viewed as a whole, the temptation on the average APJ (or the PTO or PTAB management who are getting involved in the

AIA decisionmaking) is significant, imposing, and omnipresent throughout the institution decisionmaking. It is unlike that in any other federal agency decisionmaking process, and it does not comport with any court-approved process. The pecuniary incentives are particularly troubling, given Congress's goal of trying to create an efficient alternative to litigation in Article III trial courts.

3. The APJ's Lack of Judicial Independence Exacerbates the Structural Bias

The APJ's lack of judicial independence amplifies the pecuniary and institutional bias. APJs lack significant independence compared to an Article III judge or even an ALJ. Without any reasonable independence from the agency, the APJs appear beholden to PTO leadership and the PTAB business unit—to maintain or increase PTAB revenues. The APJ's lack of independence also creates the appearance that the APJ will be too easily influenced to ensure the workflow for continued employment.

The most stinging indictment of the APJ's lack of independence is the GAO Report. Appx9046-9071. It is replete with examples of the APJs' decisionmaking being compromised or controlled by PTO and PTAB leadership: the majority of APJs “felt pressure to change or modify an aspect” of their AIA decision, Appx9062; “pressure not to file a dissent

or concurrence, *id.*; sixty-three percent of judges feeling obligated to follow substantive comments from Management Review, Appx9064. All of this, according to one APJ, left “a ‘bad taste’ that permeates into decision-making on other cases.” Appx9063.

Beyond the GAO Report, APJs lack the typical statutory and regulatory protections afforded to ALJs. As of 2018, agencies had limited ability to discipline ALJs. 5 U.S.C. §§ 7513, 7521. ALJs are protected against reduction in force with rights to reassignment, reemployment priority, and to be referred back into OPM’s pool of ALJs to be reassigned to other agencies. 5 C.F.R. § 930.210; *see also* 5 C.F.R. Part 351. ALJs receive “a career appointment . . . exempt from . . . probationary period requirements.” 5 C.F.R. § 930.204(a). An agency may not rate job performance or provide any award or incentive to ALJs. 5 C.F.R. § 930.206(a)-(b). These protections do not apply to APJs.

The stark contrast is perhaps most succinctly captured by the fact that an APJ’s yearly performance is reduced to a single number. *See, e.g.*, Appx4060. Furthermore, unlike an ALJ, the APJ has probationary period requirements. Appx4043. APJs have to “demonstrate ramped up productivity” during their first year at the PTAB. Appx4043. The AIA

has thus created one of the largest bodies of non-ALJ agency employees who were intended to supplant decisionmaking by Article III judges.

In the end, all the above illustrates the significant temptation—and importantly the appearance of temptation—for the APJs to rule in favor of institution for non-merits-based reasons. The perceived temptation may be to earn decisional units or satisfy the APJ’s supervisor. Appx9061. The perceived temptation may instead be related to concerns about reduced employment due to decreased PTAB revenues. These structural biases unfairly influence—or create the appearance of influence—on the “average person as patent judge,” particularly after *Arthrex* and the lack of employment protections under Title 5.

4. The Structural Bias is Similar to That Held Unconstitutional in Other Cases

The AIA institution process and funding structure are unlike almost any current federal administrative proceeding. Even so, the process and structure create the same threats to impartiality as seen in other cases that were deemed to violate due process under *Tumey*.

The AIA structural bias is equivalent to, if not worse than, what the First Circuit struck down in *Esso Standard Oil*, 522 F.3d at 145-48.¹³ There, the court held as unconstitutional an environmental quality review board (“EQB”) that assessed environmental fines. *Id.* at 146-48. The court “concluded that the bias stems from the potential financial benefit to the EQB’s budget as a result of an imposed fine.” *Id.* at 146.

The EQB’s three board members enforced Puerto Rico’s environmental statutes and regulations. *Id.* at 146. These salaried board members had no personal pecuniary interest in the fines imposed and collected, but the board exercised control over funds “which are supplied, at least in part, by fines which it imposes.” *Id.* at 147. The court recognized that, “[a]lthough members of the [Board] may not stand to gain personally . . . a pecuniary interest need not be personal to compromise an adjudicator’s neutrality.” *Id.*

The EQB’s unconstitutional structure is analogous to the PTAB’s structure. The PTAB leadership manages the finances and also participates in substantive decisions. The PTAB leadership APJs’ review

¹³ The majority opinion in *Mobility Workx* neither addressed nor cited *Esso Standard Oil*. See 15 F.4th at 1153-58.

process creates a similar scenario for post-institution fees. The AIA fees generated are used to fund the operations of the PTAB, including salaries and bonuses for APJs. *See* § II.C., *supra*.

The First Circuit also struck down the compensation scheme for the hearing examiners, who could be motivated to levy fines “because of the particularities within the pay structure.” 522 F.3d at 147. A similar problem exists with APJs, where performance evaluations and bonuses depend, in significant part, on the number of their “decisional units.” Appx3823; Appx3835 (noting that 35 percent of an APJ’s performance rating depends on “production,” which is measured by “decisional units”). And if an APJ grants a petition, benefits inure based on continued workflow, the increased opportunity for “decisional units,” and more PTAB revenue. This conforms to the PTAB’s instruction to APJs to “utilize available resources to enhance annual production.” Appx3814.

Also similar to the bias in the AIA review structure is *Rose v. Village of Peninsula*. There, the district court focused on the substantial percentage (about 11-13%) of the village’s revenue tied directly to fines imposed by the mayor, concluding that it fell within “the ambit of *Ward*.” 875 F. Supp. at 451. The PTAB situation is more substantial, with 40%

of its AIA trial-related fees, and 24% of its overall fees, wholly dependent on granting petitions to institute. *See* Appx4335-4338.

The Fifth Circuit’s decisions in *Cain v. White*, 937 F.3d 446 (5th Cir. 2019), and *Caliste v. Cantrell*, 937 F.3d 525 (5th Cir. 2019), are equally instructive.¹⁴ In *Cain*, criminal fines were deposited into a judicial expense fund. 937 F.3d at 448-49. The judges had control over the fund and were given \$250,000 per year from the fund to support the salaries for each judge’s staff. *Id.* at 449, 454. The Fifth Circuit “agree[d] with the district court that the situation here falls within the ambit of *Ward*,” *id.* at 454, noting that, when the collection of the fines and fees decreases, the court would have difficulty with its budgetary needs, *id.* at 449.

In *Caliste*, 20-25% of the court’s judicial expense fund depended on the bail decisions. 937 F.3d at 526. As explained, “the more often the magistrate requires a secured money bond as a condition of release, the more money the court has to cover expenses. And the magistrate is a member of the committee that allocates those funds.” *Id.*

¹⁴ The majority opinion in *Mobility Workx* did not cite either *Caliste* or *Cain*. *See* 15 F.4th at 1153-1158.

Again, this is not unlike the AIA review structure, where the PTAB leadership APJs have the simultaneous roles of manager of the PTAB's budget and finances as “business unit” and of adjudicator on the merits of AIA petitions. In the words of *Caliste*, this “dual role . . . creates a direct, personal, and substantial interest in the outcome of decisions that would make the average judge vulnerable to the ‘temptation . . . not to hold the balance nice, clear, and true.’” *Id.* at 532 (quoting *Tumey*, 273 U.S. at 532).

The AIA structure is also analogous because the post-institution fees make their way to the PTAB through the user-fee funded PTO funding structure, the existence of the Reserve Fund of excess fees (for use only by the PTO), and the internal budgeting of the PTAB as a “business unit.” The fees from granting AIA petitions will fund PTAB operations, salaries, and even bonuses, just as in *Cain* and *Caliste*.

In short, the unusual organizational and fee-generating structure of AIA reviews creates a temptation at least as strong as in *Esso*, *Rose*, *Cain*, and *Caliste*. New Vision is unaware of any similar scheme whereby the budget of an adjudicatory board depends so heavily and so disproportionately on the continued granting of initial petitions—particularly

when those petitions are decided by agency employees who will benefit from granting petitions and by PTO and PTAB management who are responsible for budgeting, hiring, and other executive functions.

5. The “Revenue-Generating” AIA Review Structure Is Significantly Different from Cases that Satisfy Due Process

While courts have rejected many due process challenges to agency decisionmaking, even those rejections confirm that incentives in the AIA review process create impermissible structural bias. In some of those cases, the constitutional challenge fails for specific reasons. *See, e.g., Alpha Epsilon Tau*, 114 F.3d at 847 (rejecting challenge because financial gain tied to board’s decisions was only “two to five percent of the entire budget”). Even so, these cases are instructive on why the PTAB’s funding and decisionmaking procedures here are unconstitutional.

Thirty-five years ago, before the PTO was a “revenue-generating entity” and with a very different funding scheme in place, this Court rejected a due process challenge in *Patlex Corp. v. Mossinghoff*, 771 F.2d 480 (Fed. Cir. 1985). There, the inventor of certain aspects of the laser, Gordon Gould, argued that the reexamination process created an inherent financial temptation and violated due process. Gould saw the \$1,200

refund of the reexamination fee as a temptation to grant reexamination. *Id.* at 487. While rejecting the challenge, this Court noted that “there is merit in some of the concerns expressed by Gould,” thus recognizing that the reexamination process created some perceived bias. *Id.*

Importantly, *Patlex* cannot be read as blessing the substantial financial incentives of the current AIA institution process. Numerous differences exist between the reexamination system upheld in *Patlex* and the current AIA review system. First, at the time, the PTO was largely dependent on annual appropriations from Congress. There was no operating reserve. There was no segregated Reserve Fund or operating reserve within the Treasury for sole use by the PTO through a reprogramming mechanism that requires no further approval from Congress, as there is now. *See* 35 U.S.C. § 42; *cf.* Appx4805.

Second, at the time, Congress decided PTO fees. 771 F.2d at 487. In contrast, the PTO can now raise AIA fees on its own accord, without congressional approval. 35 U.S.C. §§ 311(a), 321(a); *see also* Appx4127-4128.

Third, there is no indication in *Patlex* that the PTO employees tasked with reviewing and deciding reexamination requests were in any

way incentivized as the current APJs are. Indeed, there is no suggestion that the PTO employee who reviewed the reexamination request would receive any bonus or had “production” requirements. Nor is there any indication in *Patlex* that the PTO was operating with a business focus in order to generate revenue. In short, when *Patlex* was decided, there was no direct linkage between the decision on the merits and the agency’s funding/budgeting structure—as there is now.

It is not clear why, but the majority opinion in *Mobility Workx* does not discuss any of these significant differences. The majority panel merely quoted *Patlex*, which had noted that “in the case of the PTO the fees are set by Congress, and are paid by those members of the public who seek the benefits of the service.” 771 F.3d at 487. Again, though, the PTO’s funding scheme has so fundamentally changed that *Patlex*’s one-paragraph conclusion cannot control here. Since then, the PTO “has evolved into a unique government agency,” driven by revenue generation to support its business unit operations and influenced by the recognition that the AIA post-grant reviews will “drive business away from district courts.” Appx5328.

The current AIA review and funding structure also differs from the agency procedure upheld in *Delaware Riverkeeper Network v. FERC*, 895 F.3d 102 (D.C. Cir. 2018), overruled on other grounds by *Allegheny Defense Project v. Federal Energy Regulatory Commission*, 964 F.3d 1 (D.C. Cir. 2020). There, an environmental group challenged the constitutionality of the Federal Energy Regulatory Commission’s (“FERC”) structure for approving new gas pipelines. *Id.* at 105. FERC’s mandate required it to issue a certificate of “public convenience and necessity” before any new gas pipelines could be built. *Id.* at 106. FERC was also statutorily required to recover the costs of the certification process by statute. *Id.* (citing 42 U.S.C. § 7178(a)(1)). Notably, FERC has no control over its revenues: its user fees are “credited to the general fund of the Treasury,” not to a special “reserve fund.” *Id.* (citing 42 U.S.C. § 7178(f)). FERC cannot raise revenues by increasing activity or by better satisfying its paying customers—FERC’s operations are capped by its congressional appropriation.

The D.C. Circuit rejected the challenge. Unlike the PTO and PTAB structure, FERC is completely beholden to the congressional appropriations process for funding. *Id.* at 106 (citing 42 U.S.C. § 717(j)). FERC

has nothing like the PTO's control over its funding: the PTO sets its own fees and can increase fee collections by instituting more AIA post-grant proceedings. *See id.* at 112. FERC is not a "revenue-generating entity" that "operates like a business" with different business units, as the PTO currently is.

Nor was there any suggestion that the FERC employees stood to gain in any way when they approved new pipelines. *See id.* FERC employees did not have salary raises and bonuses dependent on any production metric, such as "decisional units." The D.C. Circuit also did not identify any concerns about the improper combination of financial and adjudicatory responsibilities in a single decisionmaker. 895 F.3d at 111-12. That combination is a significant concern with the PTO and PTAB leadership.

Despite these substantial differences, the majority in *Mobility Workx* accepted *Delaware Riverkeeper* as analogous. *See* 15 F.4th at 1154-55. But those differences are important, and the majority erroneously equated the PTO's unique funding mechanism to FERC's traditional appropriations process. *Id.* at 1155 ("Here, too, the USPTO

recovers its annual operating costs through fees but is ultimately funded through congressional appropriation.”).

In the end, those cases rejecting due process challenges only confirm why the AIA process applied to New Vision undermines the appearance of impartiality. *Cf. Alpha Epsilon Tau*, 114 F.3d at 847 (9th Cir. 1997) (rejecting gain because financial gain was only “two to five percent of the entire budget.”).

D. The PTO Can Fix the Constitutional Problem

The unconstitutionality of the PTAB institution process in the present case is a product of PTO regulations and implementation. The Court need not invalidate any statute nor upset the entire AIA post-grant review process. In fact, the PTO may have taken steps sufficient to cure the flaws.

For instance, the new Director has recently announced that PTO leadership will no longer be involved in PTAB decisions before the decisions are issued. Appx9203. There may be other internal changes that the PTO can implement that will resolve the due-process flaws. The main point is that finding a due process flaw in the New Vision CBM proceeding may have little, if any, effect on current or future proceedings.

IV. The PTO's Disregard Of The Forum Selection Clause Should Be Set Aside Under 5 U.S.C. § 706(2)(A)

The Court should vacate the CBM because the Director and the PTAB so fundamentally failed to exercise their discretion on an issue unrelated to “statutes” that inform the “institution decision.” *Thryv, Inc. v. Click-to-Call Techs., LP*, 140 S. Ct. 1367, 1375 (2020). This is not an instance where the PTO exercised its discretion and the patent owner disagreed with the analysis under AIA statutes “related to the institution decision.” *Cf. Cuozzo Speed Techs., LLC v. Lee*, 579 U.S. 261, 275 (2016). Instead, the PTAB instituted a CBM review based on a petition that violated SG’s contractual obligation, and the Director failed to terminate the proceeding pursuant to 37 C.F.R. § 42.72. SG never should have filed the petition. The institution decision and the Director’s denial of review should be reviewed. Both were arbitrary and capricious and outside the PTO’s authorized bounds under 5 U.S.C. § 706(2)(A).

A. The Importance of Forum Selection Clauses

Forum selections clauses are important legal mechanisms that allow for the orderly resolution of disputes. As the Supreme Court has observed, “it is settled . . . that parties to a contract may agree in advance to submit to the jurisdiction of a given court.” *Nat’l Equip. Rental, Ltd.*

v. Szukhent, 375 U.S. 311, 315-16 (1964). For this reason, “such clauses are prima facie valid and should be enforced unless enforcement is shown by the resisting party to be ‘unreasonable’ under the circumstances.” *M/S Bremen v. Zapata Off-Shore, Co.*, 407 U.S. 1, 10 (1972).

Recent decisions by this Court underscore the importance and applicability of forum selection clauses. In *Nippon Shinyaku Co. v. Sarepta Therapeutics, Inc.*, 25 F.4th 998, 1098 (Fed. Cir. 2021), this Court enforced a clause nearly identical to the one at issue here. There, the Court explained that “parties are entitled to bargain away their rights to file IPR petitions, including through the use of forum selection clauses.” *Id.* at 1007. The Court also squarely rejected the notion that such clauses are against public policy. *Id.* at 1009 (“[W]e reject the notion that there is anything unfair about holding Sarepta to its bargain.”).

The same reasoning was evident in *Dodocase VR, Inc. v. MerchSource, LLC*, 767 Fed. App’x 930 (Fed. Cir. 2019), and *Kannuu Pty Ltd. v. Samsung Electronics Co.*, 15 F.4th 1101, 1106 (Fed. Cir. 2021). While the Court reached different outcomes in those two cases, the reasoning in each case recognized that a forum selection clause barring a PTAB proceeding should be respected. *See also Gen. Protecht Grp., Inc.*

v. Leviton Mfg. Co., 651 F.3d 1355, 1363 (Fed. Cir. 2011) (“There is no public interest served by excusing a party’s violation of its previously negotiated contractual undertaking to litigate in a particular forum.”).

B. The Forum Selection Clause Squarely Prohibited SG from Seeking PTAB Review

The forum selection clause at issue in this case is similar to that in *Nippon* and indisputably calls for the resolution of disputes concerning the patents in Nevada. Appx1102. It unambiguously establishes SG/Bally’s contractual obligation to litigate “any dispute” about the agreement and/or the patents in Nevada courts. *Id.*

Not only is the agreement similar to that in *Nippon*, 25 F.4th at 1002, but it is also almost exactly the same type of agreement at issue in *Dodocase*, 767 Fed. App’x at 934, where this Court upheld an injunction by the district court. The PTAB incorrectly distinguished *Dodocase* on the basis that the district court had issued an injunction ordering the petitioner to cease the PTAB proceeding. Appx0214-0216. In other words, the PTAB authorized SG’s conduct, even though a district court would have prohibited it. And the Director compounded the error by failing to terminate the proceeding brought by a party that was contractually forbidden from doing so.

1. The PTAB Erroneously Required a “Contractual Estoppel Defense”

Here, the PTAB acted contrary to controlling standards by imposing a bright-line test and placing the burden on the patent owner to identify a so-called “contractual estoppel defense.” But the PTAB’s approach only highlights the legal error that amounts to “arbitrary and capricious” decisionmaking.

“Arbitrary and capricious” under 5 U.S.C. § 706(2)(A) is one of the class of “shenanigans” that allows review and set-aside of a decision to institute. *Cuozzo*, 579 U.S. at 275. Instead of considering the relevant information—that SG had contractually agreed to not seek PTAB review—the PTAB erroneously imposed the burden on New Vision to identify a contractual estoppel defense that would bar institution. That is not a proper exercise of discretion.

First, the PTAB erred by misstating the issue as the need to identify a “contractual estoppel defense.” Instead, the proper legal analysis should have been whether the existence of the forum selection clause was a sufficient reason for the PTAB to exercise its discretion and not institute the CBM review. At no point in the decision does the PTAB weigh this consideration against any other.

Consistent with the Court's reasoning in *Nippon*, the PTAB, considering the plain language of the forum selection clause, should have declined to institute the CBM. Similarly, the Director should have vacated the CBM decision when Director Review was requested in view of *Arthrex*. See ECF 126. Notably, the Director or Board has discretion to terminate a proceeding even after institution. See 37 C.F.R. § 42.72.

The PTAB faulted New Vision for not obtaining an injunction from the district court. But there was no reason why the Director or the PTAB, consistent with *Nippon*, could not have simply exercised a straightforward analysis of the forum selection clause, recognizing that, had New Vision moved for an injunction, the district court would certainly have granted it. Cf. *Dodocase*, 2018 WL 1475289, at *13-14. The PTAB's insistence that a party obtain an injunction only creates unnecessary work for the parties and the district court, wastes judicial and administrative resources, and creates the potential for conflict between the PTO and the federal and state courts.

The PTAB's hard-lined approach implicitly rejected the Supreme Court's reasoning in *Bremen*, which was later cited approvingly in *Nippon*. By enabling SG/Bally to proceed with the CBMs, the PTO implicitly

rejected *Bremen*'s holding that forum selection clauses "are *prima facie* valid and should be enforced."

The PTO's approach also arbitrarily conflicts with its arguments to this Court. The PTO has argued that it has "complete discretion to deny institution." *Shaw Indus. Grp. v. Automated Creel Sys.*, 817 F.3d 1293, 1303 (Fed. Cir. 2016) (Reyna, J. concurring). The PTAB has insisted: "We do not even have to state in our institution decisions why we're choosing not to go forward." *Id.* As Judge Reyna noted: "The PTO's claim to unchecked discretionary authority is unprecedented." *Id.*

In contrast, the PTAB framed the issue as requiring a "contractual estoppel defense" in order to deny the petitions. Neither the Director nor the PTAB identified any reason why it could not apply the forum selection clause. Where an agency has discretion, it must exercise it; an agency may not arbitrarily tie its hands to avoid the exercise of that discretion. *Dalton v. United States*, 816 F.2d 971, 975 (4th Cir. 1987).

2. The Director's and the PTAB's Arbitrary and Capricious Decisions Authorized a Private Party to Violate Its Contractual Obligation

The Director's and the PTAB's decisions were tantamount to a federal agency's active interference with a private contract and thus private

property rights. *Cf. Adkins v. Children’s Hosp. of the District of Columbia*, 261 U.S. 525, 545 (1923) (“That the right to contract about one’s affairs is a part of the liberty of the individual protected by this clause [Fifth Amendment], is settled by the decisions of this Court and is no longer open to question.”); *Lynch v. United States*, 292 U.S. 571, 579 (1934) (“Valid contracts are property, whether the obligor be a private individual, a municipality, a State, or the United States.”).

The AIA includes no hint that Congress wanted the PTAB to facilitate a petitioner’s active disregard of a contract’s forum selection clause. Nor does the AIA require a patent owner to prove a “collateral estoppel defense” before the PTAB can deny institution. *See* Appx0093-0096 (PTAB noting New Vision’s “failure” to prove “a contractual bar/estoppel defense against the institution”). Because AIA reviews are discretionary and Congress established them as an alternative to district court litigation, the only reasonable conclusion is that the PTAB must deny a petition when the petitioner contractually agreed to resolve the dispute in district court.

Similarly, the required availability of the Director’s review—a remedy crafted by the Supreme Court in *Arthrex*—provides a new

independent basis under the APA where the Director's inaction was separately arbitrary and capricious. The AIA, as originally enacted, did not intend for independent Director review of PTAB decisions, and thus the AIA did not intend that Director reviews would be precluded from appellate review, including appellate review under the APA.

C. The Issue is Reviewable

The specific circumstances of the present case make the Director's and the PTAB's decisions instances in which the Court can review the decision, *e.g.*, pursuant to 35 U.S.C. § 329.

1. The Outcome in *Nippon* Strongly Urges Review Here

The Court's decision in *Nippon* also strongly urges that review of the institution decision is warranted in the specific circumstances presented here. After all, the outcome in *Nippon* is, in effect, a judicial reversal of the PTAB's institution decision. 25 F.4th at 1098. While the ultimate ruling of *Nippon* is the ordering of the petitioner to withdraw the AIA petitions, the only manner in which that order has effect is if the PTAB's institution decision is overruled by a federal court.

Importantly, consider the scenario in which a patent owner prevailed in obtaining an injunction based on a forum selection clause, but

where the Director or PTAB refused to terminate the AIA review. Under that reasoning, the PTAB could proceed with an AIA review even in the face of an injunction based on a forum selection clause. That approach—if left unreviewable under refusal to terminate under 37 C.F.R. § 42.72—would condone the Director’s or the PTAB’s willful disregard of forum selection clauses.¹⁵

To prevent such outcomes, the Court must be able to review a willful disregard of an otherwise valid forum selection clause by either the Director or the PTAB. That disregard is the type of decision that is unrelated to the patent-based merits of institution or final decision. *See Thryv*, 14 S. Ct. at 1375; *SAS Institute, Inc. v. Iancu*, 138 S. Ct. 1348, 1359 (2018); *Cuozzo*, 579 U.S. at 275 (explaining that “[s]uch ‘shenanigans’ may be properly reviewable in the context of § 319 and under the Administrative Procedure Act”).

¹⁵ In this scenario, the PTAB’s action could amount to tortious interference with contractual relations. New Vision is unaware of any congressional intent to enable such agency action.

2. Vacating the Decision Does Not Involve Second-Guessing the Director or PTAB on Patent-Related AIA Issues

Importantly, reversing the Director and vacating the PTAB decision does not require the Court to second-guess any patent-related or AIA-statute-related decision. New Vision’s argument does not rest on the application of any “institution-related statute.” *See, e.g.*, 35 U.S.C. §§ 315-329. Instead, New Vision grounds its request under the arbitrary and capricious standard of § 706(2)(A). New Vision’s position depends on whether a federal agency acts arbitrarily and capriciously when the agency’s decision authorizes the interference with a private party’s right under a private contract.

This case is far different from *Thryv* or *Cuozzo*—both of which indisputably related to whether decisions relating to institution-based statutes were reviewable. In *Thryv*, the dispute concerned the time-bar set forth in 35 U.S.C. § 315(d). Similarly, *Cuozzo* addressed 35 U.S.C. § 312 and whether the petition was pleaded with particularity.

Further, New Vision’s argument here is far more limited than other instances where courts have determined that Congress precluded judicial review under the APA. *See, e.g., Perry Capital LLC v. Mnuchin*, 864 F.3d

591, 601, 611 (D.C. Cir. 2017) (barring review based on 12 U.S.C. § 4617(f): “no court may take any action to restrain or affect the exercise of powers or functions of the Agency as a conservator”). There and unlike here, Congress removed any doubt that judicial review, even under the APA, was unavailable.

Here, the Director and the PTAB should have addressed the parties’ agreement on the proper forum, which is not an issue resting on the PTO’s patent-law expertise. Yet, with the non-application of 37 C.F.R. § 42.72 (or a rigid application of §§ 314(d) or 324(e)), the result of the PTO’s abdication of its obligation would be that the PTO’s decision as to a contractual dispute would be unreviewable. This is highly irregular, particularly given that Article III courts’ decisions on the same issue are not insulated from review. *See, e.g., Nippon*, 25 F.4th at 1004.

When the PTO’s discretionary analysis implicates broader and more fundamental issues—such as private contractual rights and obligations—the default APA review acts as the safeguard to ensure that the agency, including the Director, follows the law. Indeed, no one could reasonably question that this Court could review an institution decision if

the PTO were making that decision based on the gender of the patent inventor.

The PTO's complete and unexplained abdication of its discretionary authority both at the Director Review level and PTAB level amount to "shenanigans" that this Court should not countenance. *Cf. State Farm*, 463 U.S. at 48 (holding that the agency must also "cogently explain why it has exercised its discretion in a given manner"). The PTAB's institution decision should be vacated.

3. Some Institution Decisions are Reviewable

Some PTAB institution decisions are reviewable under *Thryv* and the Administrative Procedure Act. In *SAS Institute*, the Supreme Court held that § 706(2)(A) review of an "institution decision" is available: "If a party believes the Patent Office has engaged in 'shenanigans' by exceeding its statutory bounds, judicial review remains available consistent with the Administrative Procedure Act, which directs courts to set aside agency action 'not in accordance with law' or 'in excess of statutory jurisdiction, authority, or limitations.'" 138 S. Ct. at 1359 (2018).

Thryv's decision rested on "not ventur[ing] beyond *Cuozzo*'s holding that § 314(d) bars review at least of matters 'closely tied to the application

and interpretation of statutes related to’ the institution decision.” 140 S. Ct. at 1373. *Thryv* preserves “the strong presumption in favor of judicial review,” does not displace *Cuozzo*’s and *SAS Institute*’s “carve ins” for reviewability of arbitrary and capricious reasoning, and focuses the preclusion analysis on whether it rests on a statute closely tied to the institution decision, such as the time bar in § 315(b) or the merits of patentability. *Id.*

This Court has further held that decisions concerning institution-related statutes are reviewable under § 314(d) or 324(e). In *Uniloc 2017 LLC v. Facebook Inc.*, 989 F.3d 1018, 1027 (Fed Cir. 2021), the Court determined that a decision applying the estoppel provision of § 315(e)(1) was reviewable. The reasoning was that the timing of the estoppel event occurred after institution. That distinction, however, does not change the fact that the statute at issue was “institution-related,” yet was still determined to be reviewable.

In *Uniloc*, the Court reasoned that the estoppel provision was reviewable because it was not solely applicable to the institution decision. *Id.* at 1026 (citing *Credit Acceptance Corp. v. Westlake Servs.*, 859 F.3d 1044, 1050 (Fed. Cir. 2017) (holding that application of the estoppel

provision of § 325(e)(1) can be reviewed because it was not limited in time to institution and did not occur until after)). Similarly, here, there is no specific limitation with respect to the forum selection clause and the institution decision itself. While the PTAB should have exercised its discretion at that stage, the Director could have terminated the proceeding.

An overly expansive reading of *Thryv* would improperly bar judicial review of Director decisions and institution decisions, ultimately displacing APA judicial review. *Cf. ESIP Series 2, LLC v. Puzhen Life USA, LLC*, 958 F.3d 1378, 1386 (Fed. Cir. 2020). *But see GTNX, Inc. v. INTTRA, Inc.*, 789 F.3d 1309, 1311-13 (Fed. Cir. 2015). Displacing the APA requires express action by Congress, however. 5 U.S.C. § 559 (stating that a “subsequent statute” does not “supersede or modify” the APA “except to the extent that it does so expressly”). The AIA and *Thryv* are silent on whether the AIA displaced the APA. 35 U.S.C. §§ 311-329; *Thryv*, 140 S. Ct. at 1370-77.

V. Conclusion

For the foregoing reasons, the Director’s decision should be reversed, and the Board’s decision should be vacated.

Date: September 6, 2022

Respectfully submitted,

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ADDENDUM

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571-272-7822

Paper 47
Entered: June 19, 2019

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

BALLY GAMING, INC., DBA BALLY TECHNOLOGIES,
Petitioner,

v.

NEW VISION GAMING & DEVELOPMENT, INC.
Patent Owner.

Case CBM2018-00006
Patent No. 7,451,987 B1

Before FRANCES L. IPPOLITO, KEVIN W. CHERRY, and
CHRISTOPHER G. PAULRAJ, *Administrative Patent Judges*.

IPPOLITO, *Administrative Patent Judge*.

FINAL WRITTEN DECISION
35 U.S.C. § 318(a) and 37 C.F.R. § 42.73

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Patent 7,451,987 B1

I. INTRODUCTION

Petitioner, Bally Gaming, Inc., DBA Bally Technologies, filed a Petition seeking a covered business method (“CBM”) patent review of claims 1–12 of U.S. Patent No. 7,451,987 B1 (Ex. 1001, “the ’987 patent”), pursuant to § 18 of the Leahy-Smith America Invents Act (“AIA”). Paper 2 (“Pet.”). Patent Owner, New Vision Gaming & Development, Inc., filed a Preliminary Response (Paper 6, “Prelim. Resp.”) opposing institution of a review. At the pre-institution stage, the parties disputed whether Petitioner had sufficient standing to request a CBM patent review at the time of filing the Petition. *See* Pet. 7–9; Prelim. Resp. 11. We authorized briefing by the parties to address Petitioner’s standing prior to institution. *See* Paper 10; Paper 13; Paper 18.

On June 22, 2018, we instituted a CBM patent review on the sole asserted ground that claims 1–12 of the ’987 patent are directed to non-statutory subject matter under 35 U.S.C. § 101 as set forth in the Petition. Paper 19 (“Dec.”). After institution of trial, Patent Owner filed a Patent Owner Response (Paper 28, “PO Resp.”) and Petitioner filed a Reply (Paper 35, “Reply”). With authorization, Patent Owner filed a Sur-Reply (Paper 39, “Sur.”).

Patent Owner also filed a Motion to Amend (Paper 27, “Mot. Amend”). Petitioner filed an Opposition to Patent Owner’s Motion to Amend (“Opp. Amend”), and Patent Owner filed a Reply to Petitioner’s Opposition (“Reply Amend”). Papers 30–31. Further, after authorization, Petitioner filed a Sur-Reply to Patent Owner’s Reply (Paper 36, “Sur. Amend”).

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An oral hearing was held on March 19, 2019. Paper 46 (“Tr.”).

We have jurisdiction under 35 U.S.C. § 6. This Final Written Decision is issued pursuant to 35 U.S.C. § 328(a) and 37 C.F.R. § 42.73. In this Final Written Decision, after reviewing all relevant evidence and assertions, we determine that Petitioner has met its burden of showing, by a preponderance of the evidence, that claims 1–12 of the ’987 patent are unpatentable.

In addition, we deny Patent Owner’s Contingent Motion to Amend to replace claims 3–8 with substitute claims 13–18.

A. Related Matters

The parties represent that they are involved in a lawsuit alleging a breach of an existing patent license agreement in *New Vision Gaming & Development, Inc. v. Bally Gaming, Inc.*, 2:17-cv-1559 (D. Nev. June 2, 2017) (“Nevada Suit”). Pet. 7–9; *see* Paper 5, 2. Further, related U.S. Patent No. 7,325,806 B1 is the subject of a CBM patent review between the same parties in CBM2018-00005. *See* Paper 5, 2.

B. The ’987 Patent

The ’987 patent is directed generally to a method of playing a bonus wager in a card game. Ex. 1001, (54). The ’987 patent further describes the invention as “a bonus wager based on a bonus hand composed of a face up card from each hand of a group of hands of a base [card] game.” Ex. 1001, 2:51–53. Referring to Figures 1 and 3 (reproduced below), the ’987 patent teaches that on playing surfaces 10, 12, central dealer position 20 has a plurality of player hand locations 22, one for each player hand to be dealt. *Id.* at 3:41–51.

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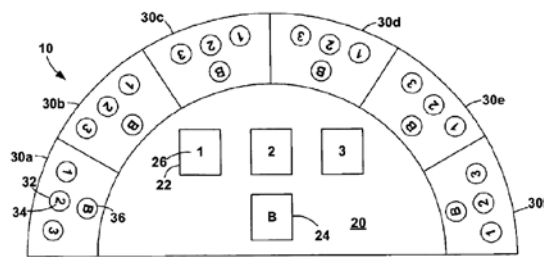


FIG. 1

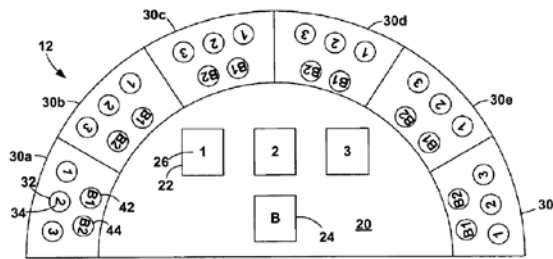


FIG. 3

Figures 1 and 3 show a table layout of a game with three player hands and one banker hand. *Id.* at 2:34–36, 38–40.

As shown in Figures 1 and 3, dealer position 20 has banker hand location 24 for the banker hand. *Id.* at 3:50–53. Symbols 26 at each player hand location 22 are the player hand identifiers, which are typically numerals running sequentially from “1”. *Id.* at 3:53–55. According to these figures, “[e]ach player position 30 includes a symbol 32 containing a player hand identifier 34 corresponding to each player hand location 22. Ex. 1001, 3:58–60. The ’987 patent provides that the example of Figure 1 has a single bonus wager symbol 36 for one bonus and the example of Figure 3 as two bonus wager symbols 42, 44 for two bonuses. Ex. 1001, 3:64–67.

To play the game, each player chooses the player hand or hands that she thinks will beat the banker hand in the base game. Ex. 1001, 4:1–3.

Figure 2 is provided below to better illustrate the described game.

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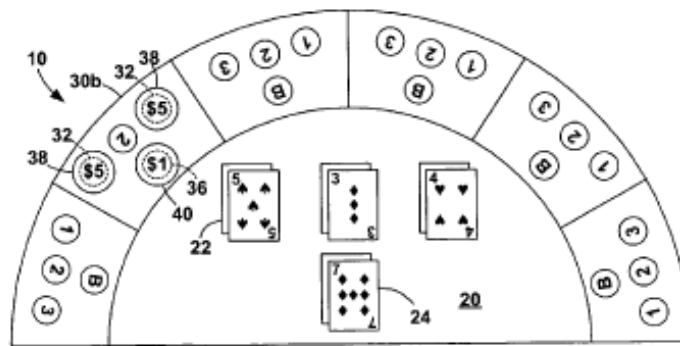


FIG. 2

Figure 2 shows a table layout of Figure 1 with a blackjack hand dealt. *Id.* at 2:37–38. In Figure 2, the selections are made by placing the amount to be wagered on the corresponding player hand identifier symbol 32 of the player position 30. *Id.* at 4:3–5. The wagered amount is indicated by any marker or markers that acceptably signify value, such as cash, chips, or credit vouchers. *Id.* at 5:2–7. In the example of Figure 2, the player at the second player position 30b (player 2) has placed a \$5 chip 38 on each identifier symbol 32 for player hands 1 and 3, wagering that player hands 1 and 3 will beat the dealer hand. Ex. 1001, 4:7–11.

To participate in a bonus wager, the player places the amount to be wagered on the appropriate bonus wager location. Ex. 1001, 4:15–18. After all wagers are placed, the dealer deals out the predetermined number of hands. *Id.* at 4:31–32. The bonus hand of the present invention is composed of at least one card from each player hand. Ex. 1001, 4:41–42. Optionally, the bonus hand is composed of at least one card from each player hand and the banker hand(s). Ex. 1001, 4:53–54. The bonus hand may be compared to a table of ranked hands to determine whether the bonus hand is a winning hand and the player placing a bonus wager is a winner. Ex. 1001, 5:5–7.

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C. Illustrative Claim

Of the challenged claims 1–12, claim 1 is independent. Independent claim 1, reproduced below, is illustrative of the claimed subject matter:

1. A method of playing a game with at least one deck of cards, said game comprising the steps of:

(a) affording a player the opportunity to place a bonus wager;

(b) dealing out said cards to each of a plurality of hands;

(c) forming a bonus hand from at least one of said cards from each of a subset of said plurality of hands;

(d) identifying said player as a winning player if said player placed said bonus wager and said bonus hand has a predetermined rank; and

(e) paying said winning player a payout.

Ex. 1001, 6:57–67.

D. Instituted Ground of Unpatentability

We instituted review on the sole asserted ground—that claims 1–12 of the '987 patent are unpatentable because these claims are directed to patent-ineligible subject matter under § 101. Dec. 33.

II. ANALYSIS

A. Claim Construction

Petitioner proposes constructions for the terms “wager,” “payout,” “card,” “deck of cards,” and “hand.” Pet. 21–22. For the purposes of this Decision, we determine that no express claim construction of any claim term is necessary. *Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co. Ltd.*, 868 F.3d 1013, 1017 (Fed. Cir. 2017) (only terms in controversy must be construed and only to the extent necessary to resolve the controversy).

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B. Forum Selection Clause

Before institution, Patent Owner argued that a forum selection clause in a settlement agreement (Ex. 2006¹, “Agreement”) between the parties, under which Petitioner was granted a license to the ’987 patent and U.S. Patent No. 7,325,806 B1 (“the ’806 patent”), requires all disputes be handled in the courts in the State of Nevada. Prelim. Resp. 7–8; Ex. 2006, 1. According to Patent Owner, Petitioner waived its opportunity to seek review by the Board because Section 13.f of the settlement agreement states:

“In the event of any dispute between any of the parties that cannot be resolved amicably, the parties agree and consent to the exclusive jurisdiction of an appropriate state or federal court located within the State of Nevada, Clark County, to resolve any such dispute.”

Ex. 2006, 7.

Based on the preliminary record, we observed that Patent Owner had not identified any controlling authority—such as by statute, rule, or binding precedent—that would require us to deny institution of a covered business method patent review based on contractual estoppel. Dec. 8–11. For example, section 18 of the America Invents Act (AIA) defines a CBM proceeding as following the standards and procedures of post-grant review with the exception of §§ 321(c), 325(b), 325(e)(2), 325(f). With respect to the procedures of post-grant review, we noted that chapter 32 provides requirements for, among other things, the contents of a petition (§ 322), the threshold showing required for institution of a post-grant review (§ 324), and the conduct of the post-grant review (§ 326). *Id.* We did not agree with

¹ Exhibit 2006 is a redacted public version of Exhibit 2005.

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Patent Owner that any portion of chapter 32, § 18 of the AIA, or authority otherwise, explicitly provides for a contractual estoppel defense. *See id.*

In the post-institution briefing, neither party has added arguments or evidence to the record regarding this issue. We recognize, however, that the Federal Circuit in a recent non-precedential case affirmed a district court's grant of a preliminary injunction requiring a petitioner to withdraw its PTAB petitions in light of a forum selection clause. *Dodocase VR, Inc. v. MerchSource, LLC*, No. 2018-1724, 2019 WL 1758481, at *4 (Fed. Cir. Apr. 18, 2019) (non-precedential). But, unlike the facts and procedural posture of that case, we do not have before us any court order requiring the Petition in this proceeding to be withdrawn. The Board is neither bound by the party's Agreement, nor do we have independent jurisdiction to resolve any contractual dispute between the parties over the forum selection clause in that Agreement.

Thus, based on the complete record, we maintain our determination that Patent Owner has not established any alleged contractual estoppel arising from the forum selection clause bars this proceeding.

C. Covered Business Method Patent Review Standing

Under § 18(a)(1)(B) of the America Invents Act (AIA), “[a] person may not file a petition for a transitional proceeding with respect to a covered business method patent unless the person or the person’s real party in interest or privy has been sued for infringement of the patent or has been charged with infringement under that patent.” AIA § 18(a)(1)(B) (emphasis added); *see also* 37 C.F.R. § 42.302(a).

Prior to institution, the parties disputed whether Petitioner had

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sufficient standing to request a CBM patent review at the time of filing the Petition. *See* Pet. 7–8; Prelim. Resp. 11. Following supplemental briefing on this issue by the parties, we determined that the circumstances of the parties’ past relationship regarding allegations of infringement, the Agreement (Ex. 2006), and the parties’ current dispute of the same Agreement in district court were sufficient to establish that there was a substantial controversy between the parties sufficient to establish Petitioner’s CBM patent review standing under relevant case law. Dec. 11–19; *see* Papers 10, 13, 18.

More specifically, Petitioner’s standing under 37 C.F.R. § 42.302(a) is based on Patent Owner’s accusation that Bally breached the Agreement, i.e., the license dispute and the breach of contract action in the Nevada Suit. In the Nevada Suit, Petitioner responded to Patent Owner’s “complaint in part with an affirmative defense and counterclaim that the ’987 patent is invalid.” Pet. 7. In the Petitioner’s Reply to Patent Owner’s Preliminary Response, Petitioner argued that the Nevada Suit in federal district court already includes Petitioner’s declaratory judgment counterclaim for patent invalidity, which Patent Owner had not moved to dismiss. Paper 13, 3. Further, Petitioner asserted separately that it was charged with infringement at the time the Petition was filed in December 2017 because Petitioner did not renew the Agreement after the expiration of the initial term (on May 28, 2017) and a real and substantial controversy about infringement existed at the time of filing of the Petition. *Id.* at 4–5. Petitioner argued that the same dispute regarding infringement that had been resolved by the Agreement

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arose again when the Agreement expired because Petitioner's post-expiration activities are not covered by the license. *Id.* (citing Ex. 1007, 1).

In its Preliminary Response, Patent Owner maintained that it has not charged Petitioner with infringement because the royalties from the Agreement "are not based on infringement but on the term and the use of a specific game." Prelim. Resp. 12. Patent Owner asserted it had not revoked the license to Petitioner and, thus, "[b]ecause Bally's products are covered by a license under the settlement agreement (Exhibit NVG2005), they do not infringe." Prelim. Resp. 13–15. Patent Owner further argued that the breach of contract action in the Nevada Suit is not an infringement suit. Prelim. Resp. 14–15.

On the preliminary record, we determined that Petitioner had established sufficiently that it has standing to bring a covered business method patent review. Dec. 14–19. Referring to *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007), we determined that Petitioner's standing does not hinge on whether the Agreement has terminated or expired. Looking to the relationship between the parties, we found that the parties agree that the Agreement between the parties arose from Patent Owner's intent to enforce the '987 patent and the '806 patent against the Petitioner. Dec. 17–18 (citing Ex. 1024, 3; Paper 13, 5). Patent Owner acknowledged that prior to the Agreement, Patent Owner "accused Defendant [Bally] of using games subject to these Patents; and . . . Defendant asserted the Patents were invalid." Ex. 1024, 4. While those past events were allegedly resolved by the execution of the Agreement, we, nonetheless, took into consideration that the parties' past relationship gives

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context for the current disputes between parties. In particular, there remained a dispute as to whether the Agreement and license to the '806 patent and the '987 patent is still in effect; whether Petitioner's products/activities infringe; and whether the patents are valid. *See* Prelim. Resp. 13–15; Paper 13, 3–5; Paper 18, 3–5. Thus, we determined that the current disputes between the parties are rooted in the original allegations of infringement that led to the signing of the Agreement in the first place. Dec. 17–19. Accordingly, taking into account the full relationship between the parties and the particular circumstances in this case, we determined that Patent Owner's statements and actions are sufficient to establish that there was a substantial controversy between the parties sufficient to establish standing under relevant case law. *Id.*

At this stage, the record in this proceeding has not changed regarding the parties' positions on this issue. For example, Patent Owner's Response and Sur-reply do not discuss standing. *See generally* PO Resp., Sur. Thus, based on the complete record, we maintain our determination that Petitioner has established standing to file a petition for a CBM patent review of the '987 patent based on the arguments and evidence discussed in the Decision on Institution.² *See* Dec. 13–19.

² In the Petition, Petitioner also asserts that it is not estopped from filing this Petition because neither Bally, nor any real party in interest or privy, has previously challenged the patentability of the claims of the '987 patent. Pet. 8–9. And Petitioner asserts that it is not barred from filing this petition under 37 C.F.R. § 42.302(c) because it has not filed a civil action challenging the validity of any claim of this patent, and its counterclaim of invalidity does not constitute a civil action challenging the validity of a claim of the '987 patent. *Id.*

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D. Covered Business Method Patent Eligibility

Section 18(d)(1) of the AIA defines a covered business method patent as “a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.” *See also* 37 C.F.R.

§ 42.301(a) (stating the same). To determine whether a patent is a covered business method patent, “§ 18(d)(1) directs us to examine the claims when deciding whether a patent is a [covered business method] patent.” *Blue Calypso, LLC v. Groupon, Inc.*, 815 F.3d 1331, 1340 (Fed. Cir. 2016) (stating that “the claims at issue in the instant case have an express financial component in the form of a subsidy, or financial inducement, that encourages consumers to participate in the distribution of advertisements”); *Unwired Planet, LLC v. Google, Inc.*, 841 F.3d 1376, 1382 (Fed. Cir. 2016) (“CBM patents are limited to those with claims that are directed to methods and apparatuses of particular types and with particular uses ‘in the practice, administration, or management of a financial product or service.’”).

1. Used in the Practice, Administration, or Management of a Financial Product or Service

In the Decision on Institution, we determined that the ’987 patent is eligible for CBM review. Dec. 19–24. More particularly, we determined that the claimed method recited in claim 1 is expressly directed to the financial service of placing bonus wagers and paying winning players payouts based on a game of chance with a deck of cards. *See id.* at 20–21.

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Patent Owner does not address whether the '987 patent “claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service.” *See generally*, Prelim. Resp.; PO Resp.; Sur.

Based on the complete record, we determine that at least claim 1 of the '987 patent expressly recites a method for performing data processing or other operations used in the practice, administration, or management of a financial product or service. Claim 1 explicitly recites a method of playing a game that involves the placement of a “bonus wager” and “paying” a “winning player a payout.” Ex. 1001, claim 1. The disclosure of the '987 patent is consistent with our reading of the claim language. *See* Ex. 1001, 3:16–32, 4:5–7, 4:15–17, 4:23–31, 5:40–49. Additionally, the claimed method is not merely “incidental to” or “complementary to” a financial activity because the claims are expressly directed to the placement of a “bonus wager” and “paying” a “winning player a payout.” *See Unwired Planet, LLC v. Google Inc.*, 841 F.3d 1376, 1382 (Fed. Cir. 2016). Therefore, we determine that at least one claim of the '987 patent is directed to “a method . . . for performing data processing or other operations used in the practice, administration, or management of a financial product or service.” AIA § 18(d)(1).

2. *Technological Invention*

Under AIA § 18(d)(1), “the term ‘covered business method patent’ . . . does not include patents for technological inventions.” Per 37 C.F.R. § 42.301(b), “[i]n determining whether a patent is for a technological invention,” we consider “whether [1] the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art,

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and [2] solves a technical problem using a technical solution,” respectively, the first and second prongs of the technical invention exception.

In general, the Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756 (Aug. 14, 2012) (“TPG”), provides the following guidance with respect to claim content that typically does not exclude a patent from the category of a technological invention:

(a) Mere recitation of known technologies, such as computer hardware, communication or computer networks, software, memory, computer-readable storage medium, scanners, display devices or databases, or specialized machines, such as an ATM or point of sale device.

(b) Reciting the use of known prior art technology to accomplish a process or method, even if the process or method is novel and non-obvious.

(c) Combining prior art structures to achieve the normal, expected, or predictable result of that combination.

Id. at 48,763–64.

Based on the complete record, we determine that the ’987 patent does not recite any technological elements and is not directed to any technological invention. With regard to the first prong of § 42.301(b), we determine that the ’987 patent does not claim a technological feature that is novel and nonobvious over the prior art. The express language of the claims, such as claim 1, recites physical aspects such as cards and non-physical aspects such as the steps for players to play a card game and place a wager or receive a “payout,” or a “predetermined rank,” etc. Ex. 1001, claim 1. Moreover, the Specification contemplates a game played with physical playing cards on a physical table with a live dealer. *See e.g.*, Ex. 1001, 3:4–5:55. According to the ’987 patent, playing card games, use of bonus wagers, and ranking for

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payout were known and conventional. Ex. 1001, 1:39–43 (“Another example of a bonus bet is disclosed in U.S. Pat. No. 6,402,147. The basic game is stud poker, where the player’s hand is compared to the banker’s hand. The player is also given the option of placing a bonus wager on the rank of the player’s hand.”); *id.* at 2:55–60 (“There are a number of such games in existence where the essence of the game, whether it based on poker, blackjack, baccarat, pai gow tiles, pai gow poker, or any other game, is that a player wagers on one or more of a group of hands that she hopes will beat a banker hand.”). Thus, according to the ’987 patent itself, these features are not novel or nonobvious technological features. Patent Owner does not address specifically whether the challenged claims are for a technological invention. *See generally* PO Resp.; Sur.

Given this determination, we need not reach the second prong of whether the claim solves a technical problem using a technical solution. Based on the foregoing, we determine that the ’987 patent is not exempt from CBM review based on a “technological invention” exception under 37 C.F.R. § 42.301(b).

3. Conclusion—A Covered Business Method Patent

A single claim is sufficient to institute a covered business method patent review because § 18(d)(1) of the AIA indicates a patent is eligible for review if the subject matter of at least one claim is directed to a covered business method. *See* 35 U.S.C. § 324(a); Final Rule, 77 Fed. Reg. at 48,736 (Response to Comment 8). In view of the foregoing, we determine that the ’987 patent is a covered business method patent under AIA § 18(d)(1).

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E. Level of Ordinary Skill in the Art

Patent Owner asserts that the skilled artisan is someone with some high school education who has worked in the gaming industry. PO Resp. 16. Petitioner does not contest Patent Owner’s proposed level of ordinary skill in the art. Tr. 5:17–18:1.

Based on the complete record, we adopt and apply Patent Owner’s definition of the level of ordinary skill because we are satisfied that this definition comports with the level of skill necessary to understand and implement the teachings of the ’987 patent. *See* Ex. 1001, 1:22–25 (“The present invention relates to games for gambling, more specifically, to a bonus wager on a game where a player can wager on the hand composed of the face up cards of several hands.”); *see* Ex. 2007 ¶ 3.

F. Law of Patent-Eligible Subject Matter Under 35 U.S.C. § 101

An invention is patent-eligible if it claims a “new and useful process, machine, manufacture, or composition of matter.” 35 U.S.C. § 101. However, the Supreme Court has long interpreted 35 U.S.C. § 101 to include implicit exceptions: “[l]aws of nature, natural phenomena, and abstract ideas” are not patentable. *E.g., Alice Corp. v. CLS Bank Int’l*, 573 U.S. 208, 216 (2014).

In determining whether a claim falls within an excluded category, we are guided by the Supreme Court’s two-step framework, described in *Mayo* and *Alice*. *Id.* at 217–18 (citing *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66, 75–77 (2012)). In accordance with that framework, we first determine what concept the claim is “directed to.” *See Alice*, 573 U.S. at 219 (“On their face, the claims before us are drawn to the concept of intermediated settlement, i.e., the use of a third party to mitigate settlement

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risk.”); *see also Bilski v. Kappos*, 561 U.S. 593, 611 (2010) (“Claims 1 and 4 in petitioners’ application explain the basic concept of hedging, or protecting against risk.”).

Concepts determined to be abstract ideas, and thus patent ineligible, include certain methods of organizing human activity, such as fundamental economic practices (*Alice*, 573 U.S. at 219–20; *Bilski*, 561 U.S. at 611); mathematical formulas (*Parker v. Flook*, 437 U.S. 584, 594–95 (1978)); and mental processes (*Gottschalk v. Benson*, 409 U.S. 63, 69 (1972)). Concepts determined to be patent eligible include physical and chemical processes, such as “molding rubber products” (*Diamond v. Diehr*, 450 U.S. 175, 191 (1981)); “tanning, dyeing, making water-proof cloth, vulcanizing India rubber, smelting ores” (*id.* at 182 n.7 (quoting *Corning v. Burden*, 56 U.S. 252, 267–68 (1853))); and manufacturing flour (*Benson*, 409 U.S. at 69 (citing *Cochrane v. Deener*, 94 U.S. 780, 785 (1876))).

In *Diehr*, the claim at issue recited a mathematical formula, but the Supreme Court held that “[a] claim drawn to subject matter otherwise statutory does not become nonstatutory simply because it uses a mathematical formula.” *Diehr*, 450 U.S. at 176; *see also id.* at 191 (“We view respondents’ claims as nothing more than a process for molding rubber products and not as an attempt to patent a mathematical formula.”). Having said that, the Supreme Court also indicated that a claim “seeking patent protection for that formula in the abstract . . . is not accorded the protection of our patent laws, . . . and this principle cannot be circumvented by attempting to limit the use of the formula to a particular technological environment.” *Id.* (citing *Benson* and *Flook*); *see, e.g., id.* at 187 (“It is now

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commonplace that an *application* of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection.”).

If the claim is “directed to” an abstract idea, we turn to the second step of the *Alice* and *Mayo* framework, where “we must examine the elements of the claim to determine whether it contains an ‘inventive concept’ sufficient to ‘transform’ the claimed abstract idea into a patent-eligible application.” *Alice*, 573 U.S. at 221 (quotation marks omitted). “A claim that recites an abstract idea must include ‘additional features’ to ensure ‘that the [claim] is more than a drafting effort designed to monopolize the [abstract idea].’” *Id.* (quoting *Mayo*, 566 U.S. at 77). “[M]erely requir[ing] generic computer implementation[] fail[s] to transform that abstract idea into a patent-eligible invention.” *Id.*

G. USPTO 2019 Revised Patent Subject Matter Eligibility Guidance

The PTO recently published revised guidance on the application of § 101. *See* 2019 Revised Patent Subject Matter Eligibility Guidance, 84 Fed. Reg. 50 (Jan. 7, 2019) (“*Guidance*”). Under the *Guidance*, we first look to whether the claim recites:

- (1) any judicial exceptions, including certain groupings of abstract ideas (i.e., mathematical concepts, certain methods of organizing human activity such as a fundamental economic practice, or mental processes); and
 - (2) additional elements that integrate the judicial exception into a practical application (see MPEP § 2106.05(a)–(c), (e)–(h)).
- See Guidance*, 84 Fed. Reg. at 51–55. Only if a claim (1) recites a judicial exception and (2) does not integrate that exception into a practical

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application, do we then look to whether the claim:

(3) adds a specific limitation beyond the judicial exception that is not “well-understood, routine, conventional” in the field (*see* MPEP § 2106.05(d)); or

(4) simply appends well-understood, routine, conventional activities previously known to the industry, specified at a high level of generality, to the judicial exception.

See id. at 56.

H. Subject Matter Eligibility of Challenged Claims Under § 101

Petitioner asserts claims 1–12 of the ’987 patent recite patent ineligible subject matter under § 101. Patent Owner disagrees that the challenged claims are patent ineligible, and relies on the Declaration of John Feola (Exhibit 2007). We follow the framework set forth in the *Guidance* for our analysis.

1. Guidance Step 1

Under the *Guidance*, we first must determine “whether the claim is to a statutory category (Step 1).” *Guidance*, 84 Fed. Reg. at 53. Here, it is undisputed that the claims recite a statutory *process*, namely the process of playing a game with a deck of cards. *See* Ex. 1001, 6:61–8:13.

2. Guidance Step 2A, Prong 1: Whether Challenged Claims Recite an Abstract Idea

Under the next step in the *Guidance* (Step 2A, Prong 1), we must determine whether the claims recite limitations that fall within any of the recognized categories of abstract ideas. The *Guidance* identifies certain groupings of abstract ideas that have been recognized under the case law: mathematical concepts, certain methods of organizing human activity, such as fundamental economic principles or practices, and mental processes. *Guidance*, 84 Fed. Reg. at 52. As part of this inquiry, we must examine the

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relevant limitations in the context of the claim language as a whole. *Alice*, 573 U.S. at 218 n.3. “The § 101 inquiry must focus on the language of the [a]sserted [c]laims themselves.” *Synopsys, Inc. v. Mentor Graphics Corp.*, 839 F.3d 1138, 1149 (Fed. Cir. 2016); *Accenture Global Servs., GmbH v. Guidewire Software, Inc.*, 728 F.3d 1336, 1345 (Fed. Cir. 2013) (admonishing that “the important inquiry for a § 101 analysis is to look to the claim”); *see also Content Extraction & Transmission LLC v. Wells Fargo Bank, Nat’l Ass’n*, 776 F.3d 1343, 1346 (Fed. Cir. 2014) (“We focus here on whether the claims of the asserted patents fall within the excluded category of abstract ideas.”). “An abstract idea can generally be described at different levels of abstraction.” *Apple, Inc. v. Ameranth, Inc.*, 842 F.3d 1229, 1240 (Fed. Cir. 2016). Yet our reviewing court has cautioned that characterizing claims at a “high level of abstraction and untethered from the language of the claims all but ensures that the exceptions to § 101 swallow the rule.” *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1337 (Fed. Cir. 2016).

a. Petitioner’s Contentions

Petitioner argues that the challenged claims³ are directed to the abstract idea of allowing bonus wagers in a wagering game. Pet. 24–26. Petitioner relies primarily on the Federal Circuit decision in *In re Smith*, 815

³ Petitioner treats independent claim 1 as representative and asserts that the “dependent claims add minor variations on the rules set out in independent claim 1, such as limiting the bonus hand to a poker hand, awarding a payout as a multiple of the bonus wager, and forming the bonus hand from cards that are dealt face up.” Pet. 24–25; *see also* Tr. 8:20–22 (“There is no dispute that Claim 1 of each of the challenged patents is representative of all the claims -- all the challenged claims.”).

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F.3d 816 (Fed. Cir. 2016) (“*Smith*”), which according to Petitioner, held that rules for playing wagering-based card games are abstract. *Id.* at 25.

Petitioner acknowledges that in *Smith*, the Federal Circuit commented that claims directed to conducting a game using a new or original deck of cards could potentially survive step two of *Alice*. *See* Reply 8–9; Tr. 8:5–10.

However, Petitioner asserts that the claims of the ’987 patent “do not involve anything like a new or original deck of cards. Instead, they simply involve a bonus wager that suffers from the same defects as the claims in *Smith*—it is an abstract idea, because it is only ‘a set of rules for a game’ and is a *fundamental economic practice*.” Reply 9 (emphasis added).

Additionally, following our authorization, Petitioner submitted the Federal Circuit decision in *In re Marco Guldenaar Holding B.V.*, 911 F.3d 1157 (Fed. Cir. 2018) (“*Guldenaar*”). Paper 32; Paper 32; Exhibit 1038. The decision in *Guldenaar*, upholding the Board’s affirmance of a §101 rejection, issued on December 28, 2018, after Petitioner submitted its Reply to Patent Owner’s Response. At the oral hearing, Petitioner commented that *Guldenaar* calls into question the “dictum” in *Smith* because “Guldenaar on its facts involved a new set of dice -- a game -- rules for a game involving a new set of dice, not conventional dice.” Tr. 8:11–15.

b. Patent Owner’s Contentions

In its Patent Owner Response and Sur-reply to Petitioner’s Reply, Patent Owner does not directly address whether the challenged claims are directed to an abstract idea under *Alice* Step 1 or the *Guidance* Step 2A,

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Prong 1. *See* Sur. 5–8 (addressing case-law and *Guidance* Step 2B).⁴ Patent Owner does, however, assert that *Smith* and the other cases relied upon by Petitioner are not controlling. *See* Sur. 6–8. Patent Owner argues that *Smith* is distinguishable because the decision does not address the applicable level of ordinary skill, evidence related to what is “well-understood, routine and conventional,”⁵ or evidence of the commercial significance of the invention. PO Resp. 19 (citing *Berkheimer v. HP*, 881 F.3d 1360 (Fed. Cir. 2018)). Patent Owner also asserts that, unlike the *Smith* claims, the steps recited in claim 1 of the ’987 patent of “(c) forming a bonus hand from one of said cards from each of a subset of said plurality of hands; (d) identifying said player as a winning player if said player placed said bonus wager and said bonus hand has a predetermined rank” are significantly more than what was known in the art in 2004. PO Resp. 19 (citing Ex. 2011). Further, Patent Owner argues that *Smith* is an appeal from a patent examiner’s rejection and the Board’s affirmance of that rejection, which is different from the posture here where the patent examiner determined during prosecution that the

⁴ We note that the *Guidance* issued after both Patent Owner’s Response and Petitioner’s Reply had been submitted. Nonetheless, both parties were afforded an opportunity to request supplemental briefing to address the *Guidance*. Both parties declined to do so. *See* Paper 32, 3.

⁵ The *Guidance* advises that the “*Alice* Step 1” (*Guidance* Step 2A) analysis should exclude consideration of whether additional claim elements represent well-understood, routine, and conventional activity. *Guidance*, 84 Fed. Reg. at 55. “[R]evised Step 2A specifically excludes consideration of whether the additional elements represent well-understood, routine, conventional activity. Instead, analysis of well-understood, routine, conventional activity is done in Step 2B.” *Id.*

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claims included allowable patent-eligible subject matter. PO Resp. 19–20. To the extent these arguments apply to our discussion of *Alice* Step 1 and *Guidance* Step 2A, Prong 1, we address these arguments in this section.

c. Discussion

For the reasons discussed below, we determine that the challenged claims recite a judicial exception recognized under the *Guidance* and in prior cases as an abstract idea.

Turning to claim 1, the following specific limitations recite the steps or *rules* for playing a bonus wagering game. Claim 1 recites a “method of playing game with at least one deck of cards” with the steps of “(a) affording a player the opportunity to *place a bonus wager*; (b) *dealing out said cards* to each of a plurality of hands; (c) *forming a bonus hand* from at least one of said cards from each of a subset of said plurality of hands; (d) *identifying said player as a winning player* if said player placed said bonus wager and said bonus hand has a predetermined rank; and (e) *paying said winning player a payout*.” Ex. 1001, 6:57–67 (emphasis added).

Dependent claims 2–12 recite additional features for gameplay, including which cards the bonus hand is formed from (claims 2, 4, 5, and 7–9), the makeup of the plurality of hands (claims 3 and 6), and how the bonus wager/payout is paid (claims 10–12). For example, claim 2 additionally recites “wherein said bonus hand is formed from cards that are dealt face up.” As another example, claim 3 recites “wherein said hands are player hands.” And, claim 10 recites “wherein said payout is a multiple of said bonus wager.” Thus, each of claims 1–12 recites instructions or rules for playing a wagering game.

Our reading of the challenged claims is consistent with the

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Specification of the '987 patent. The Specification provides that the described invention is directed to a “method of playing a bonus wager” (Ex. 1001, Title), and “relates to games for gambling, more specifically, to a bonus wager on a game where a player can wager on the hand composed of the face up cards of several hands.” Ex. 1001, 1:25–28. Further, the Specification describes the mechanics of game play, which involve the house determination of

the *rules with which the game will be played*, including, for example, the base game, the number of player and banker hands, the number of bonus hands, the cards that are dealt face up, the cards used for the bonus hands, the rank of winning bonus hands, the type of bonus wager, and how winning bonus hands are paid.

Ex. 1001, 3:33–39 (emphasis added). Thus, consistent with our reading of the claims, the '987 patent describes the invention as a set of “rules” that are determined for how the bonus wagering game will be played.

With this in mind, we agree with Petitioner that the Federal Circuit has found similar methods of conducting a wagering game to constitute a fundamental economic practice under the first step of *Alice*. In *Smith*, the Applicants appealed an ex parte decision by the Board that affirmed the examiner’s rejection of pending claims under 35 U.S.C. § 101. Claim 1 at issue in *Smith* recited:

1. A method of conducting a wagering game comprising:
 - [a]) a dealer providing at least one deck of ... physical playing cards and shuffling the physical playing cards to form a random set of physical playing cards;
 - [b]) the dealer accepting at least one first wager from each participating player on a player game hand against a banker’s/dealer’s hand;

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[c]) the dealer dealing only two cards from the random set of physical playing cards to each designated player and two cards to the banker/dealer such that the designated player and the banker/dealer receive the same number of exactly two random physical playing cards;

[d]) the dealer examining respective hands to determine in any hand has a Natural 0 count from totaling count from cards, defined as the first two random physical playing cards in a hand being a pair of 5's, 10's, jacks, queens or kings;

[e]) the dealer resolving any player versus dealer wagers between each individual player hand that has a Natural 0 count and between the dealer hand and all player hands where a Natural 0 is present in the dealer hand, while the dealer exposes only a single card to the players;

[f]) as between each player and the dealer where neither hand has a Natural 0, the dealer allowing each player to elect to take a maximum of one additional card or standing pat on the initial two card player hand, while still having seen only one dealer card;

[g]) the dealer/banker remaining pat within a first certain predetermined total counts and being required to take a single hit within a second predetermined total counts, where the first total counts range does not overlap the second total counts range;

[h]) after all possible additional random physical playing cards have been dealt, the dealer comparing a value of each designated player's hand to a final value of the banker's/dealer's hand wherein said value of the designated player's hand and the banker's/dealer's hand is in a range of zero to nine points based on a pre-established scoring system wherein aces count as one point, tens and face cards count as zero points and all other cards count as their face value and wherein a two-digit hand total is deemed to have a value corresponding to the one's digit of the two-digit total;

[i]) the dealer resolving the wagers based on whether the designated player's hand or the banker's/dealer's hand is nearest to a value of 0.

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Smith, 815 F.3d at 817–818. Applying the first step of *Alice*, the Federal Circuit determined that

Applicants’ claims, directed to rules for conducting a wagering game, compare to other “fundamental economic practice[s]” found abstract by the Supreme Court. *See id.* As the Board reasoned here, “[a] wagering game is, effectively, a method of exchanging and resolving financial obligations based on probabilities created during the distribution of the cards.” J.A. 15. In *Alice*, the Supreme Court held that a method of exchanging financial obligations was drawn to an abstract idea. 134 S. Ct. at 2356–57. Likewise, in *Bilski*, the Court determined that a claim to a method of hedging risk was directed to an abstract idea. 561 U.S. at 611, 130 S. Ct. 3218. Here, *Applicants’ claimed “method of conducting a wagering game” is drawn to an abstract idea much like Alice’s method of exchanging financial obligations and Bilski’s method of hedging risk.*

Id. at 818–819 (emphasis added).

As in *Smith*, the claims of the ’987 patent are also drawn to rules and instructions for playing a wagering game, which is effectively a method of exchanging and resolving financial obligations (e.g., payout of bonus wagers) based on probabilities created during the distribution of cards. Thus, similar to the claims at issue in *Smith*, claims 1–12 of the ’987 patent recite a fundamental economic practice, which is one of certain methods of organizing human activity identified in the *Guidance*, and thus considered an abstract idea.

The Federal Circuit’s decision in *Guldenaar* further guides our analysis. In *Guldenaar*, the appellant appealed an ex parte decision by the Board affirming the examiner’s rejection of pending claims under 35 U.S.C. § 101. Claim 1 at issue in *Guldenaar* recited:

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A method of playing a dice game comprising:

providing a set of dice, the set of dice comprising a first die, a second die, and a third die, wherein only a single face of the first die has a first die marking, wherein only two faces of the second die have an identical second die marking, and wherein only three faces of the third die have an identical third die marking;

placing at least one wager on at least one of the following: that the first die marking on the first die will appear face up, that the second die marking on the second die will appear face up, that the third die marking on the third die will appear face up, or any combination thereof;

rolling the set of dice; and

paying a payout amount if the at least one wager occurs.

Guldenaar, 911 F.3d at 1159.

The Federal Circuit Court began its analysis, under *Alice* Step 1, by comparing the claims with those in *Smith*. *Id.* at 1160 (Noting that “*In re Smith*, 815 F.3d 816 (Fed. Cir. 2016), is highly instructive in this case.”).

The Court found that

Appellant’s claimed “method of playing a dice game,” including placing wagers on whether certain die faces will appear face up, is, as with the claimed invention in *Smith*, directed to a method of conducting a wagering game, with the probabilities based on dice rather than on cards. Given the strong similarities to the ineligible claims in *Smith*, Appellant’s claims likewise are drawn to an abstract idea.

Id. The Federal Circuit noted that the Patent Office articulated a more refined characterization of the abstract idea as the *rules for playing games*, which is one type of method of organizing human activity. *Id.*

Like the claims at issue in *Guldenaar*, we find that the challenged claims of the ’987 patent also recite *rules for playing a game*, specifically rules for playing a wagering game, which the Federal Circuit has determined

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is another method of organizing human activity that is patent-ineligible. *See id.* That being the case, we determine that the challenged claims recite *both* a fundamental economic practice and rules for playing games. We note that our determination is consistent with the *Guidance*, which identifies among the certain methods of organizing human activity both “fundamental economic principles or practices” and “managing personal behavior or relationships or interactions between people (including social activities, teaching, and following rules or instructions).” *Guidance*, 84 Fed. Reg. at 52 n. 13 (citing *Smith*).

In reaching these determinations, we have also considered Patent Owner’s arguments that *Smith* is distinguishable. *See* PO Resp. 19. First, Patent Owner asserts that *Smith* is distinguishable because that court did not review evidence regarding the level of ordinary skill in the art. PO Resp. 19 (“*Smith* did not address the skill level in the skilled artisan, as required after *Berkheimer*.”). Nonetheless, for *Alice* Step 1, our inquiry is the same as that performed by the Federal Circuit in *Smith*. That is, we consider whether the claims at issue are directed to a patent-ineligible concept such as an abstract idea. Patent Owner has not explained sufficiently, nor do we independently see, how any evidence or arguments regarding the level of ordinary skill in the art in this proceeding distinguishes the course of our analysis under *Alice* Step 1 from that performed in *Smith*. Moreover, as discussed above, the level of ordinary skill is not in dispute between the parties in this proceeding. Tr. 5:17–18:1. We have already adopted Patent Owner’s proposed level of skill. Thus, our discussion of the level of skill is limited to adopting the level of skill that Petitioner and Patent Owner have both agreed

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to, which we determine is consistent with the disclosure of the '987 patent. As such, we are not persuaded that there is any meaningful difference in this regard between *Smith* and the instant proceeding that distinguishes *Smith*.

Second, Patent Owner has not explained sufficiently how evidence of the “commercial significance of the invention” distinguishes *Smith*.⁶ See PO Resp. 18–19. Patent Owner contends that its settlement agreement and license with Petitioner, and the successful implementation of games covered by the patent in many casinos demonstrate commercial success. *Id.* at 18 (citing Ex. 2004; Ex. 2005; Ex. 2007; Ex. 2011). Even assuming that the '987 patent is commercially successful or significant, as Patent Owner proposes, we are not persuaded this would render the claims of the '987 patent any less abstract under *Alice*, Step 1 (and *Guidance*, Step 2A, Prong 1). “Commercial success is not necessarily a proxy for an improvement in a technology nor does it necessarily indicate that claims were drawn to patent eligible subject matter.” *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, 793 F.3d 1306, 1335 (Fed. Cir. 2015). As discussed, the challenged claims explicitly recite features that are rules/instructions for organizing human activities (i.e., fundamental economic practice and rules of playing a game). Patent Owner has not explained persuasively why the license agreement, settlement, and casino games mitigate or alter this reading of the express language and limitations recited in the challenged claims. See PO Resp. 19. Thus, we are not persuaded that we must read the claims differently due to any purported

⁶ Patent Owner also asserts that the “significance of the improvement found in the '987 patent over 2004 gaming technology is evident in the commercial success of the patent.” PO Resp. 18. We also address this argument in our discussion of *Alice* Step 2, *Guidance* Step 2B.

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commercial success or that *Smith* is distinguishable on this basis.

Third, Patent Owner asserts that, unlike the *Smith* claims, the steps of “(c) forming a bonus hand from one of said cards from each of a subset of said plurality of hands” (“Step C”); and “(d) identifying said player as a winning player if said player placed said bonus wager and said bonus hand has a predetermined rank” (Step D”), recited in claim 1, are significantly more than what was known in the art in 2004. PO Resp. 19 (citing Ex. 2011).

This argument is not persuasive. “Eligibility and novelty are separate inquiries.” *Two-Way Media Ltd. v. Comcast Cable Commc’ns, LLC*, 874 F.3d 1329, 1340 (Fed. Cir. 2017) (citing *Affinity Labs of Tex., LLC v. DIRECTV, LLC*, 838 F.3d 1253, 1263 (Fed. Cir. 2016) for the holding that even assuming that a particular claimed feature was novel does not “avoid the problem of abstractness.”); *see also buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350, 1352 (Fed. Cir. 2014) (“[L]aws of nature, natural phenomena, and abstract ideas, no matter how ‘groundbreaking, innovative, or even brilliant’ . . . are outside what the statute means by ‘new and useful process, machine, manufacture, or composition of matter.’”) (citing 35 U.S.C. § 101; *Alice*, 573 U.S. at 221–22; *Association for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S.Ct. 2107, 2116–17 (2013)). Thus, the alleged novelty of Step C and Step D do not persuade us to discount or ignore *Smith*’s controlling eligibility analysis.

Additionally, during the oral hearing, Patent Owner asserted that it did not agree that “Step C” of the challenged claims are directed to an abstract idea. *See* Tr. 14:18–16:14. Patent Owner appears to argue that Step C and

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Step D of the challenged claims do not recite an abstract idea. *See id.*

To the extent that this argument has been advanced, we reiterate our determination that these steps recite *rules* for playing a bonus wagering game. Step C recites the rule for how the dealer and players *form* the *bonus hand* in the wagering game (i.e., rules for playing a game). Similarly, Step D recites the rule for how the winning player is identified in the activity of playing a wagering game. The disclosure of the Specification comports with our finding. *See* Ex. 1001, 3:33–39 (“Before game play begins, the house determines the *rules* with which the game will be played, including . . . the cards used for the bonus hands, the rank of winning bonus hands, the type of bonus wager, and how winning bonus hands are paid.”) (emphasis added), 4:40–5:39.

Fourth, Patent Owner argues that *Smith* is distinguishable because it is an *ex parte* appeal decision, which is different from an issued patent where the patent examiner determined that the patent application recited allowable patent-eligible subject matter. PO Resp. 19–20; *see* Sur. 8. Patent Owner has not explained why this difference matters for the patent-eligibility inquiry that we must conduct here. *See id.* We decline to speculate on the basis for Patent Owner’s position. Rather, we observe that the § 101 inquiry is the same regardless of whether it is addressed in the context of examination, as in *Smith*, or in the context of a contested proceeding over an issued patent, as in the case here. Thus, we are not persuaded that *Smith* is distinguishable merely because our §101 inquiry arises in a CBM patent review of an issued patent.

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In sum, we determine that the challenged claims, each considered as a whole, recite and are directed to rules for playing a bonus wagering game. Rules for games have been considered to be a type of method of organizing human activity that are abstract ideas. *Guldenaar*, 911 F.3d at 1160–61. In addition, as discussed, a wagering game is a fundamental economic practice. *Smith*, 815 F.3d at 818. Accordingly, we conclude the challenged claims recite a fundamental economic practice and rules for playing games (i.e., interactions between people), which are certain methods of organizing human activity that are identified in the *Guidance* as abstract ideas. *Guidance*, 84 Fed. Reg. at 52.

3. *Guidance Step 2A, Prong 2: Whether Challenged Claims Integrate the Abstract Idea into a Practical Application*

The Supreme Court has long distinguished between abstract ideas themselves (which are not patent eligible) and the integration of those abstract ideas into practical applications (which are patent eligible). *See, e.g., Alice*, 573 U.S. at 217 (explaining that “in applying the § 101 exception, we must distinguish between patents that claim the ‘buildin[g] block[s]’ of human ingenuity and those that integrate the building blocks into something more” (quoting *Mayo*, 566 U.S. at 89), and stating that *Mayo* “set forth a framework for distinguishing patents that claim laws of nature, natural phenomena, and abstract ideas from those that claim patent-eligible applications of those concepts”); *Mayo*, 566 U.S. at 80, 84 (noting that the Court in *Diehr* found “the overall process patent eligible because of the way the additional steps of the process integrated the equation into the process as a whole,” but the Court in *Benson* “held that simply implementing a

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mathematical principle on a physical machine, namely a computer, was not a patentable application of that principle”); *Bilski*, 561 U.S. at 611 (“*Diehr* explained that while an abstract idea, law of nature, or mathematical formula could not be patented, ‘an *application* of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection.’” (quoting *Diehr*, 450 U.S. at 187) (emphasis in original)); *Diehr*, 450 U.S. at 187, 192 n.14 (explaining that the process in *Flook* was ineligible not because it contained a mathematical formula, but because it did not provide an application of the formula). The Federal Circuit likewise has distinguished between claims that are “directed to” a judicial exception (which require further analysis to determine their eligibility) and those that are not (which are therefore patent eligible). *See, e.g.*, MPEP § 2106.06(b) (summarizing *Enfish, McRO, Inc. v. Bandai Namco Games Am. Inc.*, 837 F.3d 1299 (Fed. Cir. 2016), and other cases that found claims eligible as improvements to technology or computer functionality instead of abstract ideas).

In agreement with Supreme Court and Federal Circuit precedent, the *Guidance* provides that if a claim recites an abstract idea, it must be further analyzed to determine whether the recited judicial exception is integrated into a practical application. *Guidance*, 84 Fed. Reg. at 53. Specifically, under USPTO *Guidance* Step 2A, Prong 2, a claim reciting an abstract idea is not “directed to” the abstract idea if the “claim as a whole integrates the recited judicial exception into a practical application of that exception.” *Id.* Step 2A, Prong 2 is evaluated by “(a) [i]dentifying whether there are any additional elements recited in the claim beyond the judicial exception(s); and

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(b) evaluating those additional elements individually and in combination to determine whether they integrate the exception into a practical application.” *Id.* at 54–55. “A claim that integrates a judicial exception into a practical application will apply, rely on, or use the judicial exception in a manner that imposes a meaningful limit on the judicial exception, such that the claim is more than a drafting effort designed to monopolize the judicial exception.” *Id.* at 53.

According to the *Guidance*, the following non-exhaustive exemplary considerations are indicative that an additional element or combination of elements may be integrated into a practical application:

- 1) An additional element reflects an improvement in the functioning of a computer, or an improvement to other technology or technical field;
- 2) An additional element that applies or uses a judicial exception to effect a particular treatment or prophylaxis for a disease or medical condition;
- 3) An additional element implements a judicial exception with, or uses a judicial exception in conjunction with, a particular machine or manufacture that is integral to the claim;
- 4) An additional element effects a transformation or reduction of a particular article to a different state or thing;
- 5) An additional element applies or uses the judicial exception in some other meaningful way beyond generally linking the use of the judicial exception to a particular technological environment, such that the claim as a whole is more than a drafting effort designed to monopolize the exception;

Guidance, 84 Fed. Reg. at 55. The *Guidance* “uses the term ‘additional elements’ to refer to claim features, limitations, and/or steps that are recited in the claim beyond the identified judicial exception.” *Id.* at 55 n.24.

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We determine that the challenged claims do not integrate the recited judicial exception (i.e., fundamental economic practice and managing interactions between people) into a practical application, as recognized by precedent. Claim 1 expressly recites a “method of a playing game with at least one deck of cards” with the steps of “(a) affording a player the opportunity to place a bonus wager”; “(b) dealing out said cards to each of a plurality of hands”; “(c) forming a bonus hand from at least one of said cards from each of a subset of said plurality of hands”; “(d) identifying said player as a winning player if said player placed said bonus wager and said bonus hand has a predetermined rank”; and “(e) paying said winning player a payout.”

Ex. 1001, 6:57–67. These steps, individually and in combination, recite rules for “playing a *wagering* game with at least one deck of cards.”

Further, as discussed above, dependent claims 2–12 also recite *rules* for gameplay, including from which cards the bonus hand is formed (claims 2, 4, 5, and 7–9), the makeup of the plurality of hands (claims 3 and 6), and how the bonus wager/payout is paid (claims 10–12). Ex. 1001, 7:5–8:13. These elements, individually and in combination, add limitations to independent claim 1 that are also rules for playing a wagering game with a deck of cards. Thus, *all* of the limitations in claims 1–12 recite certain methods of organizing human activity (i.e., fundamental economic practice and managing interactions between people (following rules of playing a bonus wagering game)).

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More specifically, we observe that the challenged claims do not recite an additional element beyond the recited rules that (1) applies or uses a judicial exception to effect a particular treatment or prophylaxis for a disease or medical condition;

(2) implements a judicial exception with, or uses a judicial exception in conjunction with, a particular *machine* or *manufacture* that is integral to the claim; or (3) effects a transformation or reduction of a particular article to a different state or thing (e.g., deck of cards are not transformed). *See* Ex. 1001, 6:57–8:13.

In addition, none of the recited limitations of the challenged claims (considered individually or in combination) reflect an improvement to the functioning of a computer/technology/technical field. As discussed, claim 1 recites steps for playing a wagering game with a *deck of cards*, but does not recite an improvement to a computer or specific technology. Ex. 1001, 6:57–67. Likewise, dependent claims 2–12 do not recite an improvement to a computer or specific technology. *See* Ex. 1001, 7:5–8:13. We do note that the '987 patent teaches that

[t]he term “card” is used in the present application to indicate a playing card, a playing tile, or any facsimile thereof. For example, a card can be a paper playing card, a physical playing tile, an image of a card or tile on a video display, an image of a card or tile on a scratch ticket, etc. Any representation of a playing card or tile is contemplated. A “deck of cards” refers to one or more complete decks of playing cards or a set of pai gow tiles.

Ex. 1001, 3:1–8. In this way, a deck of cards may be a physical deck of cards or a facsimile such as a card on a video display. Nonetheless, we are not persuaded that the physicality of the cards indicates any improvement to

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a technology or technical field. The card deck, as claimed, is a generic deck of cards, which operates only as a tool for playing the wagering game. As noted in *Smith*, the use of a *standard* deck of cards in a wagering game is not sufficient to confer patent-eligibility. *Smith*, 815 F.3d. at 819.

The challenged claims also do not recite an additional element that applies or uses the judicial exception in some other meaningful way beyond generally linking the use of the judicial exception to a particular technological environment, such that the claim as a whole is more than a drafting effort designed to monopolize the exception. As discussed, the limitations of the challenged claims, considered individually or in combination, all constitute the rules for playing a bonus wagering game. Thus, the claims do not, as a whole, integrate the recited judicial exception into a practical application of that exception.

In sum, the challenged claims recite a set of rules for playing a bonus wagering game, which may be considered both a fundamental economic practice and managing interactions between people, and thereby an abstract idea under the *Guidance*. Further, for the foregoing reasons, we also find that the challenged claims do not integrate the abstract idea into a practical application under the *Guidance*. Thus, we conclude that the claims are directed to an abstract idea.

4. Guidance, Step 2B: Whether Challenged Claims Contain an Inventive Concept

Under the second step of the *Alice* inquiry, we must “scrutinize the claim elements more microscopically” for additional elements that might be understood to “transform the nature of the claim” into a patent-eligible application of an abstract idea. *Elec. Power Grp., LLC v. Alstom S.A.*, 830

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F.3d 1350, 1353–54 (Fed. Cir. 2016); *RecogniCorp, LLC v. Nintendo Co.*, 855 F.3d 1322, 1327 (Fed. Cir. 2017) (“To save a patent at [*Alice*] step two, an inventive concept must be evident in the claims.”). That is, we determine whether the claims include an “inventive concept,” i.e., an element or combination of elements sufficient to ensure that the patent in practice amounts to significantly more than a patent on the abstract idea itself. *Alice*, 573 U.S. at 221. “Abstract ideas, including a set of rules for a game, may be patent-eligible if they contain an ‘inventive concept’ sufficient to ‘transform’ the claimed abstract idea into a patent-eligible application.” *In re Smith*, 815 F.3d at 819 (citing *Alice*, 134 S. Ct. at 2357). But appending purely conventional steps to an abstract idea does not supply a sufficiently inventive concept. *Alice*, 134 S. Ct. at 2357–58.

Consistent with the foregoing, under the *Guidance*, if a claim has been determined to recite a judicial exception under the *Guidance*, Step 2A, we must evaluate the additional elements individually and in combination under the *Guidance*, Step 2B, to determine whether they provide an inventive concept (i.e., whether the additional elements amount to significantly more than the exception itself).⁷ Per the *Guidance*, we must consider in Step 2B whether an additional element or combination of elements: (1) “[a]dds a specific limitation or combination of limitations that are not well-

⁷ The patent eligibility inquiry may contain underlying issues of fact. *Mortg. Grader, Inc. v. First Choice Loan Servs. Inc.*, 811 F.3d 1314, 1325 (Fed. Cir. 2016). In particular, “[t]he question of whether a claim element or combination of elements is well-understood, routine and conventional to a skilled artisan in the relevant field is a question of fact.” *Berkheimer v. HP Inc.*, 881 F.3d 1360, 1368 (Fed. Cir. 2018).

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understood, routine, conventional activity in the field, which is indicative that an inventive concept may be present”; or (2) “simply appends well-understood, routine, conventional activities previously known to the industry, specified at a high level of generality, to the judicial exception, which is indicative that an inventive concept may not be present.”

Guidance, 84 Fed. Reg. at 56.

a. Petitioner’s Contentions

Petitioner contends that the ’987 patent teaches bonus wagers were well-known in the prior art and that there is nothing transformative about the underlying games on which the player wagers or the generic or standard cards with which the games are played. Pet. 27. Petitioner adds that the limitations of dependent claims 2–12 are likewise generic and non-inventive. Pet. 28 (“Forming the bonus hand from face-up cards (claims 2, 5, and 8); or from a combination of player and banker hands (claims 6 and 7) are merely additional conventional activities. The same is true for those dependent claims that specify how the payout is calculated and paid.”).

b. Patent Owner’s Contentions

Patent Owner presents several arguments, many of which we have addressed above. Patent Owner contends, for example, that Petitioner does not address the level of ordinary skill in the art, which Patent Owner contends is necessary to determine what would have been well-understood, routine and conventional to a skilled artisan. See PO Resp. 8 (“There is no evidence presented. Just vague attorney argument.”), 9 (“In order to determine if the claims are ‘well-understood, routine and conventional to a skilled artisan in the relevant field’ we need to determine who the ‘skilled artisan’ is. ‘[T]his is a question of fact’. *Berkheimer*. Bally presents no facts

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nor any discussion of a skilled artisan.”), 10–11, 14–15. Patent Owner further argues that the challenged claims are significantly more than what existed at the time of the invention. *See* PO Resp. 16–18; *see* Sur. 5–6. Additionally, Patent Owner distinguishes *Smith* on the basis that this proceeding has evidence related to commercial success and what is well-understood, routine, and conventional by a skilled artisan. PO Resp. 18–20.

c. Discussion

Based on the complete record, we determine that Petitioner has provided sufficient evidence that the challenged claims recite well-understood, conventional, and routine activities. The ’987 patent itself acknowledges that rules for bonus wagering and gameplay were well-known in the art. *See* Pet. 27–29. The ’987 patent expressly states:

There are a number of such games in existence where the essence of the game, whether it based on poker, blackjack, baccarat, pai gow tiles, pai gow poker, or any other game, is that a player wagers on one or more of a group of hands that she hopes will beat a banker hand. Players do not control the hands, that is, no player hands are assigned to players. The dealer plays all of the hands according to rules that permit little or no discretion in how the hands are played. One such game for poker is disclosed in U.S. Pat. No. 5,839,731, Method and Apparatus for Playing a Casino Game. Another such game for blackjack is disclosed in U.S. patent application Ser. No. 10/867,019, Method of Playing a Blackjack-type Casino Card Game. Another such game for pai gow is disclosed in U.S. patent application Ser. No. 10/890,445, Method of Playing a Pai Gow-type Game

Ex. 1001, 2:55–3:3 (emphasis added). Further, the ’987 patent acknowledges that games with bonus wagering and bonus bets were also well-known in the art. The ’987 patent teaches that

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Many casino table games offer bonus bets or jackpots where players may wager on occurrences that do not affect the outcome of the basic game. These types of bonus bets and jackpots are popular with players. An example of such a bonus bet is the game “21+3” disclosed in U.S. Pat. No. 6,012,719. The game is a standard blackjack game where the player is also given the option of placing a bonus wager on whether or not a three-card poker hand made of the player’s first two cards and the dealer’s face up card is of a certain rank. Another example of a bonus bet is disclosed in U.S. Pat. No. 6,402,147. The basic game is stud poker, where the player’s hand is compared to the banker’s hand. The player is also given the option of placing a bonus wager on the rank of the player’s hand.

Ex. 1001, 1:31–44 (emphasis added). In view of this disclosure, we determine that the ’987 patent expressly acknowledges that any allegedly inventive concepts involving (a) placing a bonus wager; (b) dealing out cards to each player; (c) forming the bonus hand; (d) identifying a winning player; and (e) paying the winning player, were merely well-understood, conventional, and routine steps for playing a card game.⁸

⁸ We note here that the Office has previously issued the Memorandum on Changes in Examination Procedure Pertaining to Subject Matter Eligibility, Recent Subject Matter Eligibility Decision (*Berkheimer v. HP, Inc.*) (Apr. 19, 2018) (“*Berkheimer Memo*”). In the *Berkheimer Memo*, the Office instructs that “[i]n a step 2B analysis, an additional element (or combination of elements) is not well-understood, routine or conventional unless the examiner finds, and expressly supports a rejection in writing with, one or more of the following:” (1) a “citation to an express statement in the specification or to a statement made by an applicant during prosecution that demonstrates the well-understood, routine, conventional nature of the additional element(s)”; (2) a “citation to one or more of the court decisions discussed in MPEP § 2106.05(d)(II) as noting the well-understood, routine, conventional nature of the additional element(s)”; (3) a “citation to a publication that demonstrates the well-understood, routine, conventional nature of the additional element(s)”; and (4) a “statement that the examiner

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Nonetheless, even if the foregoing statements in the '987 patent do not amount to such an admission, we further determine that the steps of “(c) forming a bonus hand from at least one of said cards from each of a subset of said plurality of hands” and “(d) identifying said player as a winning player if said player placed said bonus wager and said bonus hand has a predetermined rank” cannot provide an inventive concept or add significantly more than the abstract idea itself to claim 1. *See* PO Resp. 19. According to Patent Owner, “[t]hese elements are significantly more than a skilled artisan would consider well-understood, routine, and conventional in 2004.” Sur. 5. Mr. Feola also testifies “[m]y invention has the ability to enhance[] games such as poker, blackjack, baccarat, pai gow tiles, and pai gow poker by allowing bonus bets based on combining dealer cards and player cards.” Ex. 2011 ¶ 3. We are unpersuaded by these contentions.

Even if we were to credit Mr. Feola’s testimony that his invention can enhance various casino games, each of the steps of claim 1, including Step C and Step D relied upon by Patent Owner to argue the claims add “significantly more” than just the abstract idea, are part of the rules of the wagering game using a generic deck of cards. *See* Ex. 1001, 6:60–7:4; 3:1–8. The wagering game claimed in *Smith*, reciting rules for a wagering game that use a *standard deck of cards*, was held to be an abstract idea. *Smith*, 815 F.3d 819.

is taking official notice of the well-understood, routine, conventional nature of the additional element(s).”) (emphasis added). The *Berkheimer* Memo is available at: <https://www.uspto.gov/sites/default/files/documents/memo-berkheimer-20180419.PDF>.

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Thus, Step C and Step D, as rules for gameplay, are themselves an integral part of the abstract idea. Any purported improvement or significance asserted by Patent Owner is, therefore, based only on the abstract ideas embodied by these claim steps (i.e., additional rules for allowing bonus wager in a wagering game). However, it is well-established that the abstract idea or the combination of abstract ideas (e.g., multiple rules) cannot supply the inventive concept for patent-eligibility. *See ChargePoint, Inc. v. SemaConnect, Inc.*, 920 F.3d 759, 774 (Fed. Cir. 2019) (citations omitted) (“[A] claimed invention’s use of the ineligible concept to which it is directed cannot supply the inventive concept that renders the invention ‘significantly more’ than that ineligible concept.”).

Patent Owner’s reliance on the Examiner’s reasons for allowance does not alter our determination. *See* Ex. 2008, 29. Patent Owner contends that the Examiner’s allowance of claims over the closest prior art during prosecution indicates that Step C and Step D of claim 1 were not well-understood, conventional, or routine in 2004. Sur. 5–6. In the Notice of Allowance, the Examiner stated that

Patentability has been found because the prior art fails to suggest or show the combination as set forth in the independent claim 1 including the formation of the bonus hand to be used for game play. This requirement is not seen or fairly suggested by the prior art of record.

The closest prior art of reference was Malcolm [U.S. Patent Pub. 2003/0122305 A1]. His teachings however fail to anticipate or render obvious applicant’s invention.

Ex. 2008, 29.

The foregoing statements in the Examiner’s reasons for allowance are directed to novelty and nonobviousness, not eligibility. But the fact that the

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claims may be novel or nonobvious, thereby meeting the patentability requirements of § 102 and § 103, has no bearing on whether the challenged claims are patent-eligible under § 101. *Affinity Labs of Texas, LLC v. DirecTV, LLC*, 838 F.3d 1253, 1263 (Fed. Cir. 2016) (novelty “does not avoid the problem of abstractness”); *Genetic Techs. Ltd. v. Merial LLC*, 818 F.3d 1369, 1376 (Fed. Cir. 2016) (“[A] claim directed to a newly discovered law of nature (or natural phenomenon or abstract idea) cannot rely on the novelty of that discovery for the inventive concept necessary for patent eligibility.”); *buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350, 1352 (Fed. Cir. 2014) (abstract ideas are unpatentable “no matter how ‘[g]roundbreaking, innovative, or even brilliant’” they may be). Further, Patent Owner’s reliance on the disclosure of the “Malcolm” reference (*see* PO Resp. 16–18) is inconsistent with the ’987 patent, which teaches that it was well-understood, routine, and conventional for standard games using standard card decks, such as blackjack, to include bonus wagering on bonus bets. *See* Ex. 1001, 1:31–44. In other words, including rules for playing a bonus wagering game with a deck of cards was a well-understood, routine, conventional practice in casino games. *See id.*

Further, we do not find that Petitioner’s alleged failure to address the level of ordinary skill in the art makes a substantive difference in this case. *See* PO Resp. 9. The Federal Circuit has held that “[t]he § 101 inquiry ‘may contain underlying factual issues.’” *Mortg. Grader, Inc. v. First Choice Loan Servs. Inc.*, 811 F.3d 1314, 1325 (Fed. Cir. 2016) (quoting *Accenture Glob. Servs., GmbH v. Guidewire Software, Inc.*, 728 F.3d 1336, 1341 (Fed. Cir. 2013)). The Federal Circuit also has explained that “not every § 101

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determination contains genuine disputes over the underlying facts material to the § 101 inquiry.” *Berkheimer*, 881 F.3d at 1368. Here, Petitioner has affirmatively agreed that Patent Owner’s proposed level of ordinary skill is correct. *See* Tr. 5:17–18:1. While there may be other disputes between the parties, there is no factual dispute regarding the level of ordinary skill in the art. Thus, we do not find that *Berkheimer* mandates that the Petitioner must provide an expert declaration or other evidence to address an undisputed skill level in this § 101 inquiry. *See* PO Resp. 9.

Further, as discussed, even if we credit the testimony of Patent Owner’s expert (*see* Exs. 2007, 2011) in the absence of expert testimony from Petitioner, the fact remains that each of the steps of claim 1, including Step C and Step D, are part of the rules of the wagering game using a generic deck of cards. *See* Ex. 1001, 6:60–7:4, 3:1–8. “It has been clear since *Alice* that a claimed invention’s use of the ineligible concept to which it is directed cannot supply the inventive concept that renders the invention ‘significantly more’ than that ineligible concept.” *BSG Tech LLC v. Buyseasons, Inc.*, 899 F.3d 1281, 1290 (Fed. Cir. 2018). In short, a claim’s inventive concept cannot be the abstract idea itself.

Next, we are not persuaded that the claims recite “significantly more” based on the purported commercial success of Patent Owner’s game. As mentioned, “[c]ommercial success is not necessarily a proxy for an improvement in a technology nor does it necessarily indicate that claims were drawn to patent eligible subject matter.” *Versata Dev. Grp., Inc.*, 793 F.3d at 1335. The challenged claims explicitly recite features that are certain methods of organizing human activity (i.e., fundamental economic

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practice and managing interactions between people (following rules)). Based on the complete record, Patent Owner has not explained why the license agreement, settlement, and purported success of casino games should change our reading of the express limitations in the challenged claims. *See* PO Resp. 18.

Additionally, for the reasons discussed previously, we determine that *Smith* is binding and controlling case law. The procedural posture (i.e., *ex parte* appeal), evidentiary record, and issue date of the decision (*see* Sur. 6–8) do not materially distinguish *Smith* from the instant proceeding. *See supra* Section II.H.2.c.

We further determine that the limitations of dependent claims 2–12 are additional rules for allowing bonus wagers in a wagering game, which are themselves abstract ideas that cannot supply an inventive concept. Dependent claims 2, 4, 5, and 7–9 recite rules regarding how the bonus hand is formed. Dependent claims 3 and 6 recite rules regarding the plurality of hands. Dependent claims 10–12 recite rules regarding how the bonus wager/payout is paid. These limitations, viewed individually or in combination, are additional well-understood, routine, conventional activities for playing a card game (e.g., forming hands and paying winner). *See* Ex. 1001, 1:26–40. 2:52–67. Patent Owner does not address dependent claims 2–12 separately from claim 1. Thus, based on the complete record, we determine that the recited elements of claims 1–12 are nothing more than well-understood, routine, and conventional steps in playing a bonus wagering game.

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III. CONCLUSION

Petitioner has met its burden of demonstrating by a preponderance of the evidence that claims 1–12 of the ’987 patent are unpatentable under 35 U.S.C. § 101.

IV. CONTINGENT MOTION TO AMEND

In its Motion to Amend, Patent Owner requests that we cancel claims 3–8 of the ’987 patent and replace them with proposed, substitute claims 13–18. Mot. Amend 3–6. This Motion is contingent on our determination that claims 3–8 are unpatentable under § 101. *Id.* at 7.

In reviewing a motion to amend, we consider whether the motion meets the statutory and regulatory requirements set forth in 35 U.S.C. § 326(d) and 37 C.F.R. § 42.221. *See Lectrosonics, Inc. v. Zaxcom, Inc.*, Case IPR2018-01129 (PTAB Feb. 25, 2019) (Paper 15) (precedential). That is, the patent owner must demonstrate the following: (1) the amendment responds to a ground of unpatentability involved in the trial; (2) the amendment does not seek to enlarge the scope of the claims of the patent or introduce new subject matter; (3) the amendment proposes a reasonable number of substitute claims; and (4) the proposed claims are supported in the original disclosure of the patent. *See* 35 U.S.C. § 326(d); 37 C.F.R. § 42.221; *see also Lectrosonics, Inc.*, slip op. at 4–8. The patent owner, however, “does not bear the burden of persuasion to demonstrate the patentability of [the proposed] substitute claims.” *Lectrosonics, Inc.*, slip op. at 4 (citing *Aqua Prods., Inc. v. Matal*, 872 F.3d 1290 (Fed. Cir. 2017); *Bosch Auto. Serv. Sols. LLC v. Iancu*, 878 F.3d 1027 (Fed. Cir. 2017)). “Rather, as a result of the current state of the law and [U.S. Patent and

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Trademark Office] rules and guidance, the burden of persuasion will ordinarily lie with the petitioner to show that any proposed substitute claims are unpatentable by a preponderance of the evidence.” *Lectrosonics, Inc.*, slip op. at 4.

A. Reasonable Number of Substitute Claims

Initially, we determine that Patent Owner proposes a single substitute claim for each cancelled claim 3–8, and therefore meets this requirement. Mot. Amend 5–6. *See* 37 C.F.R. § 42.221(a)(3) (establishing a rebuttable presumption that one substitute claim is needed to replace each challenged claim). A table showing the proposed substitute claims and replaced original claims is as follows:

Original Claim	Substitute Claim
3	13
4	14
5	15
6	16
7	17
8	18

B. Proposed Substitute Independent Claims 13 and 16

In its Motion to Amend, Patent Owner requests that we cancel original claims 3 and 6, and replace these with proposed, substitute claims 13 and 16 respectively. Mot. Amend. 5. Claims 13 and 16 recite similar subject matter:

13. (Substitute for claim 3) The method of claim 1 wherein said hands are player hands, and the method further comprises

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the steps of providing a video screen on which said plurality of player hands are displayed and providing a wager input mechanism through which said bonus wager is placed.

16. (Substitute for claim 6) The method of claim 1 wherein said hands are player hands and at least one banker hand, and the method further comprises the steps of providing a video screen on which said player hands and said at least one banker hand are displayed and providing a wager input mechanism through which said bonus wager is placed.

Mot. Amend 5.

Patent Owner asserts that proposed substitute claims 13 and 16 do not enlarge the scope of the originally issued claims 1–12, are supported by the specification, and are responsive to the grounds of unpatentability involved in the proceeding. *Id.* at 8–9. Given the similarity of the amendments, we discuss substitute claim 13 below as representative of the proposed amendments in both claims 13 and 16.

1. New Matter

In the Motion, Patent Owner asserts that these limitations are supported by the Specification of the '987 patent. Mot. Amend 8–9 (citing Ex. 1001, 6:3–41, Figs. 5–6). Patent Owner has not provided any citation to the original disclosure of U.S. Patent Application No. 11/776,613 (“the '613 Application”) from which the '987 patent issued. Nonetheless, we have included the '613 Application as Exhibit 3001 in this record.

Further, we observe that the cited sections of the '987 patent appear in the original disclosure of the '613 Application. The original disclosure includes Figures 5 and 6 below:

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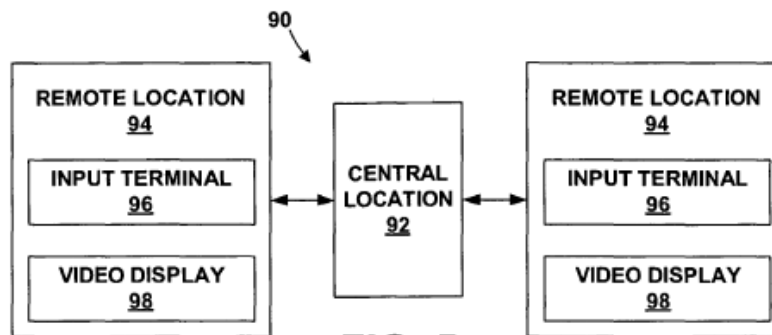


FIG. 5

Figure 5 shows a block diagram of a keno-style system. Ex. 3001, 21.

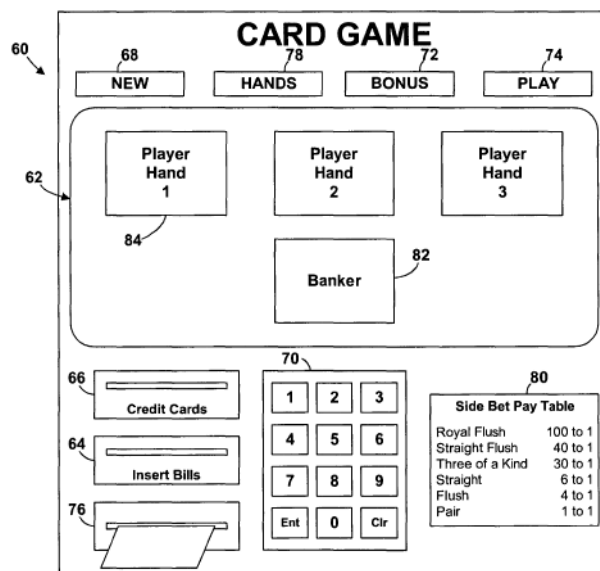


FIG. 6

Fig. 6 shows a video screen implementing the game embodiment of Figure

1. *Id.* The '613 Application further teaches that

[w]ith individual machines, an example of which is shown in Fig. 6, implementing the embodiment of Fig. 1, each player has her own terminal 60. *An example is a video machine at a gaming establishment.* The banker hand 82 and player hands 84 are displayed on the player's video screen 62. *Prior to playing a game, the player inserts cash, a voucher, or a paper ticket, into a money reader 64 or swipes a credit card, debit card, or player card in a card reader 66.* The player presses the NEW button 68 and indicates the amount to wager for the game, typically by

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entering an amount on the keypad 70. *The player begins a game by pressing the HANDS button 78 and entering the player hands on which the player wishes to wager using the keypad 70 or a touch screen 62. If the player wishes to play the bonus wager, she presses the BONUS button 72 and indicates the amount to wager.* The player presses the PLAY button 74 to deal the cards. If the player played the bonus wager, the rank of the bonus hand comprised of the face up cards of the player hands is compared to the table 80 of ranked hands for the bonus wager. If the bonus hand rank is in the table 80, the winning amount is credited to the player and may be printed on a voucher 76 for payment by a cashier or they may be paid in coins or other monetary tokens by the terminal itself. After the bonus wager is settled, the base game is completed and any winnings are paid out in the same fashion.

Id. ¶ 40 (emphasis added). Based on this disclosure, we determine that the amendments proposed in substitute claim 13 are supported by the '613 Application.

2. Enlarging Claim Scope

As stated in 35 U.S.C. § 316(d)(3), an “amendment . . . may not enlarge the scope of the claims of the patent.” *See also* 37 C.F.R. § 42.221(a)(2)(ii) (“A motion to amend may be denied where . . . [t]he amendment seeks to enlarge the scope of the claims of the patent.”). “A substitute claim will meet the requirements of § 42.221(a)(2)(i) and (ii) if it narrows the scope of at least one claim of the patent, for example, the challenged claim it replaces, in a way that is responsive to a ground of unpatentability involved in the trial.” *Lectrosonics, Inc.*, slip op. at 6–7.

We determine that this requirement has been satisfied because substitute claim 13 depends from original cancelled claim 1 and further narrows the scope of original cancelled claim 1 by reciting the “steps of

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providing a video screen on which said plurality of player hands are displayed and providing a wager input mechanism through which said bonus wager is placed.” *See* Mot. Amend 5.

3. Responding to a Ground of Unpatentability

37 C.F.R. § 42.221(a)(2)(i) states that “[a] motion to amend may be denied where . . . [t]he amendment does not respond to a ground of unpatentability involved in the trial.”

In the Motion, Patent Owner does not provide a detailed explanation as to how the proposed amendments in substitute claim 13 respond to a ground of unpatentability. *See* Mot. Amend. 8. Patent Owner states:

The amendments add elements to claims 13 and 16 that are undisputedly physical in nature, eliminating any assertions that the claims are abstract matter.

Mot. Amend 9. Nevertheless, in Patent Owner’s Reply to Petitioner’s Opposition, Patent Owner provides responsive arguments that address § 101. Reply Amend 5–10.

In considering the motion, the entirety of the record is reviewed to determine whether a patent owner’s amendments respond to a ground of unpatentability involved in the trial. *Lectrosonics, Inc.*, slip op. 5–6. Based on the entirety of the record, including Patent Owner’s Reply, we determine that Patent Owner has sufficiently articulated its position for why the proposed amendment is responsive to the § 101 ground of unpatentability.

4. § 101 Eligibility of Proposed Substitute Claims 13 and 16

a. Guidance, Step 1

Under the *Guidance*, we first must determine “whether the claim is to a statutory category (Step 1).” *Guidance*, 84 Fed. Reg. at 53. Here, we

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determine substitute claim 13 depends from original claim 1 and recites a statutory process, namely the process of playing a game with a deck of cards. *See* Mot. Amend 5.

b. Guidance Step 2A, Prong 1: Whether Challenged Claims Recite an Abstract Idea

As discussed above, under *Guidance* Step 2A, we determine whether the claims are directed to an abstract idea. Petitioner argues that the proposed amendment does not add anything or modify the abstract idea underlying the issued claims of the '987 patent. Opp. Amend 13.

Patent Owner responds that substitute claim 13 recites a “video screen” and a “wager input mechanism,” which are machines that do not fit into the three judicial exceptions listed in the *Guidance*. Reply Amend 6 (“[T]he claims do not cover a mathematical concept, nor certain methods of organizing human behavior, nor mental processes.”).

Based on the entirety of the record, we agree with Petitioner that substitute claim 13 continues to recite rules for playing a wagering game, which is the same abstract idea recited in original claim 1. This is because proposed substitute claim 13 depends from original claim 1 and necessarily includes all the limitations recited in claim 1. Thus, claim 13 expressly recites a “method of playing a game with at least one deck of cards” with the steps (i.e., rules) of

- (a) affording a player the opportunity to place a bonus wager;
- (b) dealing out said cards to each of a plurality of hands;
- (c) forming a bonus hand from at least one of said cards from each of a subset of said plurality of hands;

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(d) identifying said player as a winning player if said player placed said bonus wager and said bonus hand has a predetermined rank; and

(e) paying said winning player a payout.

Ex. 1001, 6:57–67. As discussed above with respect to original claim 1, these limitations recite a set of rules for playing a bonus wagering game, which is a method of organizing human activity that may be understood as both a fundamental economic practice and rules for playing games, and thus an abstract idea. *Smith*, 815 F.3d at 818; *Guldenaar*, 911 F.3d at 1160; *see also Guidance*, 84 Fed. Reg. at 52 (identifying managing personal behavior or relationships/interactions between people (including following rules) as a certain method of organizing human activity considered to be an abstract idea).

Further, the additional limitation “wherein said hands are player hands” recited in substitute claim 13 also appeared in original claim 3. This limitation, as discussed above, recites an additional rule for gameplay, specifically that the “plurality of hands” recited in original claim 1 are “player hands.” Mot. Amend 5. Thus, we consider this limitation to be another rule for playing a game that falls within certain methods of organizing human activity (i.e., fundamental economic practice and managing interactions between people (following rules)).

Having identified the abstract idea recited in substitute claim 13, we turn now to Step 2A, Prong 2 of *Guidance* to discuss in detail whether the additional limitations of a “video screen” and “wager input mechanism” integrate the judicial exception into a practical application.

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c. Guidance Step 2A, Prong 2: Whether Challenged Claims Integrate the Abstract Idea into a Practical Application

Substitute claim 13 recites “the method further comprises the steps of providing a *video screen on which said plurality of player hands are displayed* and providing a *wager input mechanism through which said bonus wager is placed*.” Mot. Amend 5 (emphasis added).

Again, consistent with Supreme Court and Federal Circuit precedent, the *Guidance* provides that a claim reciting an abstract idea must be further analyzed to determine whether the recited judicial exception is integrated into a practical application of that exception. *Guidance*, 84 Fed. Reg. at 53. “A claim that integrates a judicial exception into a practical application will apply, rely on, or use the judicial exception in a manner that imposes a meaningful limit on the judicial exception, such that the claim is more than a drafting effort designed to monopolize the judicial exception.” *Id.* at 53. However, “[m]erely includ[ing] instructions to implement an abstract idea on a computer” and “merely us[ing] a computer as a tool to perform an abstract idea” are not “practical applications” under Step 2A, Prong 2. *Id.* at 55.

Petitioner asserts that the substitute claims do not improve the functioning of a computer or an existing technological process because the substitute claims introduce generic physical components for a generic environment in which to carry out the abstract idea. Opp. Amend 14 (citing *TLI*, 823 F.3d at 611).

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In its Reply, Patent Owner asserts that “the creation of the bonus hand with cards from other hands, represents an improvement to a device, such as a video poker type machine, providing an improved gaming experience on the device.” Reply Amend 8. Patent Owner further contends that the “wager input mechanism” is a special purpose device closely tied to the game outlined in the claim elements. Reply Amend 7 (citing Ex. 1001, 6:3, 6:21–23, Fig. 6. According to Patent Owner, “only a small subset of computing machines have ‘wager input mechanisms.’” Reply Amend 8 (citing Ex. 2013).

In considering Patent Owner’s arguments, we find instructive our reviewing Court’s guidance in *Enfish*, 822 F.3d 1327. In *Enfish*, the Federal Circuit articulated that *Alice*, Step 1, inquires “whether the focus of the claims is on the specific asserted improvement in computer capabilities (i.e., the self-referential table for a computer database) or, instead, on a process that qualifies as an ‘abstract idea’ for which computers are invoked merely as a tool.” *Enfish*, 822 F.3d at 1335–36 (citing *Alice*, 573 U.S. at 217, 220–24). The Federal Circuit rejected a § 101 challenge because the claims “are directed to a specific improvement to the way computers operate, embodied in the self-referential table.” *Id.* at 1336. The Federal Circuit further commented that

we are not faced with a situation where general-purpose computer components are added post-hoc to a fundamental economic practice or mathematical equation. Rather, the claims are directed to a specific implementation of a solution to a problem in the software arts.

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Id. at 1339; *see Elec. Power*, 830 F.3d at 1354 (characterizing the claims in *Enfish* as improving how computers carry out the “basic functions of storage and retrieval of data”).

Turning to substitute claim 13, we observe that the recited process is quite unlike the “self-referential table,” which was a “specific improvement to the way computers operate,” held to be not abstract in *Enfish*, 822 F.3d at 1336, and the “specific asserted improvement in computer animation, i.e., the automatic use of rules of a particular type” held to be not abstract in *McRO*, 837 F.3d at 1314. With regard to the “video screen,” substitute claim 13 only recites the step of “providing a video screen on which said plurality of player hands are displayed.” Substitute claim 13 does not recite any additional limitation regarding the video screen that would, for example, indicate a specific improvement to the way video screens operate, i.e., how video screens display information.

The Specification also does not teach any improvement to video screens. For example, Figure 6 of the '987 patent shows a video machine with video screen 62 with player hands 84 and banker hand 82. *See* Ex. 1001, 2:46–47. In describing the video screen, the '987 patent generally states “[t]he banker hand 82 and player hands 84 are displayed on the player’s video screen 62.” Ex. 1001, 6:19–20. Similarly, the '987 patent teaches, with regard to Figure 5, that “[a]s the game is being played, the hands are displayed on a video screen 98 or matrix of video screens visible to the players at the remote location 94 from information received from the central location 92.” *Id.* at 6:12–15. The '987 patent further contemplates that the game may be played using video poker-type machines, personal

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computers, hand-held devices, slot machines, over an on-line computer network.” *Id.* at 2:18–24. Throughout these passages, and the entire Specification, the ’987 patent does not teach that the “video screen” is anything beyond a general purpose/generic component that displays content. Indeed, the ’987 patent does not suggest that the video screen is improved from a technical perspective, or that it would operate differently than it otherwise could. *ChargePoint*, 920 F.3d at 768 (“Notably, however, the specification never suggests that the charging station itself is improved from a technical perspective, or that it would operate differently than it otherwise could.”).

Moreover, we note that Patent Owner does not dispute that the “video screen on which said plurality of player hands are displayed” is a general purpose component. In response to the question of whether a video screen is well-known in the gaming industry, Patent Owner’s counsel answered, “I’m not going to argue on the video screen. I want to stick to the wager input mechanism.” Tr. 25:11–14; *see id.* at 46:23–47:1.

Additionally, we find that substitute claim 13 also does not recite a “wager input mechanism” that is a special purpose device. *See* Reply Amend 7. Substitute claim 13 recites “providing a wager input mechanism through which said bonus wager is placed.” Substitute claim 13 does not recite any additional limitation regarding the “wager input mechanism” other than that it allows the placement of the bonus wager.

Although the term “wager input mechanism” is not used in the Specification, the ’987 patent describes several possibilities for inputting wagers. Referring to Figure 5, the ’987 patent teaches that in keno-style

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lottery system 90, a player makes her choice of player hands at remote location 94 by marking a slip of paper with the player hands she wishes to wager on, whether or not she wishes to play the bonus wager, and the wager amounts. Ex. 1001, 5:63–7:1. The player then “gives the slip to a clerk with the amount of the wager, who then *scans the slip into a terminal 96* that sends the choices to a central location 92.” *Id.* at 6:2–4 (emphasis added). The ’987 patent states that “[a]lternatively, *choices can be made from keys on a keyboard, keys on a key grid, or by boxes on a touch screen grid.*” *Id.* at 6:4–6 (emphasis added). Referring to Figure 6, the ’987 patent further teaches that each player has her own terminal 60 or video machine. *Id.* at 6:16–18. “Prior to playing a game, the player inserts cash, a voucher, or a paper ticket, into a *money reader 64 or swipes a credit card, debit card, or player card in a card reader 66.*” *Id.* at 6:20–23 (emphasis added). With the video machine, the “player presses the NEW button 68 and indicates the amount to wager for the game, typically by *entering an amount on the keypad 70.*” *Id.* at 6:23–25 (emphasis added). Additionally, “[i]f the player wishes to play the bonus wager, she presses the *BONUS button 72 and indicates the amount to wager.*” *Id.* at 6:28–30 (emphasis added). In sum, the ’987 patent describes scanners, keyboards, keys on a key grid, boxes on a touch screen, as well as money readers and card readers as wager input mechanisms for placing a bonus wager.

Patent Owner argues that keypads and keyboards are not wager input mechanisms because the “choices” described in columns 5 and 6 of the ’987 patent are not the same as wager input because no money is involved. *See* Tr. 27:14–22. Patent Owner contends that the player

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[g]ives the [keno] slip to a terminal, which can be read or alternatively the choices – the choices being which ones are the keno game are being chosen could be entered into the keyboard. That puts a context around that alternatively choices. It’s entering for a keno game which numbers you want to play on that card. That’s not the wager input. And the wager input mechanism has to be the card player and the insert of the bills.

Id. at 39:22–40:4.

We disagree with Patent Owner. The ’987 patent clearly describes the use of a keyboard or keypad as an alternative to scanning a slip of paper that contains the wager amount. Ex. 1001, 6:2–4. The ’987 patent states that the player “gives the slip to a clerk *with the amount of the wager*, who then scans the slip into a terminal 96 that sends the choices to a central location 92.” *Id.* (emphasis added). The ’987 patent further states that “[a]lternatively, *choices can be made from keys on a keyboard, keys on a key grid, or by boxes on a touch screen grid.*” *Id.* at 6:4–6 (emphasis added). The ’987 patent does not distinguish between the types of choices that may be made on the slip of paper versus through a keyboard or keypad. Additionally, the ’987 patent teaches that the player receives a receipt such as an indication on a private terminal, *indicating the hand or hands chosen for the game and if the bonus wager is played.* *Id.* at 6:8–12 (emphasis added). In other words, the receipt indicates the “choices” made by the player, including “if the bonus wager is played.” *See id.*

Further, we are not persuaded by Patent Owner that the ’987 patent distinguishes wager input from wager amount. *See* Tr. 43:21–44:13. Patent Owner takes the position that the insertion of cash into the money reader or card into the card reader is the *input* of wagers and the keys on the keypad 70 are used to enter the wager *amount*. *Id.* The ’987 patent does not provide

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such a distinction between these terms. For example, the '987 patent teaches “[p]rior to playing a game, the player inserts cash, a voucher, or a paper ticket, into a money reader 64 or swipes a credit card, debit card, or player card in a card reader 66.” Ex. 1001, 6:20–23. The '987 patent does not refer to the money or card reader as receiving or inputting a wager. Instead, the term “wager” appears later when the player presses NEW button 68 or BONUS button 72 to indicate the amount to wager. *Id.* at 6:23–30.

Additionally, Patent Owner’s arguments at the oral hearing are contradicted by its position in its briefs. In Patent Owner’s briefs, it took the position that the paper slip scanner is a “wager input mechanism,” specifically “[t]he ‘wager input mechanism is found throughout the specification, for instance see the '987 patent in column 6, line 3 ‘. . . scans the slip into the terminal 96’” Reply Amend 7. That disclosure teaches that the slip of paper contains “the amount of the wager.” Ex. 1001, 5:65–6:4 (“[A] player typically makes her choice of player hands at a remote location 94 by *marking a slip of paper with the player hands she wishes to wager on, whether or not she wishes to play the bonus wager, and the wager amounts. She gives the slip to a clerk with the amount of the wager, who then scans the slip into a terminal 96 that sends the choices to a central location 92.*”) (emphasis added). In short, Patent Owner relies on the scanning of slips containing *wager amounts* as an example of a “wager input mechanism,” even though, arguably, no cash, credit card, or money has been inserted into the scanner. Thus, based on the complete record, we determine that the term “wager input mechanism” includes general purpose computer

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components, such as a keyboard or keypad, which are generic computer tools for the input of the bonus wager.

Generic components such as the video screen and keyboard or keypad (i.e., wager input mechanism) do not integrate the judicial exception of substitute claim 13 in a practical application. As our reviewing court has observed, “after *Alice*, there can remain no doubt: recitation of generic computer limitations does not make an otherwise ineligible claim patent-eligible.” *DDR*, 773 F.3d at 1256 (citing *Alice*, 573 U.S. at 223).

Moreover, even assuming the recited “wager input mechanism” may be limited to money/card readers, we are not persuaded the addition of a money/card reader integrates the abstract idea into a practical application. *See* Reply Amend 8–9. Patent Owner does not dispute that card/money readers are generic or general purpose computer components. *See generally* Reply Amend 8; *see* Tr. 26:13–20. Patent Owner contends, instead, that a general purpose computer did not have card/money readers. Tr. 26:7–12; Reply Amend 8 (“Only a small subset of computer machines have ‘wager input mechanisms.’”). However, substitute claim 13, a method claim, does not require the “wager input mechanism” to be part of a computer, processor, other computer component, or video gaming machine. Substitute claim 13 recites the step of “providing a wager input mechanism through which said bonus wager is placed,” which broadly covers providing a standalone generic card/money reader that is not necessarily part of a general purpose computer.

For the foregoing reasons, based on the complete record, we determine that additional elements (“video screen” and “wager input

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mechanism”) of substitute claim 13, individually or in combination, are generic computer elements and are invoked merely as a tool for carrying out the rules of bonus wagering game. This is not sufficient to integrate the judicial exception into a practical application. *See Credit Acceptance Corp. v. Westlake Svcs.*, 859 F.3d 1044, 1055 (Fed. Cir. 2017) (The Federal Circuit finding abstract the claims for using a computer as a tool to process an application for financing a purchase).

Thus, based on our consideration of *Guidance*, Step 2A (Prongs 1 and 2), we determine that substitute claim 13 is directed to an abstract idea.

d. Guidance, Step 2B: Whether Challenged Claims Contain an Inventive Concept

Patent Owner argues that substitute claim 13 is significantly more than what was well-understood, routine, and conventional to a skilled artisan at the time of the invention based on arguments made in its Patent Owner’s Response to the Petition and in the Sur-Reply. Reply Amend 10. Setting aside whether Patent Owner may properly incorporate by reference arguments from its other briefs in this manner, we are not persuaded by Patent Owner’s arguments for the reasons discussed previously. *See supra* Section II.H.

Further, we reiterate that “[a]bstract ideas, including a set of rules for a game, may be patent-eligible if they contain an ‘inventive concept’ sufficient to ‘transform’ the claimed abstract idea into a patent-eligible application.” *In re Smith*, 815 F.3d at 819 (citing *Alice*, 134 S. Ct. at 2357). But appending purely conventional steps to an abstract idea does not supply a sufficiently inventive concept. *Alice*, 134 S. Ct. at 2357–58. And, per the *Guidance*, we consider whether an additional element or combination of

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elements: (1) “[a]dds a specific limitation or combination of limitations that are not well-understood, routine, conventional activity in the field, which is indicative that an inventive concept may be present;” or (2) “simply appends well-understood, routine, conventional activities previously known to the industry, specified at a high level of generality, to the judicial exception, which is indicative that an inventive concept may not be present.”

Guidance, 84 Fed. Reg. at 56.

Substitute claim 13 appends purely conventional steps of “providing a video screen on which said plurality of player hands are displayed and providing a wager input mechanism through which said bonus wager is placed.” Mot. Amend 5. Patent Owner concedes that displaying player hands on a video screen was well-known in the gaming industry at the time of the invention. Tr. 25:11–14, 42:23–47:1. Further, Patent Owner agreed at the oral hearing that every video poker machine in 2004 had a way to input money whether through credit card or cash. *Id.* at 45:18–46:1. As such, the dispute between the parties is focused on whether it was well-known, conventional, or routine for a video gambling machine to include a *card/money reader* as a particular type of “wager input mechanism.” *See id.* at 46:2–7. Patent Owner’s argument is based on a narrow reading of “wager input mechanism” that does not comport with the Specification, as discussed in detail above. “Wager input mechanism” includes keyboards, keypads, and touch screens in addition to card/money readers. There is no genuine dispute on this issue and we find that, these are conventional, well-known, and routine computer components that do not add significantly more to the claimed elements. *See Voter Verified, Inc. v. Election Sys. & Software LLC*,

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887 F.3d 1376, 1386 (Fed. Cir. 2018) (noting that a keyboard is a standard computer component, which is “not sufficient to transform abstract claims into patent-eligible subject matter”). Moreover, substitute claim 13 is a method claim that does not recite a video gaming machine with a wager input mechanism. Mot. Amend 5. The substitute claim requires the step of providing a “wager input mechanism,” which is satisfied by providing a card/money reader that is not necessarily part of a video gaming machine or any other computer.

Accordingly, we determine that the additional limitations of substitute claim 13, viewed individually or in combination, recite well-understood, routine, conventional steps and components for playing a wagering game. The same applies to substitute claim 16, which is nearly identical to substitute claim 13 except that the video screen displays player hands and at least one banker hand. Mot. Amend 5.

C. Proposed Substitute Claims 14, 15, 17, and 18

Patent Owner asserts that proposed substitute claims 14, 15, 17, and 18 do not enlarge the scope of the originally issued claims 1–12, are supported by the specification, and are responsive to the grounds of unpatentability involved in the proceeding. Mot. Amend. 8–9. Based on the entirety of the record, we agree that Patent Owner has satisfied the procedural requirements under 35 U.S.C. § 326(d) and 37 C.F.R. § 42.221.

With regard to § 101 eligibility of proposed substitute claims 14, 15, 17, and 18, Patent Owner does not make additional arguments separate from those discussed above for substitute claims 13 and 16. Mot. Amend 6–9; Reply Amend 5–10. Further, the only proposed amendments amend original

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claims 4 and 5 to depend from substitute claim 13, and original claims 7 and 8 to depend from claims 17 and 18. Mot. Amend 5. Therefore, we determine that the recited elements of substitute claims 14, 15, 17, and 18 are unpatentable by a preponderance of the evidence, under § 101, for the same reasons discussed for substitute claims 13 and 16.

V. CONCLUSION

Accordingly, Petitioner has met its burden of demonstrating that the '987 patent is a covered business method patent eligible for review. Petitioner has also met its burden of demonstrating by a preponderance of the evidence that claims 1–12 of the '987 patent are unpatentable under 35 U.S.C. § 101. Further, based on the entirety of the record, we determine that proposed substitute claims 13–18 are unpatentable by a preponderance of the evidence based on 35 U.S.C. § 101.

This is a Final Written Decision of the Board under 35 U.S.C. § 328(a). Parties to the proceeding seeking judicial review of this decision must comply with the notice and service requirements of 37 C.F.R. § 90.2.

VI. ORDER

For the reasons given, it is:

ORDERED that claims 1–12 of the '987 patent are unpatentable; and
FURTHER ORDERED that Patent Owner's Motion to Amend is denied.

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Paper 49
Entered: November 20, 2019

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

BALLY GAMING, INC., DBA BALLY TECHNOLOGIES,
Petitioner,

v.

NEW VISION GAMING & DEVELOPMENT, INC.
Patent Owner.

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Patent No. 7,451,987 B1

Before FRANCES L. IPPOLITO, KEVIN W. CHERRY, and
CHRISTOPHER G. PAULRAJ, *Administrative Patent Judges*.

IPPOLITO, *Administrative Patent Judge*.

DECISION

*Denying Request on Rehearing of Final Written Decision Determining that
Challenged Claims are Unpatentable
37 C.F.R. § 42.71(d)*

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I. INTRODUCTION

Patent Owner filed a Request for Rehearing (Paper 48, “Reh’g Req.” or “Rehearing Request”) asserting that in the Final Written Decision (Paper 47, “FWD”), the Board “misapprehended or overlooked key portions of the Record.” Reh’g Req. 1. In that Final Written Decision, we determined that claims 1–12 (“instituted claims”) of U.S. Patent No. 7,451,987 B1 (Ex. 1001, “the ’987 patent”) are unpatentable. FWD 3, 66.

Under 37 C.F.R. § 42.71(d), “[t]he burden of showing a decision should be modified lies with the party challenging the decision. The request must specifically identify all matters the party believes the Board misapprehended or overlooked, and the place where each matter was previously addressed in a motion, opposition, or a reply.”

For the reasons provided below, we deny Patent Owner’s Request for Rehearing.

II. ANALYSIS

A. *Forum Selection Clause*

Patent Owner contends that it is “clear error” for the Board to refuse to enforce the Forum Selection Clause between the parties because the Board’s decision “overlooks key aspects of the Record.” Reh’g Req. 5. Patent Owner asserts that the FWD and the Decision on Institution (Paper 19) never states that the Forum Selection Clause is invalid or does not apply, and that the “sole assertion in the Decision is that the Patent Owner did not enjoin the USPTO to follow the law.” *Id.* at 6. Patent Owner further contends that the text of the Settlement Agreement (Exhibit 2005) is exclusive and requires that only the Nevada courts can resolve the dispute. *Id.* (citing Patent Owner’s Preliminary Response (Paper 6, “Prelim. Resp.”))

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and Patent Owner's Sur-Reply to the Preliminary Response (Paper 18, "Prelim. Resp. Sur.")). Additionally, Patent Owner argues that the FWD failed to consider the Supreme Court's decision in *M/S Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1 (1972) and a district court's decision in *Callaway Golf Co. v. Acushnet Co.*, 523 F. Supp. 2d 388 (D. Del. 2007). Patent Owner also asserts that the Board should have interpreted the Settlement Agreement and, further, "the USPTO should have required that Bally seek permission from the Nevada District Court to proceed in the PTAB against the plain language of the Settlement Agreement, or denied institution outright. Such permission was never sought, and the institution should never have occurred." Reh'g Req. 8.

To start, we do not agree with Patent Owner that the rehearing request on this particular issue is timely. Patent Owner has argued that "the institution should never have occurred" and that institution should have been denied outright. *Id.* However, our Decision on Institution (Paper 19, "Dec.") was entered on June 22, 2018. Any request for rehearing of our determinations regarding the forum selection clause in that Decision should have been filed 14 days from the entry of that decision. 37 C.F.R. § 42.71(d)(1). As we noted in the FWD, after institution of the covered business method patent review ("CBM review"), the parties did not present any additional evidence or arguments regarding the forum selection clause issue. FWD 8 ("In the post-institution briefing, neither party has added arguments or evidence to the record regarding this issue."). Indeed, the Patent Owner's Response (Paper 28, "PO Resp.") and Sur-Reply (Paper 39, "Sur.") and Petitioner's Reply (Paper 31, "Reply") did not discuss forum selection. For completeness and clarity of the record, we reiterated our

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determination in the Decision on Institution that

[b]ased on the preliminary record, we observed that Patent Owner had not identified any controlling authority—such as by statute, rule, or binding precedent—that would require us to deny institution of a covered business method patent review based on contractual estoppel. Dec. 8–11. For example, section 18 of the America Invents Act (AIA) defines a CBM proceeding as following the standards and procedures of post-grant review with the exception of §§ 321(c), 325(b), 325(e)(2), 325(f). With respect to the procedures of post-grant review, we noted that chapter 32 provides requirements for, among other things, the contents of a petition (§ 322), the threshold showing required for institution of a post-grant review (§ 324), and the conduct of the post-grant review (§ 326). *Id.* We did not agree with Patent Owner that any portion of chapter 32, § 18 of the AIA, or authority otherwise, explicitly provides for a contractual estoppel defense. *See id. In the post-institution briefing, neither party has added arguments or evidence to the record regarding this issue.*

FWD 7–8 (emphasis added). Thus, Patent Owner’s quarrel now is one with the past determinations made in the Decision on Institution for which the deadline for rehearing has long expired. Nonetheless, in the interest of maintaining a complete record, we address Patent Owner’s arguments below.

First, Patent Owner mischaracterizes the FWD as relying on the “sole assertion . . . that the Patent Owner did not enjoin the USPTO to follow the law.” Reh’g Req. 6. The FWD (and the Decision on Institution) provided several reasons for our determination, including, as quoted above, that Patent Owner had not identified any controlling authority that would require us to deny institution of a covered business method patent review based on contractual estoppel. FWD 7–8. Further, we determined that “[t]he Board is neither bound by the party’s Agreement, nor do we have independent

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jurisdiction to resolve any contractual dispute between the parties over the forum selection clause in that Agreement.” *Id.* We additionally addressed *Dodocase VR, Inc. v MerchSource, LLC*, No. 17-cv-07088-EDL, 2018 WL 1475289 (N.D. Cal. Mar. 26, 2018), which the Federal Circuit affirmed in *Dodocase VR, Inc. v. MerchSource, LLC*, 767 F. App’x 930, 935–36 (Fed. Cir. 2019) (non-precedential) (collectively referred to as “*Dodocase*”), on the basis that “unlike the facts and procedural posture of that case, we do not have before us any court order requiring the Petition in this proceeding to be withdrawn.” *Id.* at 8. Thus, we are not persuaded that we overlooked any evidence or argument in the record on this basis.

Second, given the particular circumstances before us, we do not agree with Patent Owner that we are or were required to: (1) interpret the Settlement Agreement (Exhibit 2005); (2) determine the forum selection clause is exclusive and requires that only the Nevada courts can resolve the dispute; (3) order Petitioner to seek permission from the Nevada District Court to proceed in the PTAB against the plain language of the Settlement Agreement;” or (4) deny institution. Reh’g Req. 6–8. This is because, even assuming as Patent Owner argues (*id.* at 6), that we interpret the *exclusive* forum selection clause as being “far broader and more definitive than the forum selection clause in the *Dodocase*,” the fact remains that the decision in the *Dodocase* is inapposite for the reasons we have explained in our FWD. That is, there, the district court ordered the parties to withdraw the petition filed with the Board. Ex. 1027, 24. Those facts are very different from the ones before us in the instant proceeding where no decision by a federal district court required the parties to withdraw the petition. Even Patent Owner acknowledges that “[c]urrent case law permits District Courts

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to enforce venue selection clauses against the PTAB through injunction, making it unlikely that the PTAB will have the opportunity to find any claims in the ‘987 patent unpatentable.” Prelim. Resp. Sur. 5 (emphasis added). In this way, Patent Owner agrees that *Dodocase* stands for the proposition that the *district court*, not the Board, may issue an injunction requiring the parties to withdraw the petition. Yet, no district court injunction was at issue here.

More importantly, Patent Owner, again, has not identified any *controlling* authority that requires the Board to deny institution of a CBM review based on contractual estoppel. The FWD explains that

section 18 of the America Invents Act (AIA) defines a CBM proceeding as following the standards and procedures of post-grant review with the exception of §§ 321(c), 325(b), 325(e)(2), 325(f). With respect to the procedures of post-grant review, we noted that chapter 32 provides requirements for, among other things, the contents of a petition (§ 322), the threshold showing required for institution of a post-grant review (§ 324), and the conduct of the post-grant review (§ 326). *Id.* We did not agree with Patent Owner that any portion of chapter 32, § 18 of the AIA, or authority otherwise, explicitly provides for a contractual estoppel defense. *See id.*

FWD 7–8. None of these statutory provisions expressly grant us the authority to enforce contractual obligations between the parties such as by ordering Petitioner to comply with the forum selection clause (e.g., ordering Petitioner to seek permission from the Nevada district court to file a petition), or awarding damages to either party for breach of contract disputes. Thus, the parties are not at liberty to seek from us, nor do we have the capacity to grant, relief that is outside the contours of the statutory authority given by Congress for CBM review. *See Killip v. Office of Personnel Mgmt.*, 991 F.2d 1564, 1569 (Fed. Cir. 1993) (“An agency is but a

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creature of statute. Any and all authority pursuant to which an agency may act ultimately must be grounded in an express grant from Congress.”).

Additionally, Patent Owner’s reliance on the decisions in *Bremen* and *Callaway* is misplaced. In *Bremen*, the Supreme Court rejected the district court’s ruling that a forum selection clause was unenforceable as a matter of public policy, determined that the lower court had given “far too little weight and effect” to the forum selection clause, upheld the clause, and designated “the London Court of Justice” as the site for all disputes. *Bremen*, 407 U.S. at 1912. In doing so, the Supreme Court observed that “[t]he threshold question is whether that court should have exercised its jurisdiction to do more than give effect to the legitimate expectations of the parties, manifested in their freely negotiated agreement, *by specifically enforcing the forum clause.*” *Id.* at 1914 (emphasis added). However, as discussed, our CBM review does not seek to resolve contractual disputes or enforce contractual obligations, and is, instead, focused on reviewing the patentability of the challenged claims. *See* 35 U.S.C. § 328(a) (“FINAL WRITTEN DECISION.—If an inter partes review is instituted and not dismissed under this chapter, *the Patent Trial and Appeal Board shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner and any new claim added under section 326(d)*”) (emphasis added); *see also* 35 U.S.C. § 324 (a) (“THRESHOLD.—The Director may not authorize a post-grant review to be instituted unless the Director determines that the information presented in the petition filed under section 321, if such information is not rebutted, would demonstrate that it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable.”). Thus, we are not persuaded that the *Bremen*

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decision’s discussion of the district court’s review and enforcement of contractual obligations applies in a CBM review where Patent Owner has not shown that the panel has comparable authority to resolve contract disputes.

Next, although, *Callaway* is a non-binding district court decision, we nevertheless observe that the circumstances in *Callaway* support our determination. In *Callaway*, the district court reviewed and decided a breach of contract dispute between the parties. The district court determined Acushnet had breached the contract by seeking an *inter partes* reexamination:

[t]he Agreement expressly provides that “[a]ny dispute arising out of or relating to patents” be resolved by the procedures set forth therein, which are “the sole and exclusive procedure[s] for the resolution of any such dispute.” (D.I. 199, ex. 1 at § 19.1) These procedures included mediation and litigation in this district;[] reexamination proceedings are not listed as a possible alternative and, therefore, are precluded as possible remedies to any disputes involving the Sullivan patents.[] (*Id.* at §§ 19.5–19.7) There is no need for the court to determine whether an *inter partes* reexamination is a “legal proceeding,” insofar as defendant breached the Agreement in any event: *If it is a legal proceeding, defendant breached by filing a legal proceeding in the wrong forum; if it is not, defendant breached because the Agreement only allows for legal proceedings.*

Callaway, 523 F. Supp. 2d at 405–06 (emphasis added, footnotes omitted); *see id.* at 407 (“[B]ased upon the foregoing discussion, *defendant violated the Agreement* by filing the *inter partes* reexaminations to contest the validity of the Sullivan patents.”) (emphasis added). The district court granted *Callaway*’s motion for summary judgment of breach of contract. *Id.* at 407. Again, for a CBM review, the Board does not have the authority to enforce a contract (e.g., ordering a party to perform obligations) or to resolve

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breach of contract disputes (e.g., determining a breach has occurred). Thus, to the extent that Patent Owner seeks this relief, it must obtain that relief from the district court.¹

Finally, we are not persuaded that the Petition should have been denied “outright” as Patent Owner proposes. Reh’g Req. 8. Again, Patent Owner has not identified any authority that provides a contractual estoppel defense in a CBM review. Moreover, Congress has demonstrated that it will provide expressly for equitable defenses if desired and has provided for estoppel based on a party’s previous challenge to the same patent. *See* 35 U.S.C. § 325(e). But Congress did not provide for contractual estoppel as a defense to unpatentability in an AIA proceeding.

B. Covered Business Method Patent Review Standing

Patent Owner asserts that our FWD ignores a precedential decision in *Global Tel*Link Corp. v. Securus Technologies, Inc.*, Case CBM2014-00166, Paper 17 at 7 (PTAB Feb. 6, 2015). Reh’g Req. 9–10 (“The Decision ignores the *Global Tel*Link* precedent, cited in the Patent Owners Preliminary Response Sur-Reply at p. 12, and arbitrarily and capriciously finds a charge of infringement upon which they instituted this CBM.”).

Initially, we observe that though the decision in *Global Tel*Link* may be instructive, contrary to Patent Owner’s assertion, that decision has not been designated precedential. Moreover, taking into consideration the discussion by the panel in *Global Tel*Link*, we are not persuaded that our determination misapprehended or overlooked any arguments or evidence in

¹By granting institution and proceeding to the FWD, we have not made any determination on whether Petitioner’s actions breach the parties’ Settlement Agreement.

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the record. For example, the panel there determined that the “Petitioner ha[d] not demonstrated sufficiently that it satisfies the standing requirements to file its Petition under 37 C.F.R. § 42.304(a) and, therefore, *den[ied]* institution of a covered business method patent review.” *Global Tel*Link Corp.*, Paper 17 at 2. In contrast, we discussed at length in the FWD how Petitioner provided sufficient evidence for standing in this proceeding. Specifically, we applied *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007) and determined the particular factual circumstances of the parties’ past relationship regarding allegations of infringement, the Settlement Agreement (Ex. 2006), and the parties’ current dispute of the same Agreement in district court (events that had all taken place by the time of the CBM filing) to be sufficient to establish that there was a substantial controversy between the parties sufficient to establish Petitioner’s CBM patent review standing under relevant case law. FWD 8–11; Dec. 13–19. Thus, we do not agree that our FWD “arbitrarily and capriciously” found a charge of infringement.

C. Abstract Idea

Patent Owner further argues that the FWD misapplies *Alice* to the facts. Patent Owner asserts first that the FWD’s articulation of the abstract idea is contrary to the parties’ agreement in the record and in the Institution Decision. Specifically, Patent Owner contends that it did not have an opportunity to defend against the Board’s change of the abstract idea from “allowing bonus wagers in a wagering game” to “rules for playing a bonus wagering game.” Reh’g Req. 10–11.

To Patent Owner’s point, the FWD phrased the same abstract idea slightly differently by including “rules for playing” the bonus wager game in

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the abstract idea. Nonetheless, we are not persuaded that this is clear error or deprived Patent Owner of the opportunity to defend its position. Indeed, Patent Owner does not explain *why* the “rules for playing a bonus wagering game” is substantively different from “allowing bonus wagers in a wagering game,” or, more importantly, the basis for Patent Owner’s contention that this is a “fundamental change.” *See* Reh’g Req. 11.

Indeed, there can be no doubt that from the very start of this proceeding, the issue at the heart of the patent eligibility dispute between the parties is whether the challenged claims recite significantly more than the rules for playing a bonus wagering game (i.e., allowing bonus wagers in a wagering game). For example, in the Decision on Institution, we explained that challenged claim 1 is expressly directed to a “method of playing a game with at least one deck of cards” with the steps of placing a bonus wager (step (a)), forming a bonus hand (step (c)), identifying a winner of the bonus wager (step (d)), and paying the winner (step (e)). Ex. 1001, claim 1. Dec. 27. Further, we noted that the specification describes the mechanics of gameplay by providing

the rules with which the game will be played, including, for example, the base game, the number of player and banker hands, the number of bonus hands, the cards that are dealt face up, the cards used for the bonus hands, the rank of winning bonus hands, the type of bonus wager, and how winning bonus hands are paid.

Dec. 28 (quoting Ex. 1001, 3:33–39). Thus, we have said from the start and to the end that the challenged claims at issue involve *rules* for gameplay. *Id.*; FWD 23–26.

Further, in our analysis in both the Decision on Institution and FWD, we provided detailed discussions regarding the parties’ respective

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contentions related to *In re Smith*, 815 F.3d 816, 817–18 (Fed. Cir. 2016). Dec. 28–30; FWD 23–26. We noted that in *Smith*, the Federal Circuit determined that

Applicants’ claims, directed to rules for conducting a wagering game, compare to other “fundamental economic practice[s]” found abstract by the Supreme Court. *See id.* As the Board reasoned here, “[a] wagering game is, effectively, a method of exchanging and resolving financial obligations based on probabilities created during the distribution of the cards.” J.A. 15. In *Alice*, the Supreme Court held that a method of exchanging financial obligations was drawn to an abstract idea. 134 S. Ct. at 2356–57. Likewise, in *Bilski*, the Court determined that a claim to a method of hedging risk was directed to an abstract idea. 561 U.S. at 611 Here, *Applicants’ claimed “method of conducting a wagering game” is drawn to an abstract idea* much like *Alice’s* method of exchanging financial obligations and *Bilski’s* method of hedging risk.

Dec. 29–30 (emphasis added) (citing *Smith*, 815 F.3d at 818–19); *see* FWD 24–26 (discussing the same portions of *Smith*). We determined also that the challenged claims in this proceeding were analogous to those at issue in *Smith*, which recited “rules for conducting a wagering game.” FWD 26. Moreover, we observe that even in *Smith*, the Federal Circuit agreed that the “method of conducting a wagering game” implicates the same abstract idea as “rules for conducting a wagering game.” *Smith*, 815 F.3d at 818–19.

Given the complete record, Patent Owner has not explained persuasively why the challenged claims are not directed to “rules for playing a bonus wagering game” or “allowing bonus wagers in a wagering game.” In fact, the discussion provided in the FWD would be the same under either articulation of the same abstract idea. Thus, we do not agree that our FWD changed theories in midstream or otherwise deprived Patent Owner of an

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opportunity to defend itself. *See* Reh’g Req. 11.

D. Federal Circuit Decisions

Patent Owner further argues that it did not have an opportunity to address the Federal Circuit decisions in *BSG Tech LLC v. BuySeasons, Inc.*, 899 F.3d 1281 (Fed. Cir. 2018) and *ChargePoint, Inc. v. SemaConnect, Inc.*, 920 F.3d 759 (Fed. Cir. 2019) that were cited in the FWD. Reh’g Req. 12. Yet, Patent Owner has not argued that it was not aware of these precedential Federal Circuit decisions, and acknowledges that “*BSG* is just another case referred to in the Revised Guidance as one of numerous decisions [issued by the Federal Circuit] identifying subject matter as abstract or non-abstract in the context of specific cases, and that number is continuously growing.” *Id.*

Further, Patent Owner has not explained persuasively why our FWD may not cite to applicable precedential decisions issued by our reviewing court. *See* Reh’g Req. 14 (“Reliance on *ChargePoint* and *BSG* is clear error and contrary to USPTO policy (and thus a violation of the APA).”). Thus, we are not persuaded of error on this basis.). The *2019 Revised Patent Subject Matter Eligibility Guidance* (“Guidance”) does not require us to depart from the 101 analysis provided by precedent. Rather, the “USPTO . . . aims to clarify the analysis *[i]n accordance with judicial precedent* and in an effort to improve consistency and predictability[.]” Guidance, 84 Fed. Reg. 50, 52 (Jan. 7, 2019).

For rehearing, Patent Owner argues for the first time that the Federal Circuit’s decision in *Cellspin Soft, Inc. v. Fitbit, Inc.*, 927 F.3d 1306 (Fed. Cir. 2019) provides an opposing interpretation of the *BSG* decision. The *Cellspin* decision was issued on June 25, 2019, after our FWD was entered on June 19, 2019. As such, we could not have misapprehended or

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overlooked case law that had not been issued by the Federal Circuit, or submitted and argued by the parties in this proceeding.

Even considering *Cellspin*, we are not persuaded of any error in the FWD. *Cellspin* quotes *BSG* for the proposition that “[i]f a claim’s only ‘inventive concept’ is the application of an abstract idea using conventional and well-understood techniques, the claim has not been transformed into a patent-eligible application of an abstract idea.” *Cellspin*, 927 F.3d at 1316 (quoting *BSG*, 899 F.3d at 1290–91). In the FWD, we explained that the challenged claims used conventional and well-understood techniques, i.e., rules for playing a game. FWD 40–46 (citing Ex. 1001, 1:31–44, 2:55–3:3). In view of this disclosure, we determine that the ’987 patent expressly acknowledges that any allegedly inventive concepts involving (a) placing a bonus wager; (b) dealing out cards to each player; (c) forming the bonus hand; (d) identifying a winning player; and (e) paying the winning player were merely well-understood, routine, and conventional steps for playing a card game.

Thus, for the reasons above, we are not persuaded that we have misapprehended or overlooked evidence based on these arguments.

Additionally, Patent Owner contends that we ignored Patent Owner’s argument that *Smith* is not on point and is irrelevant in the *Alice*, Step 2B analysis. Reh’g Req. 16–17. We disagree with Patent Owner’s reading of the FWD. We considered Patent Owner’s many arguments regarding *Smith* on pages 28–31 of the FWD. For example, on page 31 of the FWD, we determined that

Patent Owner argues that *Smith* is distinguishable because it is an *ex parte* appeal decision, which is different from an issued patent where the patent examiner determined that the patent

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application recited allowable patent-eligible subject matter. PO Resp. 19–20; *see* Sur. 8. Patent Owner has not explained why this difference matters for the patent-eligibility inquiry that we must conduct here. *See id.* We decline to speculate on the basis for Patent Owner’s position. Rather, we observe that the § 101 inquiry is the same regardless of whether it is addressed in the context of examination, as in *Smith*, or in the context of a contested proceeding over an issued patent, as in the case here. Thus, we are not persuaded that *Smith* is distinguishable merely because our § 101 inquiry arises in a CBM patent review of an issued patent.

FWD 31.

Thus, for the reasons above, we are not persuaded that we have misapprehended or overlooked evidence based on these arguments.

E. Significantly More

Patent Owner further argues that

[t]he claims of the ‘987 patent add “forming a bonus hand from at least one of said cards from each of a subset of said plurality of hands.” This element is significantly more than the defined skilled artisan would consider well-understood, routine, and conventional in 2004, as supported by the unrefuted evidence provided by Patent Owner (see PO Response at 16-18, PO Sur-Reply p 5-6). The evidence of what is well-understood, routine, and conventional in 2004 is found in the prosecution history of US Patent 7,325,806 (the ‘806 patent), where the Examiner states “closest prior art of reference was Malcolm. His teachings however fail to anticipate or render obvious applicant’s invention.” The Decision states that bonus hands were well-known at the time of the invention, *but nowhere in the Decision does it state that “forming only one bonus hand from at least one of said cards from each of a subset of said plurality of hands” was well-known.*

Reh’g Req. 15–16 (emphasis added).

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We disagree with Patent Owner’s reading of our FWD. First, as discussed above, we explained that the challenged claims use conventional and well-understood techniques, i.e., rules for playing a game. FWD 40–46; *see id.* at 43–44 (“[T]he Examiner’s reasons for allowance are directed to novelty and nonobviousness, not eligibility. But the fact that the claims may be novel or nonobvious, thereby meeting the patentability requirements of § 102 and § 103, has no bearing on whether the challenged claims are patent-eligible under § 101.”). In view of this disclosure, we determine that the ’987 patent expressly acknowledges that any allegedly inventive concepts involving (a) placing a bonus wager; (b) dealing out cards to each player; (c) forming the bonus hand; (d) identifying a winning player; and (e) paying the winning player were merely well-understood, routine, and conventional steps for playing a card game.

Further, we explained that “each of the steps of claim 1, including Step C and Step D relied upon by Patent Owner to argue the claims add ‘significantly more’ than just the abstract idea, are part of the rules of the wagering game using a generic deck of cards.” *Id.* at 42. In this way, the challenged claims are similar to those at issue in *Smith* because “[t]he wagering game claimed in *Smith*, reciting rules for a wagering game that use a standard deck of cards, was held to be an abstract idea.” *Id.* (citing *Smith*, 815 F.3d [at] 819.). The Federal Circuit determined in *Smith* that the “shuffling and dealing a standard deck of cards are ‘purely conventional’ activities” that do render the claims patent eligible. *Smith*, 815 F.3d at 819. As discussed in the FWD, the same rationale applies here where Step C is a

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conventional activity of gameplay that involves the forming of a bonus hand. For these reasons, we are not persuaded we overlooked or misapprehended evidence or arguments on this basis.

III. CONCLUSION

Based on the foregoing, Patent Owner fails to show that the Final Written Decision overlooks or misapprehends a matter previously addressed by Patent Owner.

IV. ORDER

For the reasons given, it is ORDERED that the Patent Owner's Rehearing Request is *denied*.

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Paper 19
Entered: June 22, 2018

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

BALLY GAMING, INC., DBA BALLY TECHNOLOGIES,
Petitioner,

v.

NEW VISION GAMING & DEVELOPMENT, INC.
Patent Owner.

Case CBM2018-00006
Patent No. 7,451,987 B1

Before FRANCES L. IPPOLITO, KEVIN W. CHERRY, and
CHRISTOPHER G. PAULRAJ, *Administrative Patent Judges*.

IPPOLITO, *Administrative Patent Judge*.

DECISION
Institution of Covered Business Method Patent Review
37 C.F.R. § 42.208

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I. INTRODUCTION

Petitioner, Bally Gaming, Inc., DBA Bally Technologies, filed a Petition seeking a covered business method (“CBM”) patent review of U.S. Patent No. 7,451,987 B1 (Ex. 1001, “’987 patent”), pursuant to § 18 of the Leahy-Smith America Invents Act (“AIA”) . In the Petition (Paper 2, “Pet.”), Petitioner challenges claims 1–12 of the ’987 patent. Pet. 24–29. Patent Owner, New Vision Gaming & Development, Inc., filed a Preliminary Response (Paper 6, “Prelim. Resp.”) opposing institution of a review. Following authorization by the panel (Paper 10), Petitioner filed a Reply (Paper 13, “Reply”) to the Patent Owner’s Preliminary Response and Patent Owner filed a Sur-Reply (Paper 18, “Sur-Reply”) to Petitioner’s Reply.

We have authority under 35 U.S.C. § 324. Under 35 U.S.C. § 324(a), “[t]he Director may not authorize a post-grant review to be instituted unless the Director determines that . . . it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable.”

On the current record, Petitioner demonstrates sufficiently that the ’987 patent is a covered business method patent, and that it is more likely than not that claims 1–12 are unpatentable under 35 U.S.C. § 101 as directed to non-statutory subject matter. Therefore, we institute a CBM patent review for claims 1–12 of the ’987 patent based upon Petitioner’s challenge.

A. *Related Matters*

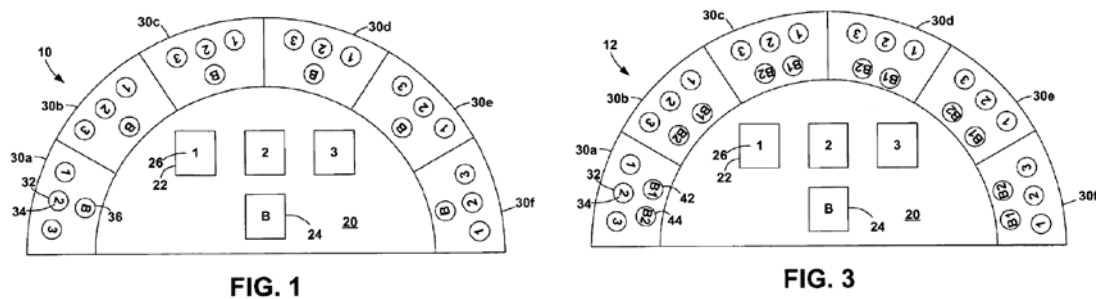
The parties represent that they are involved in a lawsuit alleging a breach of an existing patent license agreement in *New Vision Gaming &*

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Development, Inc. v. Bally Gaming, Inc., 2:17-cv-1559 (D. Nev. June 2, 2017) (“Nevada Suit”). Pet. 7–9; *see* Prelim. Resp. 4.

B. The '987 Patent

The '987 patent is directed generally to a method of playing a bonus wager in a card game. Ex. 1001, (54). The '987 patent further describes the invention as “a bonus wager based on a bonus hand composed of a face up card from each hand of a group of hands of a base [card] game.” Ex. 1001, 2:51–53. Referring to Figures 1 and 3 (reproduced below), the '987 patent teaches that on playing surfaces 10, 12, central dealer position 20 has a plurality of player hand locations 22, one for each player hand to be dealt. *Id.* at 3:41–51.



Figures 1 and 3 show a table layout of a game with three player hands and one banker hand. *Id.* at 2:34–36, 38–40.

As shown in Figures 1 and 3, dealer position 20 has banker hand location 24 for the one banker hand. *Id.* at 3:50–53. Symbols 26 at each player hand location 22 are the player hand identifiers, which are typically numerals running sequentially from “1”. *Id.* at 3:53–55. According to these figures, “[e]ach player position 30 includes a symbol 32 containing a player

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hand identifier 34 corresponding to each player hand location 22. Ex. 1001, 3:58–60. The '987 patent provides that the example of Figure 1 has a single bonus wager symbol 36 for one bonus and the example of Figure 3 as two bonus wager symbols 42, 44 for two bonuses. Ex. 1001, 3:64–67.

To play the game, each player chooses the player hand or hands that she thinks will beat the banker hand in the base game. Ex. 1001, 4:1–3.

Figure 2 is provided below to better illustrate the described game.

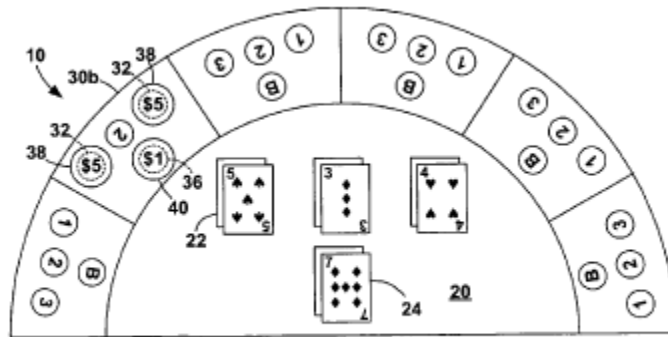


FIG. 2

In Figure 2, the selections are made by placing the amount to be wagered on the corresponding player hand identifier symbol 32 of the player position 30. *Id.* at 4:3–5. The wagered amount is indicated by any marker or markers that acceptably signify value, such as cash, chips, or credit vouchers. *Id.* at 5:2–7. In the example of Figure 2, the player at the second player position 30b (player 2) has placed a \$5 chip 38 on each identifier symbol 32 for player hands 1 and 3, wagering that player hands 1 and 3 will beat the dealer hand. Ex. 1001, 4:7–11.

To participate in a bonus wager, the player places the amount to be wagered on the appropriate bonus wager location. Ex. 1001, 4:15–18. After

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all wagers are placed, the dealer deals out the predetermined number of hands. *Id.* at 4:31–32. The bonus hand of the present invention is composed of at least one card from each player hand. Ex. 1001, 4:41–42. Optionally, the bonus hand is composed of at least one card from each player hand and the banker hand(s). Ex. 1001, 4:53–54. The bonus hand may be compared to a table of ranked hands to determine whether the bonus hand is a winning hand and the player placing a bonus wager is a winner. Ex. 1001, 5:5–7.

C. Illustrative Claim

Of the challenged claims 1–12, claim 1 is independent. Independent claim 1, reproduced below, is illustrative of the claimed subject matter:

1. A method of playing a game with at least one deck of cards, said game comprising the steps of:

(a) affording a player the opportunity to place a bonus wager;

(b) dealing out said cards to each of a plurality of hands;

(c) forming a bonus hand from at least one of said cards from each of a subset of said plurality of hands;

(d) identifying said player as a winning player if said player placed said bonus wager and said bonus hand has a predetermined rank; and

(e) paying said winning player a payout.

D. The Asserted Ground

Petitioner contends claims 1–12 of the '987 patent are unpatentable under 35 U.S.C. § 101 as directed to non-statutory subject matter. Pet. 24–29.

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E. Claim Construction

Petitioner proposes constructions for the terms “wager,” “payout,” “card,” “deck of cards,” and “hand.” Pet. 21–22. For the purposes of this Decision, we determine that no express claim construction of any claim term is necessary. *See Vivid Techs., Inc. v. Am. Sci. & Eng’g, Inc.*, 200 F.3d 795, 803 (Fed. Cir. 1999) (Only terms in controversy must be construed and only to the extent necessary to resolve the controversy).

II. MANDATORY NOTICES

As an initial matter, Patent Owner asserts that institution should be denied because the Petition is incomplete and defective. Prelim. Resp. 4–5, 9–11. Specifically, Patent Owner argues the Petition failed to list the Nevada Suit as a related matter as required by 35 U.S.C. § 322(a)(4)¹; 37 C.F.R. 42.8(b)(2). *Id.*; Sur-Reply 8–9. Further, Patent Owner contends that Petitioner’s Updated Mandatory Notices (Paper 7) listing the Nevada Suit is an unauthorized filing that should be expunged. Sur-Reply 9.

Patent Owner’s position is not persuasive. First, we note that although the “Related Matters” section of the Petition does not include the Nevada Suit (Pet. 2), the Petition, nonetheless, identifies and describes the

¹ Patent Owner refers to § 312(a), but that section applies to *inter partes* review. Covered Business Method patent reviews are governed by a similar provision in § 322(a). *See* AIA § 18(a)(1). Because there is no difference in relevant provisions between the two sections, we consider Patent Owner’s references to be to § 322(a).

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Nevada Suit in detail in Section IV.A of the Petition. In particular, the Petition states:

Patent Owner New Vision has accused Bally of breaching a license for the '987 patent, and Bally responded to New Vision's complaint in part with an affirmative defense and counterclaim that the '987 patent is invalid. (Ex. 1002 ¶¶ 2-3; Exs. 1008, 1003, 1004.) New Vision filed a motion to dismiss certain aspects of Bally's pleading but did not object to or move to dismiss Bally's affirmative defense and counterclaim on invalidity. (Ex. 1002 ¶ 4; Ex. 1005.) Accordingly, there is no dispute regarding Bally's standing to seek a declaratory judgment that the '987 patent is invalid and to file this Petition.

Furthermore, Bally has asserted that its relevant games do not fall within the scope of the claims of the '987 patent, and New Vision has expressed disagreement with that assertion. (Ex. 1002 ¶¶ 5-7; Exs. 1006 and 1007.) Accordingly, Bally presented an affirmative defense that it does not infringe the '987 patent, and New Vision did not seek to dismiss or strike that defense. For this additional reason, Bally has standing to bring a declaratory judgment action in district court and to file this Petition.

Pet. 7–8. The Petition refers to and is accompanied by briefs from the Nevada Suit, which clearly identify the Nevada Suit, the involved parties (Petitioner and Patent Owner), and the patents at issue. *See* Ex. 1003 (Complaint); Ex. 1004, 9–14 (Answers and Counterclaims); Ex. 1005 (Motion to Dismiss). Thus, for the purposes of 37 CFR § 42.8, we determine that pages 7 through 8 of the Petition identify sufficiently “any other judicial or administrative matter that would affect, or be affected by, a decision in the proceeding.”

Second, generally, a lapse in compliance with the requirements of 35 U.S.C. § 312(a), which is the corresponding section for *inter partes*

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review to § 322(a), does not deprive the Board of jurisdiction over the proceeding, or preclude the Board from permitting such lapse to be rectified. *Lumentum Holdings, Inc. v. Capella Photonics, Inc.*, IPR2015-00739, slip op. 5 (PTAB March 4, 2016) (Paper 38) (precedential). Here, because the Petition identifies the Nevada Suit in another section of the Petition, we determine that there is no prejudice to Patent Owner in permitting Petitioner to update its Mandatory Notices (Paper 7), which Petitioner has already done. Patent Owner is a party to the Nevada Suit, and, in fact, initiated the Nevada Suit against the Petitioner. As such, Patent Owner was aware of the related litigation involving the '806 patent and the '987 patent well before the filing of the Petition.

III. FORUM SELECTION CLAUSE

Patent Owner asserts that on May 28, 2014, Petitioner and Patent Owner entered into a settlement agreement (Ex. 2005 “Agreement”) under which Petitioner was granted a license to the '987 patent and the '806 patent. Ex. 2005, 1; *see* Prelim. Resp. 6. Patent Owner contends that the Agreement contains a forum selection clause that requires all disputes be handled in the courts in the State of Nevada. Prelim. Resp. 6–8. According to Patent Owner, Petitioner has waived its opportunity to seek review by the Board because Section 13.f of the settlement agreement states:

“In the event of any dispute between any of the parties that cannot be resolved amicably, the parties agree and consent to the exclusive jurisdiction of an appropriate state or federal court located within the State of Nevada, Clark County, to resolve any

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such dispute.”

Ex. 2005, 7–8. We understand Patent Owner’s first argument to be that the Agreement contractually estops or bars Petitioner from seeking a covered business method patent review. *See* Prelim. Resp. 8, 16–18. Patent Owner further argues that we should deny review because federal district courts can enforce venue selection clauses against the Board through injunction “making it unlikely that the PTAB will have the opportunity to find any claims in the ’987 patent unpatentable.” Sur-Reply 5. For additional support, Patent Owner refers to the court’s decision in *Dodocase VR, Inc. vMerchSource, LLC*, 17-cv-07088-EDL (ND Cal, March 26, 2018) ordering the parties in that case to initiate procedures to withdraw the Petitions. Sur-Reply 6–7.

In its Reply, Petitioner counters that the decision in the *Dodocase* is the subject of an emergency appeal to the Federal Circuit, which has stayed the preliminary injunction directing the defendant/petitioner to seek dismissal of PTAB petitions that had been filed against the plaintiff’s patents. Reply 7 (citing Ex. 1028).

Based on the current record, we are not persuaded that institution should be denied on the basis of 35 U.S.C. § 324(a) because a federal district court *could* possibly enforce the forum selection clause against Petitioner. *See* Sur-Reply 5. Unlike *Dodocase*, the instant proceeding does not involve a decision by a federal district court ordering the parties to withdraw the Petition filed with the Patent Trial and Appeal Board. Ex. 1027. Rather, there is no indication, in our record, that either party has requested a federal

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district court (e.g., the court before which the Nevada Suit is pending) to issue an order requiring Petitioner to withdraw its Petitions. *Cf.* Ex. 1027. At a minimum, Patent Owner has not explained sufficiently how “the Nevada Court would enjoin the PTAB from considering Bally’s Petition if the proceeding continue” when it does not appear from the current record that this issue has been presented to a federal district court. Sur-Reply 8. As such, Patent Owner’s arguments are largely speculative at this point.

Further, as a general matter, Patent Owner has identified no other authority—such as by statute, rule, or binding precedent—that would require us to deny institution of a covered business method patent review based on contractual estoppel. Patent Owner asserts that 35 U.S.C. §§ 317, 327 demonstrate that the Board “regularly accepts and enforces settlement agreements.” Sur-Reply 7. However, these sections only allow (but do not require) the Board to terminate of an ongoing proceeding between parties. Patent Owner has not directed us to any authority that provides explicit support for a contractual bar/estoppel defense against the institution of a covered business method patent review. For example, section 18 of the America Invents Act (AIA) defines a CBM proceeding as following the standards and procedures of post-grant review with the exception of §§ 321(c), 325(b), 325(e)(2), 325(f). With respect to the procedures of post-grant review, we note that chapter 32 provides requirements for, among other things, the contents of a petition (§322), the threshold showing required for institution of a post-grant review (§324), and the conduct of the post-grant review (§326). We do not discern, nor has Patent Owner pointed

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to, any portions of chapter 32 or § 18 of the AIA, or authority otherwise, that explicitly provide for a contractual estoppel defense. *Cf. Athena Automation Ltd. v. Husky Injection Molding Sys. Ltd.*, Case IPR2013–00290, slip op. at 12–13 (PTAB Oct. 25, 2013) (Paper 18) (precedential) (finding no statutory basis for application of assignor estoppel defense in IPR proceedings).

IV. COVERED BUSINESS METHOD

A. Background

As noted above, on May 28, 2014, Petitioner and Patent Owner entered into an Agreement (Ex. 2005) that provided Petitioner a license to the '806 patent and the '987 patent. Ex. 2005, 1; *see* Prelim. Resp. 6. Subsequently, a dispute arose between the parties regarding this Agreement, which prompted Patent Owner to file the Nevada Suit. According to Patent Owner's Motion for Partial Summary Judgment filed in the Nevada Suit, "[p]rior to the parties' entering into the Settlement Agreement, (1) NEW VISION obtained separate patents, numbered '806 and '987 (the 'Patents'); (2) NEW VISION accused Defendant [Bally] of using games subject to these Patents; and, (3) Defendant asserted the Patents were invalid." Ex. 1024, 3. Following the execution of the Agreement, Petitioner paid Patent Owner two-and-half years of quarterly payments pursuant to the Agreement's initial three (3) year term. Ex. 2002 ¶ 11. In a February 8, 2017 letter, Petitioner informed Patent Owner that Petitioner was terminating the Agreement and would not renew the Agreement for another three year term. Ex. 1006. Further, in that letter, Petitioner stated that "we have determined that the games at issue do not fall within the scope of the

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claims of the licensed patents. Accordingly, we will not be paying any royalties to you under the Agreement, including royalties for prior periods of time.” Ex. 1006. In its written response on June 7, 2017, Patent Owner issued a demand for payment and further asserted that

Baily’s obligation to make quarterly payments is simply not dependent upon the use or applicability of the patents but is based upon time and the use of specific games. Again, none of the contractual conditions that would allow Bally to stop payment have occurred.”

Ex. 1007. Enclosed with Patent Owner’s letter was a copy of a complaint that initiated the Nevada Suit. *Id.*

In the Nevada Suit, Patent Owner has asserted several causes of action, including breach of contract, unjust enrichment, and breach of the implied covenant of good faith and fair dealing. Patent Owner has not asserted a patent infringement action in the Nevada Suit. Ex. 2002. In Petitioner’s Answer and Counterclaims, Petitioner asserts a defense of non-infringement and a counterclaim for declaratory judgment of invalidity of the ’806 patent and ’987 patent. Ex. 2001, 7, 13–14. Patent Owner has moved to dismiss some of Petitioner’s counterclaims in the Nevada Suit, but Patent Owner’s motion does not seek to dismiss Petitioner’s counterclaim for declaratory judgment of invalidity. Ex. 1005.

With respect to the record in the instant proceeding, Patent Owner maintains that it has not revoked the license, and, therefore, Petitioner is licensed and does not infringe the ’806 patent and the ’987 patent. Prelim. Resp. 13. Patent Owner further maintains that the related district court litigation is a breach of contract suit and that Petitioner has not been sued for

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infringement. Prelim. Resp. 13 (citing Ex. NVG2002).

B. Standing to File a Petition for Covered Business Method Patent Review

Under § 18(a)(1)(B) of the America Invents Act (AIA), “[a] person may not file a petition for a transitional proceeding with respect to a covered business method patent unless the person or the person’s real party in interest or privy has been sued for infringement of the patent or has been charged with infringement under that patent.” AIA § 18(a)(1)(B) (emphasis added); *see also* 37 C.F.R. § 42.302(a). Petitioner contends that this standing requirement is satisfied because Patent Owner New Vision has accused Bally of breaching a license for the ’987 patent, and Bally responded to New Vision’s complaint in part with an affirmative defense and counterclaim that the ’987 patent is invalid.” Pet. 7.

After considering the parties’ arguments, including those set forth in their supplemental briefs, we determine that Petitioner has met its burden of demonstrating that it is eligible to bring this CBM review. *See* 37 C.F.R. § 42.304(a).

1. Whether Petitioner Has Been “Sued for Infringement”

To start, we note that Patent Owner has not sued Petitioner for infringement. Ex. 2002. In the Nevada Suit, Patent Owner characterizes the action as containing state causes of action for breach of contract, unjust enrichment, breach of the implied covenant of good faith and fair dealing, accounting, and declaratory relief. Ex. 2002; *see* Prelim. Resp. 12.

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2. Charged with Infringement

Next we determine whether Petition has been “charged with infringement.” Our rules provide that “[c]harged with infringement means “a real and substantial controversy regarding infringement of a covered business method patent exists such that the petitioner would have standing to bring a declaratory judgment action in Federal court.” 37 C.F.R. § 42.302(a). The Declaratory Judgment Act provides that “[i]n a case of actual controversy within its jurisdiction, ... any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration.” 28 U.S.C. § 2201(a).

In *MedImmune, Inc. v. Genentech, Inc.*, the Supreme Court stated that the test for whether an “actual controversy” exists is “whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.” 549 U.S. 118, 127 (2007) (internal quotation marks omitted). Further, our reviewing court has instructed that *MedImmune* relaxed the test for establishing jurisdiction, but “did not change the bedrock rule that a case or controversy must be based on a real and immediate injury or threat of future injury that is caused by the defendants—an objective standard that cannot be met by a purely subjective or speculative fear of future harm.” *Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1339 (Fed. Cir. 2008). The Federal Circuit has further explained that

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“jurisdiction generally will not arise merely on the basis that a party learns of the existence of a patent owned by another or even perceives such a patent to pose a risk of infringement, without some affirmative act by the patentee.” *SanDisk*, 480 F.3d at 1381. Instead, we have required “conduct that can be reasonably inferred as demonstrating intent to enforce a patent.” *Hewlett–Packard Co. v. Acceleron LLC*, 587 F.3d 1358, 1363 (Fed. Cir. 2009)

Asia Vital Components Co. v. Asetek Danmark A/S, 837 F.3d 1249, 1253 (Fed. Cir. 2016).

Turning to the facts before us, in the Petition, Petitioner asserts standing under 37 C.F.R. § 42.302(a) to file this Petition because Patent Owner New Vision has accused Bally of breaching a license for the '988 patent, and Bally responded to New Vision's complaint in part with an affirmative defense and counterclaim that the '987 patent is invalid. Pet. 7. In the Petitioner's Reply to Patent Owner's Preliminary Response, Petitioner adds that the Nevada Suit in federal district court already includes Petitioner's declaratory judgment counterclaim for patent invalidity, which Patent Owner has not moved to dismiss. Reply 3–4 (citing Ex. 1005; Ex. 1007; Ex. 2005 Sec. 3). Further, Petitioner asserts separately that it was charged with infringement at the time the Petition was filed in December 2017 because Petitioner did not renew the Agreement after the expiration of the initial term (on May 28, 2017) and a real and substantial controversy about infringement existed at the time of filing of the Petition. Reply 5. Petitioner explains that the same dispute regarding infringement that had been resolved by the Agreement arose again when the Agreement expired because Petitioner's post-expiration activities are not covered by the license.

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Reply. 4–5 (citing Ex. 1007, 1). Petitioner also asserts that Patent Owner’s Motion for Partial Summary Judgment in the Nevada Suit confirms that the Agreement resolved an infringement dispute between the parties. Reply 5 (citing Ex. 2005).

Petitioner adds that it is not estopped from filing this Petition because neither Bally, nor any real party in interest or privy, has previously challenged the patentability of the claims of the ’987 patent. Pet. 8–9 Petitioner asserts that it is not barred from filing this petition under 37 C.F.R. § 42.302(c) because it has not filed a civil action challenging the validity of any claim of this patent, and its counterclaim of invalidity does not constitute a civil action challenging the validity of a claim of the ’987 patent. Pet. 8–9.

In its Preliminary Response, Patent Owner maintains that it has not charged Petitioner with infringement because the royalties from the Agreement “are not based on infringement but on the term and the use of a specific game.” Prelim. Resp. 12. Patent Owner adds that it has not revoked the license to Petitioner and, thus, because Bally’s products are covered by a license under the settlement agreement, they do not infringe. Prelim. Resp. 13–15. Patent Owner further contends that a breach of contract action is not necessarily an infringement suit. Prelim. Resp. 14–15. In Patent Owner’s Sur-Reply to Petitioner’s Reply, Patent Owner argues that Petitioner’s “fear of infringement does not create standing” and previous claims of infringement occurred prior to the effective date of the Agreement. Sur-Reply 3–4.

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We have reviewed Petitioner's and Patent Owner's submissions and supporting evidence, and we determine that, on this record, Petitioner has established sufficiently the facts taken together demonstrate that it has standing to bring this covered business method patent review. Contrary to Patent Owner's position, Petitioner's standing does not hinge on whether the Agreement has terminated or expired. In *MedImmune*, the Supreme Court held that, where a licensor has demanded royalties due under a patent license, a licensee "was not required, insofar as Article III is concerned, to break or terminate [the] license agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed." 549 U.S. at 137. Here, Patent Owner has stated that "[b]ecause Bally's products are covered by a license under the settlement agreement (Exhibit NVG2005), they do not infringe." Prelim. Resp. 15. Patent Owner's position presumes that Petitioner's products would infringe the '806 patent and the '987 patent if the Agreement (and license) had not been renewed. However, even if the Agreement is in full effect, this fact alone is not dispositive of the standing issue. Rather, the question of jurisdiction does not turn on whether Patent Owner specifically alleged infringement of the asserted patents; instead, the question is whether, under all the circumstances, Patent Owner's actions "can be reasonably inferred as demonstrating intent to enforce a patent." *See Asia* at 1254 (citing *Hewlett-Packard*, 587 F.3d at 1363).

Looking to the relationship between the parties, it is undisputed that the Agreement between the parties arose from Patent Owner's intent to

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enforce the '806 patent and the '987 patent against the Petitioner. Ex. 1024, 3; Reply 5. Patent Owner acknowledges that prior to the Agreement, Patent Owner “accused Defendant [Bally] of using games subject to these Patents; and . . . Defendant asserted the Patents were invalid.” Ex. 1024, 4. While those past events were allegedly resolved by the execution of the Agreement, we, nonetheless, take into consideration that the parties’ past relationship provides context for the current disputes between them. In particular, there is a dispute as to whether the Agreement and license to the '806 patent and the '987 patent is still in effect; whether Petitioner’s products/activities infringe; and whether the patents are valid. Prelim. Resp. 13–15; Reply 3–5; Sur-Reply 3–5. Thus, the current disputes between the parties are clearly rooted in the original allegations of infringement that led to the signing of the Agreement in the first place, and which continue to be at issue in the contract dispute between the parties.² Accordingly, taking

² This is in contrast to the situation in *TicketNetwork, Inc. v. CEATS, LLC*, Case CBM2018-00004 (PTAB May 24, 2018) (Paper 19), where the challenged patent was only one of a large portfolio of patents and the undisputed evidence showed that Petitioner had neither undertaken any conduct that remotely could be within the scope of the claims nor even alleged that such conduct was or may take place in the future. *Id.* at 15–16. Here, in contrast, Petitioner acknowledges that it offers and continues to offer games that, although Petitioner denies infringe the patents, Patent Owner does contend are within the scope of the challenged patents. Ex. 1002 ¶¶ 5–7; Exs. 1006 and 1007. Moreover, the record in *TicketNetwork* included Petitioner’s admissions made to convince the district court to dismiss its declaratory judgment action without prejudice that Patent Owner had no intent at that time to sue for infringement. *Id.* at 12–13. No such admissions exist here, and, in fact, Petitioner’s

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into account the full relationship between the parties and the particular circumstances in this case, we determine that Patent Owner's statements and actions are sufficient to establish that there was a substantial controversy between the parties sufficient to establish standing under relevant case law.

C. Covered Business Method Patent Review Eligibility

Section 18 of the AIA further provides that

the term “covered business method patent” means a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.

AIA § 18(d)(1); *see* 37 C.F.R. § 42.301(a). A patent need have only one claim directed to a covered business method to be eligible for review. *See* Transitional Program for Covered Business Method Patents—Definitions of Covered Business Method Patent and Technological Invention; Final Rule, 77 Fed. Reg. 48,734, 48,736 (Aug. 14, 2012) (“Final Rule”). Thus, we must “examine the claims when deciding whether a patent is a CBM patent.”

Blue Calypso, LLC v. Groupon, Inc., 815 F.3d 1331, 1340 (Fed. Cir. 2016) (emphasis omitted).

1. Used in the Practice, Administration, or Management of a Financial Product or Service

Petitioner asserts that all claims of the '987 patent claim methods that

counterclaim for declaratory judgment of invalidity continues in district court.

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are expressly financial in nature because claims 1–12 recite a “wager” and “payout” that involve betting on games of chance. Pet. 12–16. Patent Owner does not contest Petitioner’s assertion in its Preliminary Response.

For the purposes of this Decision, we note that the language of claim 1 and the disclosure of the ’987 patent are consistent with Petitioner’s position. The current record shows that at least one claim, such as independent claim 1, reproduced above, recites a method of playing a game that involves the placement of a “bonus wager” and “paying” a “winning player a payout.” Claim 1. The ’987 patent teaches that

[i]n general, there are several forms of bonus wagers. In the bonus bet, the bonus wager goes to the banker and any winnings are paid by the banker as a fixed multiple of the wagered amount. In a jackpot, the bonus wager goes into a pot and winnings are paid from the pot as a percentage of the pot and/or a fixed amount. If the jackpot falls below a predetermined minimum value, the banker may add to the pot to restore the minimum value. In a set jackpot, the amount put into the jackpot for each game is fixed, but the fixed amount may be adjusted periodically, for example, after the jackpot is won. If more than one player wins a set jackpot, each winner is paid a predetermined amount. In a progressive jackpot, the amount put into the jackpot increases for each game played during which the jackpot is not won. If more than one player wins a progressive jackpot, its value is divided equally among the winners. Optionally, the jackpots from more than one table may be linked together as a single jackpot.

Ex. 1001, 3:16–32.

In an example bonus wager game, the ’987 patent teaches that “[t]he wagered amount is indicated by any marker or markers that acceptably signify value, such as cash, chips, or credit vouchers.” Ex. 1001, 4:5–7.

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Further, “[t]o participate in the bonus wager . . . the player places the amount to be wagered on the appropriate bonus wager location.” Ex. 1001, 4:15–17.

The ’987 patent also discloses that

[i]n the example of FIG. 2, player 2 has placed a \$1 chip 40 on the bonus wager symbol 36, wagering that the bonus hand will be a winning hand. In the example of FIG. 4, player 3 has placed a \$2 chip 48 on the first bonus wager symbol 42, wagering that the first bonus hand will be a winning hand, and a \$5 chip 50 on the second bonus wager symbol 44, wagering that the second bonus hand will be a winning hand.

Ex. 1001, 4:23–31.

Continuing with the example shown in Figure 2, with respect to “paying” a “payout,” the ’987 patent teaches that players who

played the bonus wager receive a predetermined amount of winnings that is determined by the rank of the bonus hand . . . [and] Tables 1 and 2 show examples of winning multiples under the ‘Bonus Bet Payout’ column. For the example bonus hand of FIG. 2, player 2 wins \$6 under the poker rankings of Table 1 because player 2 wagered \$1 and the bonus hand is a straight, which pays 6-1.

Ex. 1001, 5:40–49.

Further, the claimed method recited in claim 1 is not merely “incidental to” or “complementary to” a financial activity because the claim is expressly directed to the financial service of placing bonus wagers and paying winning players payouts based on a game of chance with a deck of cards. *See Unwired Planet, LLC v. Google Inc.*, 841 F.3d 1376, 1382 (Fed. Cir. 2016).

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2. Technical Invention

Under AIA § 18(d)(1), “the term ‘covered business method patent’ . . . does not include patents for technological inventions.” Under 37 C.F.R. § 42.301(b), “[i]n determining whether a patent is for a technological invention,” we consider “whether [1] the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art, and [2] solves a technical problem using a technical solution,” respectively, the first and second prongs of the technical invention exception.

In general, the Office Patent Trial Practice Guide provides the following guidance with respect to claim content that typically would exclude a patent from the category of a technological invention:

- (a) Mere recitation of known technologies, such as computer hardware, communication or computer networks, software, memory, computer-readable storage medium, scanners, display devices or databases, or specialized machines, such as an ATM or point of sale device.
- (b) Reciting the use of known prior art technology to accomplish a process or method, even if the process or method is novel and non-obvious.
- (c) Combining prior art structures to achieve the normal, expected, or predictable result of that combination.

Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,763–64 (Aug. 14, 2012). With respect to the first prong of 42.301(b), Petitioner argues that the ’987 patent does not recite any technological elements and is not directed to any technological invention. Pet. 18. According to Petitioner, “the claims describe the rules for playing a wagering game and have almost no physical aspect. The only physical aspects recited in the

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claims are cards and the players playing the card game, which are conventional, generic, and non-technological.” *Id.*

In viewing the claim language and disclosure of the ’987 patent, we agree with Petitioner that the express language of the claims, such as claim 1, recite physical aspects such as cards and non-physical aspects such as the steps for players to play a card game and a “payout,” “wager,” “predetermined rank,” etc. *See* Pet. 18–20; Ex. 1001, claim 1. Further, we are persuaded by Petitioner’s arguments that these are not novel or nonobvious technological features. According to the ’987 patent, playing card games, use of bonus wagers, and ranking for payout were known and conventional. Ex. 1001, 1:39–43 (“Another example of a bonus bet is disclosed in U.S. Pat. No. 6,402,147. The basic game is stud poker, where the player’s hand is compared to the banker’s hand. The player is also given the option of placing a bonus wager on the rank of the player’s hand.”); *id.* at 2:55–60 (“There are a number of such games in existence where the essence of the game, whether it based on poker, blackjack, baccarat, pai gow tiles, pai gow poker, or any other game, is that a player wagers on one or more of a group of hands that she hopes will beat a banker hand.”). Patent Owner does not contest Petitioner’s position in its Preliminary Response.

Thus, based on the preliminary record, we determine that Petitioner sufficiently shows that at least claim 1, discussed above, does not recite a technological feature that is novel and unobvious over the prior art. Given that determination, we need not reach the second prong of whether the claim solves a technical problem using a technical solution. Based on the

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foregoing, on this preliminary record, Petitioner persuasively shows that the '987 patent is not exempt from CBM review based on a “technological invention” exception under 37 C.F.R. § 42.301(b).

V. 35 U.S.C. § 101

A. *Principles of Law*

Section 101 sets forth four categories of patent eligible subject matter: “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.” 35 U.S.C. § 101. The Supreme Court has specified three judicial exceptions to the broad categories of 35 U.S.C. § 101: “laws of nature, natural phenomena, and abstract ideas.” *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2354 (2014) (citation omitted); *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972) (“Phenomena of nature, though just discovered, mental processes, and abstract intellectual concepts are not patentable, as they are the basic tools of scientific and technological work.”). Notwithstanding that a law of nature or an abstract idea, by itself, is not patentable, the practical application of these concepts may be deserving of patent protection. *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66, 70–73 (2012).

The Court clarified the process for analyzing claims to determine whether they are directed to patent-ineligible subject matter. *Alice*, 134 S. Ct. 2347. In *Alice*, the Court applied the framework set forth previously in

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Mayo, “for distinguishing patents that claim laws of nature, natural phenomena, and abstract ideas from those that claim patent-eligible applications of [these] concepts.” *Alice*, 134 S. Ct. at 2355. The first step in the analysis is to “determine whether the claims at issue are directed to one of those patent-ineligible concepts.” *Id.* If the claims are directed to a patent-ineligible concept, the second step in the analysis is to consider the elements of the claims “individually and ‘as an ordered combination’” to determine whether the additional elements “‘transform the nature of the claim’ into a patent-eligible application.” *Id.* (quoting *Mayo*, 566 U.S. at 78–79). In other words, the second step is to “search for an ‘inventive concept’—i.e., an element or combination of elements that is ‘sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.’” *Id.* (quoting *Mayo*, 566 U.S. at 72–73) (alterations in original). If the elements involve “well-understood, routine, [and] conventional activity previously engaged in by researchers in the field,” *Mayo*, 566 U.S. at 73, they do not constitute an “inventive concept.”

Noting that the two stages involve “overlapping scrutiny of the content of the claims,” the Federal Circuit has described “the first-stage inquiry as looking at the ‘focus’ of the claims, their ‘character as a whole,’ and the second-stage inquiry (where reached) as looking more precisely at what the claim elements add—specifically, whether, in the Supreme Court’s terms, they identify an ‘inventive concept’ in the application of the ineligible matter to which (by assumption at stage two) the claim is directed.” *Electric Power Grp., LLC v. Alstom S.A.*, 830 F.3d 1350, 1353 (Fed. Cir. 2016).

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B. Alice-Mayo, First Step

In determining whether a method or process claim recites an abstract idea, we must examine the claim as a whole. *Alice*, 134 S. Ct. at 2355 n.3. Relevant to the first step inquiry, the prohibition against patenting an abstract idea “cannot be circumvented by attempting to limit the use of [an abstract idea] to a particular technological environment or adding insignificant postsolution activity.” *Bilski v. Kappos*, 561 U.S. 593, 610–11 (2010) (citation and internal quotation marks omitted); *see Electric Power*, 830 F.3d at 1355 (“[L]imiting the claims to the particular technological environment of power-grid monitoring is, without more, insufficient to transform them into patent-eligible applications of the abstract idea at their core.”). Courts have recognized numerous categories of abstract ideas, such as “methods of organizing human activity or “a fundamental economic practice long prevalent in our system of commerce,” *Alice*, 134 S. Ct. at 2356 (citation omitted).

Further, in determining whether a claimed method’s “character as a whole” is directed to an abstract idea, the Supreme Court and the Federal Circuit “have found it sufficient to compare claims at issue to those claims already found to be directed to an abstract idea in previous cases.” *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1334–35 (Fed. Cir. 2016); *see also Intellectual Ventures I LLC*, 792 F.3d at 1367 (“The abstract idea here is not meaningfully different from the ideas found to be abstract in other cases before the Supreme Court and [the Federal Circuit].”). In undertaking that

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analysis, we recognize that claims that “‘purport to improve the functioning of the computer itself,’” or those that “‘improve an existing technological process’ might not succumb to the abstract idea exception.” *Enfish*, 822 F.3d at 1335 (quoting *Alice*, 134 S. Ct. at 2358–59) (alterations omitted).

With respect to the “abstract idea” inquiry, Petitioner asserts that the challenged claims 1–12 of the ’987 patent are directed to the abstract idea of allowing bonus wagers in a wagering game. Pet. 24. Petitioner treats independent claim 1 as representative and asserts that the “dependent claims add minor variations on the rules set out in independent claim 1.” Pet. 24–25.

Patent Owner’s Preliminary Response does not address Petitioner’s §101 challenge.

For the purposes of this Decision, and based on the current record, we are persuaded that the challenged claims are directed to an abstract idea. We agree with Petitioner that the challenged claims are directed to the abstract idea of allowing bonus wagers in a wagering game. For example, consistent with Petitioner’s position, claim 1 is expressly directed to a “method of playing game with at least one deck of cards” with the steps of placing a bonus wager (step (a)), forming a bonus hand (step (c)), identifying a winner of the bonus wager (step (d)), and paying the winner (step (e)). Ex. 1001, Claim 1. Additionally, the disclosure in the Specification of the ’987 patent is also consistent with Petitioner’s position. The Specification provides that the described invention is directed to a “method of playing a bonus wager” (Ex. 1001, Title), and “relates to games for gambling, more specifically, to a

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bonus wager on a game where a player can wager on the hand composed of the face up cards of several hands” Ex. 1001, 1:25–28. Further, the Specification describes the mechanics of game play, which involves the house determination of

the rules with which the game will be played, including, for example, the base game, the number of player and banker hands, the number of bonus hands, the cards that are dealt face up, the cards used for the bonus hands, the rank of winning bonus hands, the type of bonus wager, and how winning bonus hands are paid.

Ex. 1001, 3:33–39.

Furthermore, our reviewing court has found activity similar to that claimed to constitute an abstract idea under the first step of *Alice*. For example, in *In re Smith*, the Applicants appealed an ex parte decision by the Board that affirmed the examiner’s rejection of pending claims under 35 U.S.C. § 101. Claim 1 at issue in *In re Smith* recited:

1. A method of conducting a wagering game comprising:

[a]) a dealer providing at least one deck of ... physical playing cards and shuffling the physical playing cards to form a random set of physical playing cards;

[b]) the dealer accepting at least one first wager from each participating player on a player game hand against a banker’s/dealer’s hand;

[c]) the dealer dealing only two cards from the random set of physical playing cards to each designated player and two cards to the banker/dealer such that the designated player and the banker/dealer receive the same number of exactly two random physical playing cards;

[d]) the dealer examining respective hands to determine in any hand has a Natural 0 count from totaling count from cards,

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defined as the first two random physical playing cards in a hand being a pair of 5's, 10's, jacks, queens or kings;

[e]) the dealer resolving any player versus dealer wagers between each individual player hand that has a Natural 0 count and between the dealer hand and all player hands where a Natural 0 is present in the dealer hand, while the dealer exposes only a single card to the players;

[f]) as between each player and the dealer where neither hand has a Natural 0, the dealer allowing each player to elect to take a maximum of one additional card or standing pat on the initial two card player hand, while still having seen only one dealer card;

[g]) the dealer/banker remaining pat within a first certain predetermined total counts and being required to take a single hit within a second predetermined total counts, where the first total counts range does not overlap the second total counts range;

[h]) after all possible additional random physical playing cards have been dealt, the dealer comparing a value of each designated player's hand to a final value of the banker's/dealer's hand wherein said value of the designated player's hand and the banker's/dealer's hand is in a range of zero to nine points based on a pre-established scoring system wherein aces count as one point, tens and face cards count as zero points and all other cards count as their face value and wherein a two-digit hand total is deemed to have a value corresponding to the one's digit of the two-digit total;

[i]) the dealer resolving the wagers based on whether the designated player's hand or the banker's/dealer's hand is nearest to a value of 0.

In re Smith, 815 F.3d 816, 817–818 (Fed. Cir. 2016). Applying the first step of *Alice*, the Federal Circuit determined that

Applicants' claims, directed to rules for conducting a wagering game, compare to other "fundamental economic practice[s]" found abstract by the Supreme Court. *See id.* As the Board

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reasoned here, “[a] wagering game is, effectively, a method of exchanging and resolving financial obligations based on probabilities created during the distribution of the cards.” J.A. 15. In *Alice*, the Supreme Court held that a method of exchanging financial obligations was drawn to an abstract idea. 134 S. Ct. at 2356–57. Likewise, in *Bilski*, the Court determined that a claim to a method of hedging risk was directed to an abstract idea. 561 U.S. at 611, 130 S. Ct. 3218. Here, Applicants’ claimed “method of conducting a wagering game” is drawn to an abstract idea much like *Alice*’s method of exchanging financial obligations and *Bilski*’s method of hedging risk.

Id. at 818–819. In the instant case, we note, based on the current record, that claim 1 of the ’987 patent is also drawn to a wagering game that is effectively a method of exchanging and resolving financial obligations (e.g., payout of bonus wagers) based on probabilities created during the distribution of cards. Similar to the claims at issue in *In re Smith*, we are persuaded, for the purposes of this Decision, that claim 1 of the ’987 patent is directed to an abstract idea allowing bonus wagers in a wagering game.

Viewing each of the remaining challenged claims as a whole does not dissuade us from determining, for purposes of this Decision, that the challenged claims are directed to an abstract idea. The remaining dependent claims, claims 2–12 recite additional features for gameplay including which cards the bonus hand is formed from (claims 2, 4, 5, and 7–9), the makeup of the plurality of hands (claims 3 and 6), and how the bonus wager/payout is paid (claims 10–12).

Accordingly, the record sufficiently indicates that, at this stage, challenged claims 1–12 are directed to a patent-ineligible abstract idea. Neither do the dependent challenged claims alter our analysis.

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C. Alice-Mayo, Second Step

We turn to the second step of the *Alice* inquiry “and scrutinize the claim elements more microscopically” for additional elements that might be understood to “transform the nature of the claim” into a patent-eligible application of an abstract idea. *Electric Power*, 830 F.3d at 1353–54. That is, we determine whether the claims include an “inventive concept,” i.e., an element or combination of elements sufficient to ensure that the patent in practice amounts to significantly more than a patent on the abstract idea itself. *Alice*, 134 S. Ct. at 2357. “Abstract ideas, including a set of rules for a game, may be patent-eligible if they contain an ‘inventive concept’ sufficient to ‘transform’ the claimed abstract idea into a patent-eligible application.” *In re Smith*, 815 F.3d at 819 (citing *Alice*, 134 S.Ct. at 2357). But appending purely conventional steps to an abstract idea does not supply a sufficiently inventive concept. *Alice*, 134 S.Ct. at 2357–58.

Scrutinizing the recited methods, Petitioner asserts, and we agree on this record, the claimed elements, viewed individually or as an ordered combination, do not transform the nature of the claims into patent-eligible applications of an abstract idea. Pet. 27–29. For example, claim 1 requires the steps of:

- (a) affording a player the opportunity to place a bonus wager;
- (b) dealing out said cards to each of a plurality of hands;
- (c) forming a bonus hand from at least one of said cards from each of a subset of said plurality of hands;
- (d) identifying said player as a winning player if said player placed said bonus wager and said bonus hand has a

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predetermined rank; and

(e) paying said winning player a payout.

Ex. 1001, Claim 1. The '987 patent teaches that forming a bonus hand from a subset of other hands and winning a bonus wager based on a predetermined rank were conventional activities in “casino table games.”

Ex. 1001, 1:30–44. Specifically, the '987 patent discloses:

Many casino table games offer bonus bets or jackpots where players may wager on occurrences that do not affect the outcome of the basic game. These types of bonus bets and jackpots are popular with players. An example of such a bonus bet is the game “21+3” disclosed in U.S. Pat. No. 6,012,719. The game is a standard blackjack game where the player is also given the option of placing a bonus wager on whether or not a three-card poker hand made of the player's first two cards and the dealer's face up card is of a certain rank. Another example of a bonus bet is disclosed in U.S. Pat. No. 6,402,147. The basic game is stud poker, where the player's hand is compared to the banker's hand. The player is also given the option of placing a bonus wager on the rank of the player's hand.

Id. Thus, based on the current record, we agree with Petitioner that the steps of gameplay required in claim 1, viewed individually and as a whole, recite only prior art conventional activities as described by the '987 patent.

Therefore, based on this record, we determine that claim 1 does not have an “inventive concept” sufficient to “transform” the claimed subject matter into a patent-eligible application of the abstract idea.

Similarly, with respect to dependent claims 2–12, these claims recite additional features related to forming a bonus hand, player hand, and banker hand, and, separately, paying a bonus wager and payout, which are also

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conventional activities according to the '987 patent. *See* Ex. 1001, 1:30–44.

In view of the foregoing, based on the record before us, we are persuaded by Petitioner's arguments and supporting evidence that, when considered individually and "as an ordered combination," the claim elements of challenged claims 1–12 do no more than apply the abstract concept of allowing bonus wagers in a wagering game, and do not recite anything in a manner sufficient to transform that abstract idea into a patent-eligible invention. *See Alice*, 134 S. Ct. at 2359–60 (citing *Mayo*, 566 U.S. 66 (2012)).

VI. CONCLUSION

For the foregoing reasons, the information presented in the Petition demonstrates that it is more likely than not that claims 1–12 of the '987 patent are unpatentable based on 35 U.S.C. § 101. We have not, however, made a final determination under 35 U.S.C. § 328(a) as to the patentability of any challenged claim.³

³ Because this decision refers to material that is the subject of Petitioner's motions to seal, the decision is designated as "Parties and Board Only" in the PTAB E2E system. The parties shall file jointly a *proposed* redacted version of the decision. The redactions should account for the strong public policy in favor of making all information, including confidential information relied upon in a decision in a covered business method patent review, available to the public. *See* TPG, 77 Fed. Reg. at 48,760–61.

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VII. ORDER

For the reasons given, it is:

ORDERED that, pursuant to 35 U.S.C. § 324(a), a covered business method patent review of the '987 patent is hereby instituted on the ground that claims 1–12 recite non-statutory subject matter;

FURTHER ORDERED that pursuant to 35 U.S.C. § 324(d) and 37 C.F.R. § 42.4, notice is hereby given of the institution of a trial, which commences on the entry date of this decision;

FURTHER ORDERED that Papers 14 and 16 will be expunged; and

FURTHER ORDERED that the parties agree upon and file, as a Paper, a proposed redacted public version of this decision within two weeks of the decision.

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(12) **United States Patent**
Feola

(10) **Patent No.:** US 7,451,987 B1
(45) **Date of Patent:** *Nov. 18, 2008

(54) **METHOD OF PLAYING A BONUS WAGER**

(75) Inventor: **John Feola**, North Reading, MA (US)

(73) Assignee: **New Vision Gaming & Development, Inc.**, North Reading, MA (US)

(*) Notice: Subject to any disclaimer, the term of this patent is extended or adjusted under 35 U.S.C. 154(b) by 0 days.

This patent is subject to a terminal disclaimer.

(21) Appl. No.: 11/776,613

(22) Filed: **Jul. 12, 2007**

Related U.S. Application Data

(63) Continuation of application No. 10/913,097, filed on Aug. 6, 2004, now Pat. No. 7,325,806.

(51) **Int. Cl.**
A63F 1/00 (2006.01)

(52) **U.S. Cl.** 273/292

(58) **Field of Classification Search** None
See application file for complete search history.

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Primary Examiner—Gene Kim

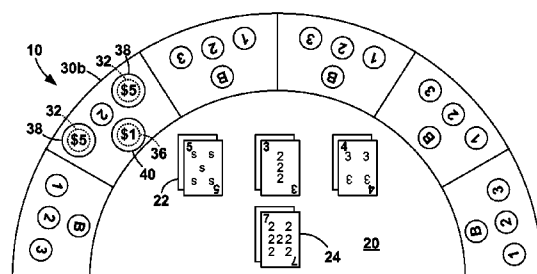
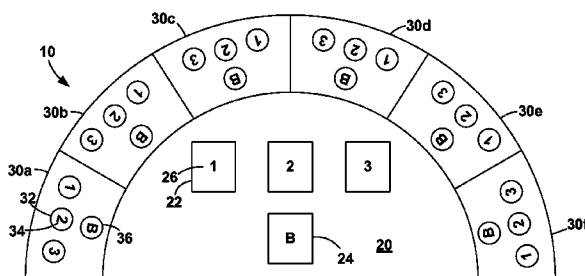
Assistant Examiner—Dolores Collins

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(57) **ABSTRACT**

A method of playing a game with at least one deck of cards where the game comprises the steps of affording a player the opportunity to place a bonus wager, dealing out the cards to each of a plurality of hands, forming a bonus hand from at least one card from each of more than one hand, and identifying the player as a winning player if the player placed the bonus wager and the bonus hand has a predetermined rank.

12 Claims, 3 Drawing Sheets



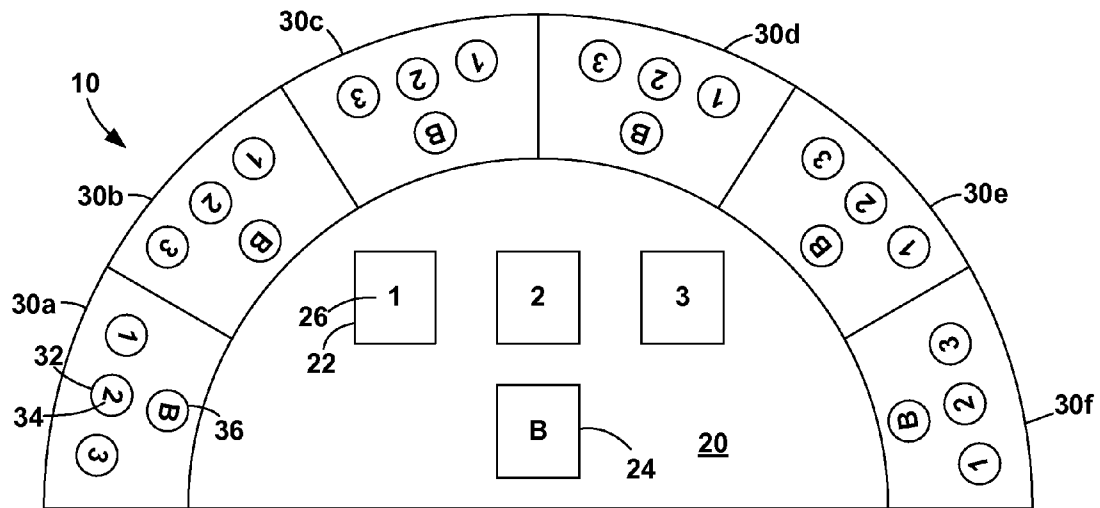


FIG. 1

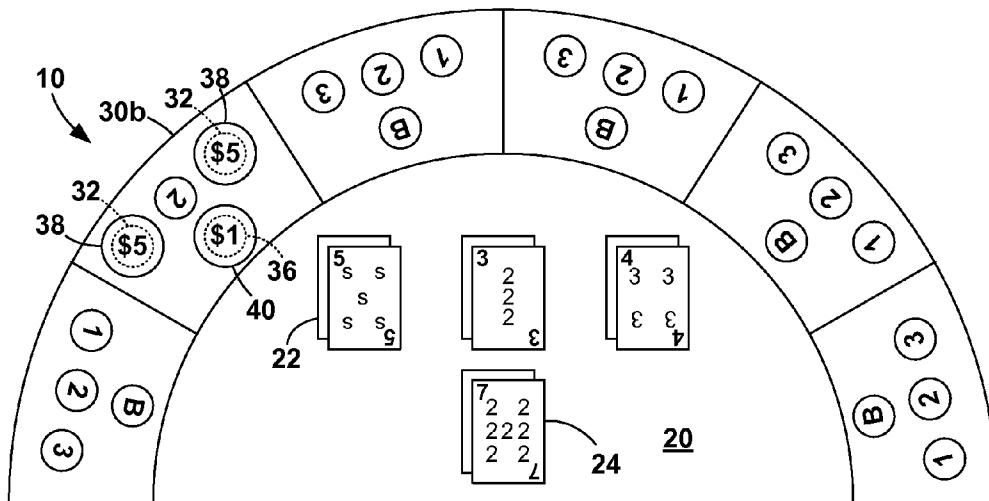


FIG. 2

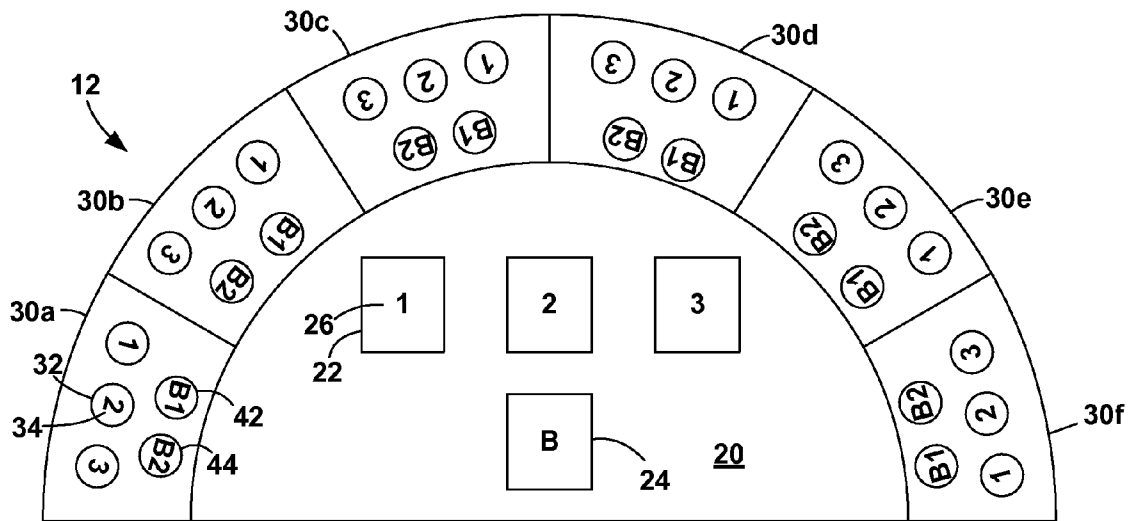


FIG. 3

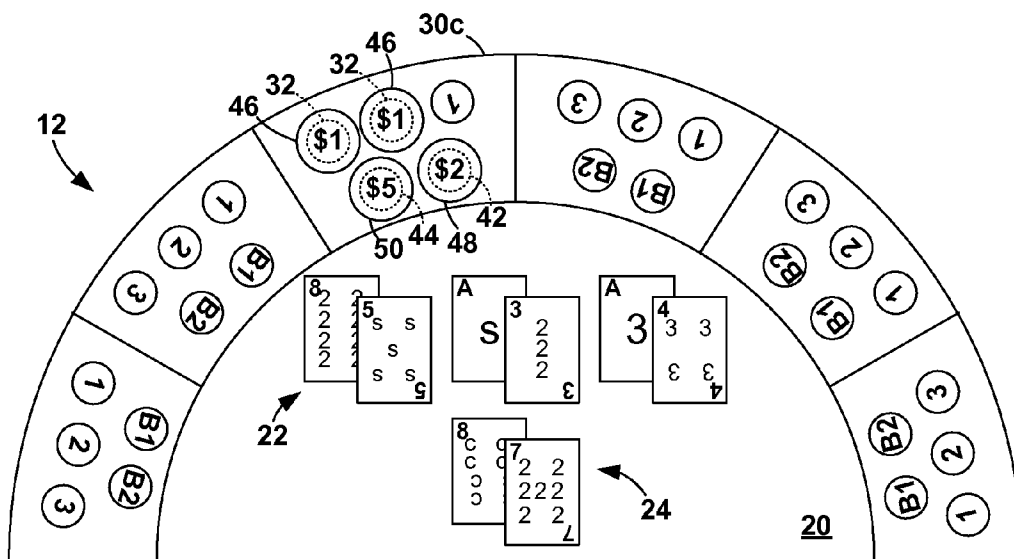


FIG. 4

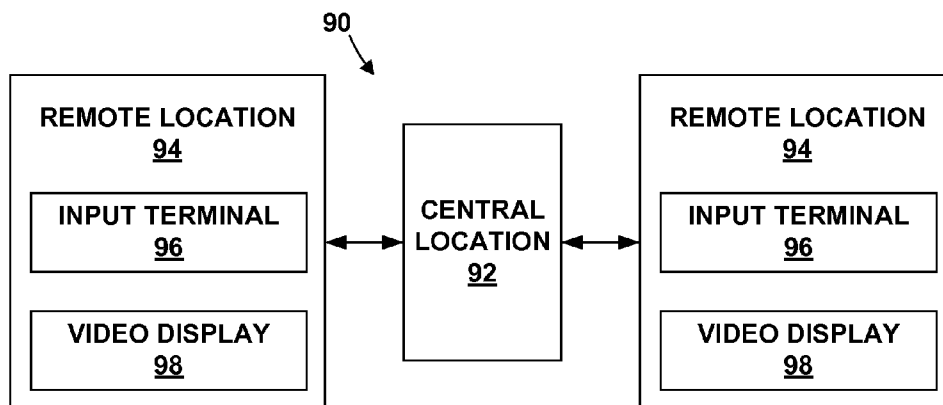


FIG. 5

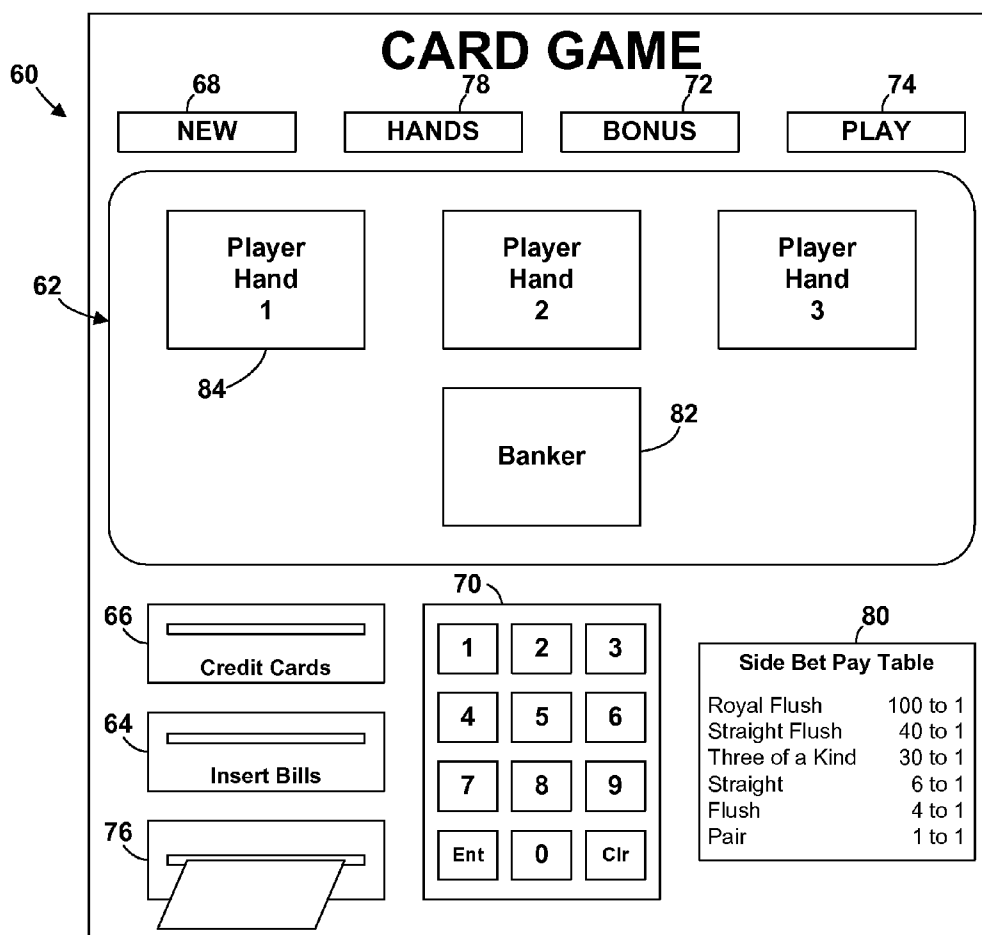


FIG. 6

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METHOD OF PLAYING A BONUS WAGER**CROSS-REFERENCES TO RELATED APPLICATIONS**

The present application is a continuation application of application Ser. No. 10/913,097, filed Aug. 6, 2004 for METHOD OF PLAYING A BONUS WAGER in the name of John Feola.

STATEMENT REGARDING FEDERALLY SPONSORED RESEARCH OR DEVELOPMENT

Not Applicable

REFERENCE TO A SEQUENCE LISTING, A TABLE, OR A COMPUTER PROGRAM LISTING COMPACT DISK APPENDIX

Not Applicable

BACKGROUND OF THE INVENTION**1. Field of the Invention**

The present invention relates to games for gambling, more specifically, to a bonus wager on a game where a player can wager on the hand composed of the face up cards of several hands.

2. Description of the Related Art

Many casino table games offer bonus bets or jackpots where players may wager on occurrences that do not affect the outcome of the basic game. These types of bonus bets and jackpots are popular with players. An example of such a bonus bet is the game "21+3" disclosed in U.S. Pat. No. 6,012,719. The game is a standard blackjack game where the player is also given the option of placing a bonus wager on whether or not a three-card poker hand made of the player's first two cards and the dealer's face up card is of a certain rank. Another example of a bonus bet is disclosed in U.S. Pat. No. 6,402,147. The basic game is stud poker, where the player's hand is compared to the banker's hand. The player is also given the option of placing a bonus wager on the rank of the player's hand.

BRIEF SUMMARY OF THE INVENTION

It is an object of the present invention to provide an adjunct to a game for gambling that adds another way to wager on the game.

It is another object to provide a poker-like element to different types of games for gambling.

The present invention is a method of playing a game with at least one deck of cards where the game comprises the steps of affording a player the opportunity to place a bonus wager, dealing out the cards to each of a plurality of hands, forming a bonus hand from one card from more than one hand, and identifying the player as a winning player if the player placed the bonus wager and the bonus hand has a predetermined rank.

The present invention is a bonus wager based on a bonus hand composed of a card from each of a group of hands of a base game. The base game can be one of any number of games including poker, blackjack, baccarat, pai gow tiles, and pai gow poker. "Card" refers to any representation of a playing card or playing tile, whether real or virtual. The bonus wager can take the form of a bonus bet or a jackpot.

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The base game is played on a playing surface that has a central dealer position with a plurality of player hand locations and a banker hand location. The playing surface also has a number of player positions that each have a symbol corresponding to each player hand location and a location for a bonus wager. The player chooses player hands by placing a wager on the corresponding symbol. To participate in the bonus wager, the player places a wager on appropriate the bonus wager location. After all wagers are placed, the dealer deals out the predetermined number of player and banker hands. The bonus hand, composed of cards from the player hands, is compared to a table of ranked hands to determine whether the player placing a bonus wager is a winner and the amount of winnings. Typically, the bonus hand will be ranked as a poker hand, but any form of ranking may be used. Optionally, the bonus hand is composed of cards from the player hands and the banker hand(s).

The present invention contemplates that the game may be played using other media, such as scratch or pull-tab tickets, video poker-type machines, personal computers, hand-held devices, slot machines, over an on-line computer network, or on another type of one-way or interactive gaming or entertainment equipment, such as keno-style or lottery-style equipment.

Other objects of the present invention will become apparent in light of the following drawings and detailed description of the invention.

BRIEF DESCRIPTION OF THE DRAWINGS

For a fuller understanding of the nature and object of the present invention, reference is made to the accompanying drawings, wherein:

FIG. 1 shows a table layout of a game with three player hands and one banker hand incorporating a single bonus of the present invention;

FIG. 2 shows the table layout of FIG. 1 with a blackjack hand dealt;

FIG. 3 shows a table layout of a game with three player hands and one banker hand incorporating two bonuses of the present invention;

FIG. 4 shows the table layout of FIG. 3 with a blackjack hand dealt;

FIG. 5 shows a block diagram of a keno-style system implementing the basic game of the present invention; and

FIG. 6 shows a video screen implementing the game shown in FIG. 1.

DETAILED DESCRIPTION OF THE INVENTION

The present invention is a bonus wager based on a bonus hand composed of a face up card from each hand of a group of hands of a base game. The base card game has a number of player hands where at least one card of each player hand and, optionally, the banker hand(s), is dealt face up. There are a number of such games in existence where the essence of the game, whether it based on poker, blackjack, baccarat, pai gow tiles, pai gow poker, or any other game, is that a player wagers on one or more of a group of hands that she hopes will beat a banker hand. Players do not control the hands, that is, no player hands are assigned to players. The dealer plays all of the hands according to rules that permit little or no discretion in how the hands are played. One such game for poker is disclosed in U.S. Pat. No. 5,839,731, Method and Apparatus for Playing a Casino Game. Another such game for blackjack is disclosed in U.S. patent application Ser. No. 10/867,019, Method of Playing a Blackjack-type Casino Card Game.

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Another such game for pai gow is disclosed in U.S. patent application Ser. No. 10/890,445, Method of Playing a Pai Gow-type Game.

The term “card” is used in the present application to indicate a playing card, a playing tile, or any facsimile thereof. For example, a card can be a paper playing card, a physical playing tile, an image of a card or tile on a video display, an image of a card or tile on a scratch ticket, etc. Any representation of a playing card or tile is contemplated. A “deck of cards” refers to one or more complete decks of playing cards or a set of pai gow tiles. A “hand” is the group of cards for a single position. When using playing cards, a hand consists of the cards placed at each player and banker position. When using tiles, a hand consists of the tiles placed at each player and banker position.

In general, there are several forms of bonus wagers. In the bonus bet, the bonus wager goes to the banker and any winnings are paid by the banker as a fixed multiple of the wagered amount. In a jackpot, the bonus wager goes into a pot and winnings are paid from the pot as a percentage of the pot and/or a fixed amount. If the jackpot falls below a predetermined minimum value, the banker may add to the pot to restore the minimum value. In a set jackpot, the amount put into the jackpot for each game is fixed, but the fixed amount may be adjusted periodically, for example, after the jackpot is won. If more than one player wins a set jackpot, each winner is paid a predetermined amount. In a progressive jackpot, the amount put into the jackpot increases for each game played during which the jackpot is not won. If more than one player wins a progressive jackpot, its value is divided equally among the winners. Optionally, the jackpots from more than one table may be linked together as a single jackpot.

Before game play begins, the house determines the rules with which the game will be played, including, for example, the base game, the number of player and banker hands, the number of bonus hands, the cards that are dealt face up, the cards used for the bonus hands, the rank of winning bonus hands, the type of bonus wager, and how winning bonus hands are paid.

The base game is played on a playing surface, typically a tabletop, although other playing surfaces are contemplated, as described below. Example playing surfaces **10**, **12** for a base game with which the bonus wager of the present invention is played are shown in FIGS. **1** and **3**. These playing surfaces **10**, **12** are merely examples and any other playing surface configuration that provides the functionality needed to play the base game and incorporate the bonus wager of the present invention is contemplated.

The central dealer position **20** has a plurality of player hand locations **22**, one for each player hand to be dealt. The dealer position **20** has a banker hand location **24** for the one banker hand. The symbols **26** at each player hand location **22** are the player hand identifiers, which are typically numerals running sequentially from “1”.

There are a number of player positions **30a-30f** (collectively, **30**) that typically are evenly spaced in a semicircle around the dealer position **20**. Each player position **30** includes a symbol **32** containing a player hand identifier **34** corresponding to each player hand location **22**. Typically, there are six player positions **30**, but because the number of players is not related to the number of player hands, the number of player positions **30** may vary. Each player position **30** also includes a bonus wager symbol. The example of FIG. **1** has a single bonus wager symbol **36** for one bonus and the example of FIG. **3** as two bonus wager symbols **42**, **44** for two bonuses.

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To begin the game, each player chooses the player hand or hands that she thinks will beat the banker hand in the base game. The selections are made by placing the amount to be wagered on the corresponding player hand identifier symbol **32** of the player position **30**. The wagered amount is indicated by any marker or markers that acceptably signify value, such as cash, chips, or credit vouchers. In the example of FIG. **2**, the player at the second player position **30b** (player **2**) has placed a \$5 chip **38** on each identifier symbol **32** for player hands **1** and **3**, wagering that player hands **1** and **3** will beat the dealer hand. In the example of FIG. **4**, the player at the third player position **30c** (player **3**) has placed a \$1 chip **46** on each identifier symbol **32** for player hands **2** and **3**, wagering that player hands **2** and **3** will beat the dealer hand.

To participate in the bonus wager of the present invention, the player places the amount to be wagered on the appropriate bonus wager location. The amount to wager may be decided by the player or may be a fixed amount determined by the banker, for example, \$1. If the player decides the amount of the wager, there will typically be a minimum and maximum permitted wager determined by the banker. As with the base game, the wagered amount is indicated by any marker or markers that acceptably signify value. In the example of FIG. **2**, player **2** has placed a \$1 chip **40** on the bonus wager symbol **36**, wagering that the bonus hand will be a winning hand. In the example of FIG. **4**, player **3** has placed a \$2 chip **48** on the first bonus wager symbol **42**, wagering that the first bonus hand will be a winning hand, and a \$5 chip **50** on the second bonus wager symbol **44**, wagering that the second bonus hand will be a winning hand.

After all wagers are placed, the dealer deals out the predetermined number of hands. In the two examples, the dealer deals out three player hands and a banker hand, placing them in the appropriate locations **22**, **24** of the dealer position **20**. Each hand is dealt the appropriate number of cards for the base game. For example, for five-card poker, five playing cards are dealt, for blackjack and baccarat, two playing cards are dealt, for pai gow tiles, four tiles are dealt, and for pai gow poker, seven playing cards are dealt.

The bonus hand of the present invention is composed of at least one card from each player hand. In the example of FIG. **2**, the bonus hand is composed of the face up cards from each player hand, which means that the bonus hand is a three-card hand composed of a 5 of spades, a 3 of diamonds, and a 4 of hearts. In the example of FIG. **4**, the first three-card bonus hand is composed of the first-dealt cards from each player hand: an 8 of diamonds, an ace of spades, and an ace of hearts. The second three-card bonus hand is composed of the second-dealt cards from each player hand: a 5 of spades, a 3 of diamonds, and a 4 of hearts. Optionally, the bonus hand is composed of cards from fewer than all of the player hands.

Optionally, the bonus hand is composed of at least one card from each player hand and the banker hand(s). With this option, the bonus hand of the example of FIG. **2** is a four-card hand composed of a 5 of spades, a 3 of diamonds, a 4 of hearts, and a 7 of diamonds. In the example of FIG. **4**, the first four-card bonus hand is composed of an 8 of diamonds, an ace of spades, an ace of hearts, and an 8 of clubs. The second four-card bonus hand is composed of a 5 of spades, a 3 of diamonds, a 4 of hearts, and a 7 of diamonds. Optionally, the bonus hand is composed of cards from fewer than all of the player and banker hand(s).

Optionally, the cards that compose the bonus hand are dealt face up, as in the example of FIG. **2**. When the bonus hand cards are dealt face up, the bonus wager of the present invention can be settled before continuing with the base game.

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Generally, if the bonus hand cards are dealt face down, the base game is completed and the cards revealed before the bonus wager can be settled.

The bonus hand is compared to a table of ranked hands to determine whether the bonus hand is a winning hand and the player placing a bonus wager is a winner and the amount of winnings. When the base game uses playing cards, the bonus hand is preferably treated as a poker hand and the bonus hand is compared to a table of poker rankings. Table 1 is an example of such a table for a three-card poker hand. Note that the example hand of FIG. 2 is a straight, which is a winning hand according to Table 1.

TABLE 1

Hand	Bonus Bet Payout	Jackpot Payout
Royal Flush	100-1	100% of Jackpot
Straight Flush	40-1	25% of Jackpot
Three of a Kind	30-1	10% of Jackpot
Straight	6-1	\$10
Flush	4-1	\$5
Pair	1-1	\$1

The present invention contemplates that the bonus hand ranking may be determined by other conditions. One condition may be the sum of the values of the cards in the bonus hand. Table 2 is an example of such a table for a three-card hand.

TABLE 2

Bonus Hand Sum	Bonus Bet Payout
3	500-1
4-6	50-1
7-10	5-1
11-15	2-1
16-20	1-1

The players that played the bonus wager receive a predetermined amount of winnings that is determined by the rank of the bonus hand. The predetermined amount may be a multiple of the amount wagered, a percentage of a pot into which the bonus bet is placed, or a fixed amount. Tables 1 and 2 show examples of winning multiples under the "Bonus Bet Payout" column. For the example bonus hand of FIG. 2, player 2 wins \$6 under the poker rankings of Table 1 because player 2 wagered \$1 and the bonus hand is a straight, which pays 6-1. Under the sum rankings of Table 2, player 2 wins \$2, because player 2 wagered \$1 and the bonus hand has a sum of 12, which pays 2-1. Table 1 also shows an example of winning percentages under the "Jackpot Payout" column. Note that not all winnings are a percentage of the jackpot; some are fixed amounts. For the example bonus hand of FIG. 2, player 2 wins \$10, because the bonus hand is a straight.

The present invention contemplates that, rather than being played on a table surface with a live dealer, the game is played using other media, such as scratch or pull-tab tickets, video poker-type machines, personal computers, hand-held devices, slot machines, over an on-line computer network, or on another type of one-way or interactive gaming or entertainment equipment, such as keno-style or lottery-style equipment.

In a keno-style lottery system 90, a block diagram of which is shown in FIG. 5, a player typically makes her choice of player hands at a remote location 94 by marking a slip of paper with the player hands she wishes to wager on, whether

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or not she wishes to play the bonus wager, and the wager amounts. She gives the slip to a clerk with the amount of the wager, who then scans the slip into a terminal 96 that sends the choices to a central location 92. Alternatively, choices can be made from keys on a keyboard, keys on a key grid, or by boxes on a touch screen grid. Alternatively, the player may request a "quick pick," where the input terminal 96 or central location 92 randomly chooses a hand or hands for the player. The player receives a receipt, such as a paper receipt, or other acknowledgement, such as an indication on a private terminal, indicating the hand or hands chosen for the game and if the bonus wager is played. As the game is being played, the hands are displayed on a video screen 98 or matrix of video screens visible to the players at the remote location 94 from information received from the central location 92.

With individual machines, an example of which is shown in FIG. 6, implementing the embodiment of FIG. 1, each player has her own terminal 60. An example is a video machine at a gaming establishment. The banker hand 82 and player hands 84 are displayed on the player's video screen 62. Prior to playing a game, the player inserts cash, a voucher, or a paper ticket, into a money reader 64 or swipes a credit card, debit card, or player card in a card reader 66. The player presses the NEW button 68 and indicates the amount to wager for the game, typically by entering an amount on the keypad 70. The player begins a game by pressing the HANDS button 78 and entering the player hands on which the player wishes to wager using the keypad 70 or a touch screen 62. If the player wishes to play the bonus wager, she presses the BONUS button 72 and indicates the amount to wager. The player presses the PLAY button 74 to deal the cards. If the player played the bonus wager, the rank of the bonus hand comprised of the face up cards of the player hands is compared to the table 80 of ranked hands for the bonus wager. If the bonus hand rank is in the table 80, the winning amount is credited to the player and may be printed on a voucher 76 for payment by a cashier or they may be paid in coins or other monetary tokens by the terminal itself. After the bonus wager is settled, the base game is completed and any winnings are paid out in the same fashion.

Alternatively, the standalone machine may be a personal computer, hand-held device, or mobile telephone. The standalone machine can be part of a wired or wireless network. Wagers can be made by debits to credit cards, debit cards, or other cash equivalent. Payouts can be made by crediting credit cards, debit cards, or other bank account, by dispatching gifts, or by any other method wherein the player is credited with the amount won.

Thus, it has been shown and described a bonus wager that satisfies the objects set forth above.

Since certain changes may be made in the present disclosure without departing from the scope of the present invention, it is intended that all matter described in the foregoing specification and shown in the accompanying drawings be interpreted as illustrative and not in a limiting sense.

I claim:

1. A method of playing a game with at least one deck of cards, said game comprising the steps of:

- affording a player the opportunity to place a bonus wager;
- dealing out said cards to each of a plurality of hands;
- forming a bonus hand from at least one of said cards from each of a subset of said plurality of hands;
- identifying said player as a winning player if said player placed said bonus wager and said bonus hand has a predetermined rank; and
- paying said winning player a payout.

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2. The method of claim 1 wherein said bonus hand is formed from cards that are dealt face up.

3. The method of claim 1 wherein said hands are player hands.

4. The method of claim 3 wherein said bonus hand is 5 formed from at least one card from each of said player hands.

5. The method of claim 3 wherein said bonus hand is formed from cards that are dealt face up.

6. The method of claim 1 wherein said hands are player hands and at least one banker hand.

7. The method of claim 6 wherein said bonus hand is 10 formed from at least one card from each of said player hands and at least one card from each of said at least one banker hand.

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8. The method of claim 6 wherein said bonus hand is formed from cards that are dealt face up.

9. The method of claim 1 wherein said bonus hand is a poker hand.

10. The method of claim 1 wherein said payout is a multiple of said bonus wager.

11. The method of claim 1 wherein said payout is paid by a banker.

12. The method of claim 1 wherein said bonus wager is placed in a pot and said payout is paid from said pot.

* * * * *

UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE PATENT TRIAL AND APPEAL BOARD

SG GAMING, INC., fka BALLY GAMING, INC., Petitioner

v.

NEW VISION GAMING & DEVELOPMENT, INC, Patent Owner

U.S. Patent No. 7,451,987 (the '987 patent)

Case No. CBM2018-00006

PATENT OWNER'S REQUEST FOR DIRECTOR REVIEW

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I. Introduction

This Request for Director Review (“Request”) requests review of three decisions in CBM2018-00006: the Institution Decision of June 22, 2018; the Final Written Decision entered on June 19, 2019; and the Decision on Rehearing of November 20, 2019 (the “Decisions”). The Request identifies several matters that the Board misapprehended or overlooked. This Request is filed pursuant to a remand from the U.S. Court of Appeals for the Federal Circuit. *See New Vision Gaming & Development, Inc. v SG Gaming, Inc.*, No. 20-1399, ECF 110 (Fed. Cir. Dec. 3, 2021). The court retains jurisdiction pending decision of this review.

The two primary issues presented for Director Review are: 1. Did the Board panel err in denying enforcement of a forum selection clause? 2. Does the AIA institution process and procedure violate due process?

Patent Owner also identifies several other issues that are ripe for review by the Director. Given the page limit for the present submission, Patent Owner relies on previous briefing in this proceeding and at the Federal Circuit, as the parties (including the Patent Office) have fully briefed and argued the issues.

II. Factual Background

The ’987 patent describes and claims a variation on poker played with a standard deck of cards. After cards are dealt to players, the players contribute cards into a separate bonus hand. That bonus hand is evaluated under poker rules, and depending on the evaluation, a bonus amount is paid to one or more of the

players. None of the prior art of record shows a hand assembled by combining cards from the players. The assembly of the hand from multiple players balances strategy and randomness in a way that makes a good card game.

Mr. Feola's company New Vision Gaming licensed the invention to Bally Gaming, since renamed SG Gaming. In the license agreement, the parties agreed that all disputes would be submitted exclusively to courts in the county surrounding Las Vegas, Bally/SG's home turf (Ex. 2006):

[13f]. Governing Law and Forum. . . . In the event of any dispute between any of the parties that cannot be resolved amicably, the parties agree and consent to the exclusive jurisdiction of an appropriate state or federal court located within the State of Nevada, Clark County, to resolve any such dispute.

The license set termination conditions for royalty payments (Ex. 2006). The game was commercially successful: Bally/SG paid New Vision royalties for several years. *See New Vision Gaming & Development, Inc. v. Bally Gaming, Inc.*, No. 2:17-cv-01559-APG-PAL (D. Nev. Sep 29, 2017) (ECF No. 1 ¶ 11), and Bally/SG continues to license it to casinos today. In 2017, SG stopped paying royalties, even though the contracted-for termination conditions had not been met. Bally/SG continued to derive substantial revenues from the game. After several letters back and forth, New Vision sued to collect back royalties in Las Vegas federal court but did not allege patent infringement. *Id.* (ECF No. 1).

Instead of complying with its contractual obligation to litigate any dispute in Nevada, Bally/SG filed this CBM petition in December 2018. The Board instituted review in June 2019 and issued a final written decision in October 2019. New Vision appealed to the Federal Circuit. *See New Vision Gaming & Development, Inc. v. Bally Gaming, Inc.*, 996 F.3d 1378 (Fed. Cir. 2021). On December 3, 2021, the Federal Circuit ordered a remand to the PTO for a Director review in view of the decision in *United States v. Arthrex, Inc.*, 141 S. Ct. 1970, 1986 (2021), while retaining jurisdiction over the appeal. *New Vision*, No. 20-1399 (ECF 110).

After an extension of time was granted, this request is timely as filed within thirty days after the Court's order of February 4, 2022. No. 20-1399, ECF 121.

III. The CBM Should Be De-Instituted Because the Board Misapprehended the Legal Principles Governing Forum Selection Clauses

The CBM should be dismissed because the forum selection clause contractually prevents SG Gaming from filing a petition for CBM review. That legal obligation is sufficient to reverse the Board's institution decision, particularly in view of the Federal Circuit's recent decision in *Nippon Shinyaku Co. v. Sarepta Therapeutics, Inc.*, 25 F.4th 998, 1005-06 (Fed. Cir. Feb. 8, 2022).

A. Procedural Background Regarding the Forum Selection Clause

After Bally/SG twice breached its agreement—first by prematurely terminating royalty payments, and second, by filing the CBM petition—Patent

Owner explained that institution should be denied based on the parties' agreed-to forum selection clause. *See* Paper No. 6, at 16-17. Binding precedent holds that forum selection clauses are "prima facie valid and should be enforced unless enforcement is shown by the resisting party to be 'unreasonable' under the circumstances." *M/S Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 10 (1972).

The Decision to Institute granted institution, notwithstanding the contractual forum selection clause. The Board offered only two reasons for disregarding the forum selection clause: (a) no injunction had issued from any court *requiring* the Board to dismiss, and (b) Patent Owner had not identified "authority . . . that explicitly provide[s] for a contractual estoppel defense." Paper 19 at 9-11. The Board's institution decision seemingly does not address or even cite the Supreme Court's *Bremen* decision.

In the Final Written Decision, the Board reaffirmed its decision for the same reasons. *See* Paper 47 at 7-8. The Board stuck with the same conclusion when the Patent Owner filed its request for rehearing. *See* Paper 49 (decision on rehearing). Although the Board did acknowledge *Bremen* in its denial of Patent Owner's request for reconsideration, it did not explain why the Board could ignore SG Gaming's contractual obligation to bring any and all patent-related disputes in "an appropriate state or federal court located within the State of Nevada, Clark County." Ex. 2006, at 6 ¶ 13(f).

B. Forum Selection Clauses are Presumptively Enforceable

The Federal Circuit’s first decision in this case of May 13, 2021, vacated the Board’s decision pursuant to *Arthrex*. 996 F.3d at 1380-81. The court did not reach the forum selection clause issue. *Id.* Even so, Judge Newman’s partial dissent and partial concurrence explained that:

[P]recedent requires respecting an agreed selection of forum. *See M/S Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 9–10 (1972) (“Forum-selection clauses . . . are prima facie valid and should be enforced unless enforcement is shown by the resisting party to be ‘unreasonable’ under the circumstances.”); *see also Powertech Tech. Inc. v. Tessera, Inc.*, 660 F.3d 1301, 1310 (Fed. Cir. 2011) (stating that, where mandatory “shall” language is used to designate the proper forum, “the forum selection clause should be enforced”).

Id. Thus, even when the court decided New Vision’s appeal, at least one of the three judges understood that the forum selection clause should have warranted a denial of SG’s petition.¹

Since the Board’s disregard of the forum selection clause in this case, the Federal Circuit has issued an important precedential decision that recognizes the importance of a forum selection clause in the context of Board proceedings. In

¹ The other two judges of the *New Vision* panel may likewise agree, but, given the *Arthrex*-based remand, there was no need to reach the forum selection clause issue.

Nippon Shinyaku, 25 F.4th at 1005-06, the Federal Circuit reversed the opinion of District Court Judge Stark that had declined to enforce a forum selection clause.² The Federal Circuit ordered the district court to issue an injunction against further proceedings in the Board. *Id.*

In doing so, the Federal Circuit explained its concern about letting the patent challenger have multiple bites at the apple:

We also agree with *Nippon Shinyaku* that the balance of hardships tips in its favor. Without a preliminary injunction, *Nippon Shinyaku* will suffer the irreparable harm previously described, and Sarepta will potentially get multiple bites at the invalidity apple, including in a forum it bargained away. In contrast, if a preliminary injunction is entered, Sarepta will still have an opportunity to litigate the invalidity of *Nippon Shinyaku*'s patents, but it will have to do so only in the District of Delaware rather than also at the Board. Again, our holding in *General Protecht* is directly on point: "Having contracted for a specific forum, [Sarepta] should not be heard to argue that the enforcement of the contract into which it freely entered would cause hardship." 651 F.3d at 1365.

Id. at 1009.

² Judge Stark has since been confirmed to the Federal Circuit and will assume his place on the court when Judge O'Malley retires in March.

The Federal Circuit also put to rest any concern that a forum selection clause—including the type to which SG Gaming agreed—is against public policy.

Finally, with respect to the public interest, we reject the notion that there is anything unfair about holding Sarepta to its bargain. While it is certainly true that Congress desired to serve the public interest by creating IPRs to allow parties to quickly and efficiently challenge patents, it does not follow that it is necessarily against the public interest for an individual party to bargain away its opportunity to do so. It is well established that forum selection clauses “are *prima facie* valid and should be enforced,” *M/S Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 10 (1972), and we have held that “[t]here is no public interest served by excusing a party’s violation of its previously negotiated contractual undertaking to litigate in a particular forum.” *Gen. Protecht*, 651 F.3d at 1366.

Id. In other words, the public interest is disserved if the Board enables a party to violate its contractual obligation to bring a patent dispute in district court.³

³ The outcome in *Nippon Shinyaku* is similar to the outcome in *Dodocase VR, Inc. v. Merchsource, LLC*, 767 Fed. App’x 930, 933, 936 (Fed. Cir. 2019) (non-precedential), which the Board previously did not apply correctly here.

C. The Board Misapprehended Several Relevant Legal Principles

In the Board’s view, “Patent Owner had not identified any controlling authority—such as by statute, rule, or binding precedent—that would require us to deny institution.” Paper 19 at 9-11. To the contrary, Patent Owner identified Supreme Court authority that holds that “forum selection clauses are *prima facie* valid and should be enforced unless enforcement is shown by the resisting party to be ‘unreasonable’ under the circumstances.” Paper 6 at 17-18; *see also Nippon Shinkyaku*, 25 F.4th at 1009 (relying on *Bremen* as “binding precedent”). The panel gave not a word to explain how Supreme Court decisions are *not* authority. The panel’s failure to consider relevant factors is arbitrary and capricious. *Motor Vehicle Mfrs. Ass’n of U.S., Inc. v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 43 (1983).

Second, the Board declined to honor the forum selection clause because no court injunction had issued. Paper 47 at 7-8. The panel misapprehended the basic relationship between a right and a remedy. *Cf. Nippon Shinkyaku*, 25 F.4th at 1005 (injunction requires, as a prerequisite, “likelihood of success on the merits”); *Dodocase*, 767 Fed. App’x at 935 (same). A legal right—such as the contractual right to litigate the patent issue exclusively in federal district court—does not spring into existence because of a later-issued remedy—such as an injunction. The appropriate tribunal issues the appropriate remedy in response to the pre-existing right.

Here, the Board's Decisions do not dispute the existence of the underlying right. Paper 19 at 9-11; Paper 47 at 7-8. The Board disputed only whether it should be enforced in absence of an injunction from an Article III court. A "clear error of judgment" is arbitrary and capricious. *State Farm*, 463 U.S. at 43.

Third, the Board incorrectly refused to respect the forum selection clause because the Board believed that no court had recognized a broad principle of "contractual estoppel." The panel misapprehended two basic legal principles: the specific controls over the general concept of contractual estoppel, *Gozlon-Peretz v. United States*, 498 U.S. 395, 407 (1991), and adjudicators may not redefine the issues presented in order to decide something else, *see* 5 U.S.C. § 555(b); § 557(c).

Patent Owner presented no argument invoking any general "contractual estoppel." The issue presented was the specific issue of *Bremen*: presumptive enforceability of a forum selection clause. Paper 6 at 17-18. The panel identified no authority that had *rejected* either a doctrine of "contractual estoppel" or the enforceability of a forum selection clause. Nor did the Board identify any *per se* carve-out from the panel's "complete discretion to deny institution" for *any* reason. *Cf. Shaw Indus. Grp. v. Automated Creel Sys.*, 817 F.3d 1293, 1303 (Fed. Cir. 2016) (Reyna, J. concurring) ("The PTO's claim to unchecked discretionary authority is unprecedented."). The panel's only response was to decide an issue not presented. The panel's decision was arbitrary and capricious because of its

failure to consider relevant factors as driven by the valid and enforceable forum selection clause. *See State Farm*, 463 U.S. at 43.

Each of these errors reflects something more than a garden-variety “overlooking” or “misapprehension” of fundamental legal principles. The panel’s errors should raise the Director’s gravest concern.

IV. The PTAB Should Reopen the Proceeding to Address the Due Process Violations Raised by New Vision

A. The Due Process Problem

On appeal, New Vision raised an important question of whether the inherent tie between the PTAB’s institution decisions of AIA reviews and the substantial revenue generated by those decisions—which account for about 40% of the PTAB’s trial proceedings budget—has created a structural bias unlike any other in the federal executive branch.⁴ New Vision’s briefing showed, based on the evidence then available, that PTAB executives and APJs impermissibly mix administrative and judicial functions that create, at a minimum, an appearance of

⁴ The Due Process issue has been fully briefed in the appeal based on the then-available records. *See New Vision Gaming*, No. 20-1399 (Fed. Cir. Jun. 30, 2020), ECF No. 29, 77, 82. Counsel for the PTO has fully responded to the arguments. *See* ECF No. 67.

bias. The available evidence also showed that post-institution fees are instrumental to APJ compensation (including bonuses), and the same APJs make the decisions to grant institution and thus generate that revenue for the PTAB. New Vision's briefing also explained how the structural bias is magnified by an APJ's lack of judicial independence. APJs are subject to performance reviews by superiors, including other APJs as well as other PTO officials. Those performance reviews, which depend in part on productivity, help determine the APJ compensation and retention. This situation is completely unlike an Article III judge or an administrative law judge, who cannot receive bonuses, and the situation further contributes to the impermissible structural bias inherent in the AIA institution decisionmaking process.

Additionally, New Vision explained how the PTO's practice of designating the same panel for institution phase and trial phase contributes to the due process violation. The fact that the same PTAB panel decides the institution decision and the final decision exacerbates the pecuniary influence.

The Federal Circuit did not decide the due process issue in the present case, though it did decide it on certain facts in *Mobility Workx, LLC v. Unified Patents, LLC*, 15 F.4th 1146 (Fed. Cir. 2021). That decision is still open to appeal, however, and the patent owner in *Mobility Workx* merely relied on the same factual record that New Vision had separately developed. That is exactly why the Director here should reopen the proceeding so that the Board can consider a more complete

record based on evidence obtainable directly from the PTO (rather than through only FOIA requests) and based on analyses that have expanded on the due process issue since the time of the *Mobility Workx* decision.

For instance, according to one analysis, the data show that an APJ earns on average an incremental \$255 bonus when granting institution and an incremental \$314 per final decision when cancelling claims.⁵ In contrast, the same study showed that an APJ earns only \$2 for final decisions that uphold all challenged claims.

Second, in an April IP Watchdog webinar, James Carmichael—a former APJ himself—explained that a “structural incentive” exists, and skews the balance in favor of institution:

There is a structural incentive to get credit for writing final written decisions. ***You get more credit for doing the final written decisions, and the only way to get those credits is to institute.*** And once you’ve done the work of deciding whether to institute, it’s a good deal from a

⁵ See <https://www.law360.com/articles/1396001/ptab-judges-bonus-structure-draws-scrutiny-in-new-report>; Ron Katznelson, *The Pecuniary Interests of PTAB Judges—Empirical Analysis Relating Bonus Awards to Decisions in AIA Trials*, (June 21, 2021), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3871108.

credit perspective, the amount of additional work that you would do to get to the final written decision, in my opinion. It's a good deal.⁶

Judge Newman's dissent in *Mobility Workx* draws on both constitutional principles and cognitive science to explain how the current arrangement, where the same panel decides both institution and trial phase, violates due process and the Director's duty to ensure fairness, impartiality, and equity. *See Mobility Workx*, 15 F.4th at 1163 (Newman, J., dissenting) (citing Philip E. Tetlock, Linda Skitka & Richard Boettger, *Social and Cognitive Strategies for Coping with Accountability: Conformity, Complexity, and Bolstering*, 57 J. Personality & Soc. Psychol. 632, 633 (1989)).

B. The Potential Remedy

First, the Director should consider the due process issue in the first instance. Doing so will address the PTO's earlier complaint that New Vision did not raise the issue before the Board. Doing so will also allow of additional record development, beyond the limited documents available through FOIA requests.

Second, the Director can correct this problem on his or her own authority, and immediately, by modifying the procedure for assigning PTAB panels. For

⁶ IP Watchdog, *PTAB Masters 2021, Day 3*, (Apr. 21, 2021), at 2:07:33

<https://www.ipwatchdog.com/video-archive/ptab-masters-2021-day-3-april-21-2021>.

example, the Board can be separated into two separate divisions: an institution division and a trial division. The two divisions would have independent budgets, independent APJ compensation schemes, and independent performance reviews. Because the APJs of the institution division would be paid from non-refundable fees collected for institution decisions that are non-refundable regardless of whether the institution petition is granted, there would be no coupling between the outcomes of those institution decisions and the workload of the institution division or any financial arrangement. Similarly, because PTAB trial division will not determine the institution rate, the outcomes of the initial decisions will not directly affect the workload and compensation of APJs in the trial division.

Appointment of APJs to each division may be on delegation of the Director. Though the barrier between the divisions should be long-term, the law has enough flexibility that APJs can be reassigned from one division to the other, so long as the PTAB maintains safeguards to ensure independence. It would be non-problematic to reassign an APJ from the trial division to the institution division (subject to other requirements of law). When an APJ must be reassigned from the institution division to the trial division, the reassigned APJ should not participate in a trial that he/she instituted.

V. Other Issues

New Vision identifies additional issues that the Director ought to consider when ruling on the present Request. First, *Arthrex* requires a review by the PTO Director, and the PTO has no current Director. This Request should be stayed until a Director is in place. *See* 5 U.S.C. § 3348(d).

Second, the PTO has not issued proper regulations concerning the form and review of Requests for Director Review. The PTO purports to have mandated a page limit and restriction on incorporation by reference for Requests for Director Review, but those limits are posted only on the PTO's website and not issued as valid regulation. *See* 35 U.S.C. § 326(a)(4). Given the apparent page limit, New Vision incorporates by reference the arguments it presented to the Federal Circuit in its motion for reconsideration. *See* New Vision, No. 20-1399, ECF No. 111.

Third, the APA governs decisions on “agency review of the decision of subordinate employees,” 5 U.S.C. § 557(b), and therefore the Director must provide a decision with “the reasons or basis therefor, on all the material issues of fact, law, or discretion presented on the record,” *id.*

VI. CONCLUSION

For the foregoing reasons, the Request should be granted, and the Board's institution decision should be reversed.

Date: March 7, 2021

A handwritten signature in blue ink, appearing to read 'R. Baker, Jr.', with a stylized flourish extending to the right.

Richard A. Baker, Jr., Reg 48, 124

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing REQUEST FOR DIRECTOR REVIEW was served via PTABE2E and email on March 7, 2022, on the attorneys for the Petitioners:

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Paper 53

Entered: June 7, 2022

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE OFFICE OF THE UNDERSECRETARY AND DIRECTOR OF
THE UNITED STATES PATENT AND TRADEMARK OFFICE

SG GAMING, INC., f/k/a BALLY GAMING, INC.,
Petitioner,

v.

NEW VISION GAMING & DEVELOPMENT, INC.,
Patent Owner.

CBM2018-00006
Patent 7,451,987 B1

Before KATHERINE K. VIDAL, *Under Secretary of Commerce for
Intellectual Property and Director of the United States Patent and
Trademark Office.*

ORDER

Appx9228

CBM2018-00006
Patent 7,451,987 B1

The Office has received a request for Director review of the Final Written Decision in this case. *See* Ex. 3100. The request was referred to me. I have considered the request, and I deny Director review.

Accordingly,

It is ORDERED that the request for Director review is denied; and

FURTHER ORDERED that the Patent Trial and Appeal Board's Final Written Decision in this case is the final decision of the agency.

CBM2018-00006
Patent 7,451,987 B1

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CERTIFICATE OF COMPLIANCE

This brief complies with the word-length limitation of Federal Circuit Rule 32(a). This brief contains 13,962 words, excluding the portions set forth in FRAP 32(f) and Federal Circuit Rule 32(b). This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type style requirements of Federal Rule of Appellate Procedure 32(a)(6). The brief has been prepared in a proportionally spaced typeface using Microsoft® Word and 14-point Century Schoolbook type.

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Dated: September 6, 2022