

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 CBM2018-00005
Patent No. 7,325,806 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. 7,325,806 B1 (Ex. 1001, “’806 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 ’806 patent. Pet. 25–31. 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 ’806 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 ’806 patent based upon Petitioner’s challenge.

A. *Related Matters*

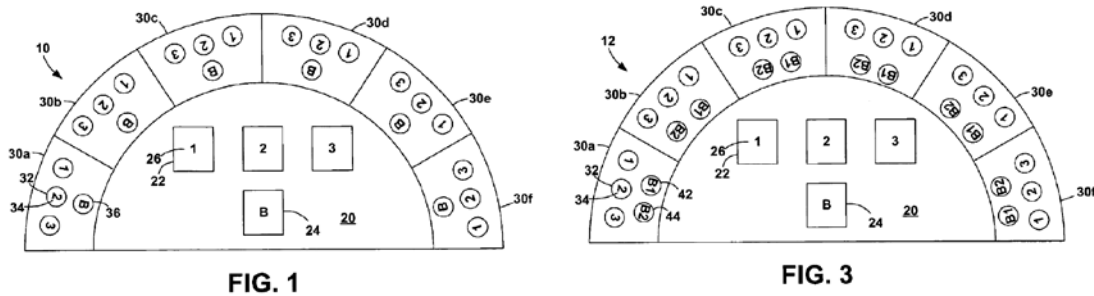
The parties represent that they are involved in lawsuit alleging a breach of an existing patent license agreement in *New Vision Gaming &*

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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 '806 Patent

The '806 patent is directed generally to a method of playing a bonus wager in a card game. Ex. 1001, (54). The '806 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, 2:48–50. Referring to Figures 1 and 3 (reproduced below), the '806 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 3:40–50.



Figures 1 and 3 show a table layout of a game with three player hands and one banker hand. *Id.* at 2:30–33, 35–37. As shown in Figures 1 and 3, dealer position 20 has banker hand location 24 for the one banker hand. *Id.* at 3:48–50. Symbols 26 at each player hand location 22 are the player hand identifiers, which are typically numerals running sequentially from “1”. *Id.* at 3:50–52.

According to these figures, “[e]ach player position 30 includes a symbol 32 containing a player hand identifier 34 corresponding to each

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player hand location 22. Ex. 1001, 3:55–57. “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, 3:61–64.

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, 3:65–67. Figure 2 is provided below to better illustrate the described game.

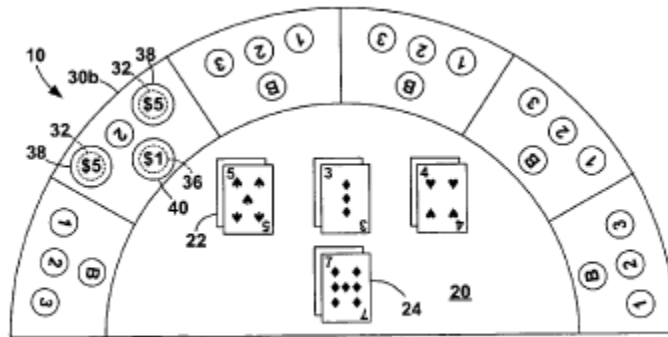


FIG. 2

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 3:67–4:2. The wagered amount is indicated by any marker or markers that acceptably signify value, such as cash, chips, or credit vouchers. *Id.* at 4:2–4. 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, 4:5–8.

To participate in a bonus wager, the player places the amount to be wagered on the appropriate bonus wager location. Ex. 1001, 4:13–15. After all wagers are placed, the dealer deals out the predetermined number of

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hands. *Id.* at 4:30–31. The bonus hand of the present invention is composed of at least one card from each player hand. Ex. 1001, 4:39–40. Optionally, the bonus hand is composed of at least one card from each player hand and the banker hand(s). Ex. 1001, 4:52–53. 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, 4:49–51.

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 only one 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; and
 - (e) paying said winning player a payout.

D. The Asserted Ground

Petitioner contends claims 1–12 of the '806 patent are unpatentable under 35 U.S.C. § 101 as directed to non-statutory subject matter. Pet. 25–31.

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E. Claim Construction

Petitioner proposes constructions for the terms “wager,” “payout,” “card,” “deck of cards,” and “hand.” Pet. 22–23. 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 under “Related Matters” as required by 35 U.S.C. § 322(a)(4)¹; 37 C.F.R. 42.8(b)(2). *Id.*; Sur-Reply 9–11. 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 '806 patent, and Bally responded to New Vision's complaint in part with an affirmative defense and counterclaim that the '806 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 '806 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 '806 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 '806 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 '806 patent and U.S. Patent No. 7,451,987 (the '987 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. 7–8. 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

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located within the State of Nevada, Clark County, to resolve any such dispute.”

Ex. 2005, 7. 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 ’806 patent unpatentable.” Sur-Reply 5. For additional support, Patent Owner refers to the court’s decision in *Dodocase VR, Inc. v MerchSource, LLC*, 17-cv-07088-EDL (N.D. Cal., March 26, 2018) ordering the parties in that case to initiate procedures to withdraw the Petitions. Sur-Reply 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 based on settlement 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

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Patent Owner pointed 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

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have determined that the games at issue do not fall within the scope of the 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. *Id.* Patent Owner further maintains that the related district court litigation is a

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breach of contract suit and that Petitioner has not been sued for infringement. Prelim. Resp. 12 (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 ’806 patent, and Bally responded to New Vision’s complaint in part with an affirmative defense and counterclaim that the ’806 patent is invalid. (Ex. 1002 ¶¶ 2-3; Exs. 1008, 1003, 1004.)” Pet. 7–8.

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, 2; *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 ’806 patent, and Bally responded to New Vision’s complaint in part with an affirmative defense and counterclaim that the ’806 patent is invalid.” Pet. 7–8. 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 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 '806 patent. Pet. 8. 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 '806 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, “[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 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 ’806 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. 11–16. 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 ’806 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 ’806 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, 3:13–30.

In an example bonus wager game, the ’806 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, 4:2–4.

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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, 4:13–15.

The ’806 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, 4:21–28.

Continuing with the example shown in Figure 2, with respect to “paying” a “payout,” the ’806 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, 5:39–48.

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 ’806 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

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aspect. The only physical aspects recited in the 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 ’806 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 ’806 patent, playing card games, use of bonus wagers, and ranking for payout were known and conventional. Ex. 1001, 1:27–40 (“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 2:52–57 (“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

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solves a technical problem using a technical solution. Based on the foregoing, on this preliminary record, Petitioner persuasively shows that the '806 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.

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Ct. 2347. In *Alice*, the Court applied the framework set forth previously in *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*

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Power Grp., LLC v. Alstom S.A., 830 F.3d 1350, 1353 (Fed. Cir. 2016).

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,” *Intellectual Ventures I LLC v. Capital One Bank (USA), N.A.*, 792 F.3d 1363, 1367 (Fed. Cir. 2015), 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

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before the Supreme Court and [the Federal Circuit].”). In undertaking that 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 ’806 patent are directed to the abstract idea of allowing bonus wagers in a wagering game. Pet. 25. 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. 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 ’806 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, 1:22–25. 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, 3:31–37.

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 ’806 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 ’806 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 only one 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

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predetermined rank; and

(e) paying said winning player a payout.

Ex. 1001, Claim 1. The '806 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, 1:27–40. Specifically, the '806 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.

Ex. 1001, 1:27–40. 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 '806 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

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hand, and, separately, paying a bonus wager and payout, which are also conventional activities according to the '806 patent. *See* Ex. 1001, 1:27–40. 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*, 132 S. Ct. at 1297–98).

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 '806 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 '806 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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