

# The Vital Role of Patent Law in the Gaming Industry

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**I**N JUNE 2005, Mars Electronics International (MEI) added another entry to the long (and growing) list of lawsuits that have been filed to assert infringement of a gaming patent. What is a gaming patent, and why should the gaming industry care? A gaming patent is generally any patent relating to technologies and innovations affecting the casino gaming industry, and the industry should care because these patents can mean the difference between keeping and surrendering hard-earned profits. In 2004, the Las Vegas Strip alone brought in over \$5 billion in revenues,<sup>1</sup> and for every cent of that earned by one company, there is undoubtedly another company looking to compete for that same revenue. Patents provide a way of protecting market territory, and in an industry as large as gaming, protecting that territory is vital.

To be fair, the industry is not quite ignoring patents. The filing of the MEI case was reported in the industry press, and future happenings in the case (and others) will certainly be reported, so there are those in the industry who know their patents. To some others, however, patents may be like that distant cousin at a family reunion—someone you feel you *ought* to know more about, but just do not. For those others, this article will provide some background information on how patent law intersects with the gaming industry, and on how those in the industry can incorporate patent law into their businesses.

## PATENT BASICS

The notion of patents and patent protection in the United States is as old as the nation itself. Our founding fathers included, at Article I, Section 8, of the Constitution, the power of the Congress to establish a patent system “To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” Congress has done so, and today the U.S. patent laws are found at 35 U.S.C. §§ 1 et seq.

### *What is a patent?*

It is a common misconception that a patent grants the inventor the right to use his or her invention. This is not quite accurate—a patent grants the inventor the right to *exclude others* from making, using, selling, offering to sell, or importing the inventor’s invention.<sup>2</sup> In the MEI case, the plaintiff has asked the court to issue an injunction preventing the defendant from using, making, and selling the products that allegedly infringe the plaintiff’s patents.

A patent document itself looks fairly straightforward. There is a detailed description of the invention (or inventions, since most inventions have multiple embodiments and variations), a number of drawings to help illustrate the concepts, and at the end, there is a series of numbered claims. The claims define the scope of the patent, much like the boundary descriptions on a deed to a piece of land. Each claim lists the

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<sup>1</sup> Statistics obtained from the American Gaming Association at <http://www.americangaming.org>.

<sup>2</sup> 35 U.S.C. § 271.

various features that are required to infringe that claim (and hence, infringe the patent). As an example, the first claim in one of the patents asserted by MEI reads as follows:

1. A shutter arrangement for a document handling apparatus, comprising:

a channel;

a shutter capable of obstructing the channel and pivotable about a pivot axis into or out of the plane of the document; and,

an elongate actuating member extending away from the pivot axis and connected to the shutter so that actuation of the member pivots the shutter so as to define a moving assembly, wherein the mass of said moving assembly is so distributed that the assembly does not exhibit any turning moment about said pivot axis on vibration of the document handling apparatus to which the pivot axis is connected.<sup>3</sup>

Such claim language hardly rolls off the tongue, and it may not be obvious from the claim that the patent relates generally to bill acceptors (e.g., the part of a vending machine that accepts dollar bills). Accordingly, the proper interpretation of patent claims is the key focus when dealing with a patent. In fact, patent cases often turn on the interpretation of a single word used in a claim, and the MEI case may well turn on the proper meaning of “elongate” (e.g., how long or wide?), “pivots” (e.g., how much pivoting is required?), or other words appearing in the claims of the patent.

#### *How is a patent obtained?*

To procure a patent, the inventor (or his/her representative) must prepare a patent application document that fully explains the invention and provides enough detail in its written description to enable a person skilled in the art to make and use the invention, and which includes a number of claims setting forth the scope of the patent.<sup>4</sup> This application is then filed at the U.S. Patent and Trademark Office (PTO), where it will be assigned to an exam-

iner who is already familiar with the technology to which the invention pertains.<sup>5</sup> The examiner will consider the application, in view of the prior art (articles, books, products, etc. that already existed before the inventor’s invention), and will either issue a rejection if the proposed claims are obvious or not novel in view of the prior art, or an allowance if the examiner concludes that the claims are indeed novel and not obvious. Most applications are rejected at first, and the rejection begins a back-and-forth dialog between the inventor and the PTO, where the inventor can modify the claims and present arguments to show how the applicant’s claims are actually novel in view of the prior art. This dialog can easily take several months, and usually takes several years, to complete.

#### *How do you use a patent?*

**District court litigation.** As MEI has done, one of the most basic uses for a patent is to enforce it in court. Because patent rights arise under federal laws,<sup>6</sup> federal district courts have jurisdiction over patent cases.<sup>7</sup> A patent owner alleging patent infringement can file a suit in district court and seek injunctive relief to stop the alleged infringing activities.<sup>8</sup> The patent owner can also seek monetary damages,<sup>9</sup> and even attorney fees if the case is deemed exceptional.<sup>10</sup>

Resolving the lawsuit will involve the traditional tasks found in other lawsuits, such as discovery, summary judgment, trial, etc. Patent cases also tend to complicate things a bit with

<sup>3</sup> U.S. No. 5,577,589 (issued Nov. 26, 1996), available at <http://www.uspto.gov>.

<sup>4</sup> 35 U.S.C. § 112.

<sup>5</sup> The PTO has thousands of examiners to cover all areas of technologies, ranging from abacus technology (classification 434/203) to zoo technology (classification 119/712, for the breaking and training of animals, other zoo technologies may have different classifications). Class information is available at <http://www.uspto.gov/web/patents/classification/uspcindex/indextouspc.htm>.

<sup>6</sup> 35 U.S.C. §§ 101 et seq.

<sup>7</sup> 28 U.S.C. §§ 1331 (general federal jurisdiction over laws of the United States), 1338(a) (specifically identifying patents).

<sup>8</sup> 35 U.S.C. § 283.

<sup>9</sup> 35 U.S.C. § 284.

<sup>10</sup> 35 U.S.C. § 285.

a so-called *Markman* proceeding, named after the Supreme Court's 1996 decision in *Markman v. Westview Instruments, Inc.*<sup>11</sup> In *Markman*, the Supreme Court ruled that the interpretation of a patent claim was a matter of law for the district court. That ruling, coupled with the fact that many patent disputes center on the proper meaning of the claim terms, meant that district courts could potentially dispose of a lawsuit by first resolving the parties' disputes as to the proper meaning and scope of the patent claims.

Courts resolve these disputes by holding *Markman* proceedings. *Markman* proceedings are akin to miniature trials, where the only goal of the "trial" is to resolve disputes as to the meaning of the words appearing in the patent claims. These proceedings typically include prehearing discovery, briefing, and then the formal hearing for the parties to present evidence and argument supporting their positions on how certain terms should be construed. Following the hearing, the court will issue an opinion formally construing the patent claims, and that decision will guide the rest of the case. For instance, that decision may form the basis for settlement, or summary judgment as to infringement, or identify key facts about the accused product that will need fact discovery.

Of course, the verdict at the end of a trial does not always end the litigation. Appeals are common in all types of lawsuits, and patent cases are no exception. Contrary to the typical non-patent district court case, where appeals are taken up with the U.S. Circuit Court of Appeals in which the district court is geographically located, patent case appeals from district courts all over the country are all heard at the Court of Appeals for the Federal Circuit in Washington, D.C.<sup>12</sup> From there, further appeals may even be taken up with the U.S. Supreme Court.

**U.S. International Trade Commission.** A typical patent suit may take several years to progress from initial filing to final judgment, as district courts are faced with an overwhelming volume of cases and issues to resolve. As a quicker alternative, many patentees are turning to an alternative forum in which to air their complaint: the U.S. International Trade Commission (ITC). Title 19 of the U.S. Code governs

customs and duties pertaining to the importation of goods into the United States, and section 1337(a)(1)(B) of that title prohibits the importation of articles that infringe a valid U.S. patent.

The ITC is tasked with investigating potential violations of this law, and upon finding a violation, has the authority to issue an exclusion order preventing the further importation of the infringing article.<sup>13</sup> Because many companies, including companies in the gaming industry, use manufacturing facilities located outside the United States, an ITC exclusion order would be just as crippling as a district court's injunction<sup>14</sup> and may be an effective way for a patentee to enforce his/her rights.

As noted above, ITC proceedings may be a quicker alternative to district court proceedings. By law, the ITC is required to respond to a complaint within 30 days with a decision as to whether the complaint merits an investigation (e.g., if the complaint is in the proper form),<sup>15</sup> and, within 45 days of initiating an investigation, the administrative law judge assigned to the case must issue a target date by which the investigation will be completed. If that target date exceeds 15 months, that target date can be subject to interlocutory review,<sup>16</sup> so typical target dates do not exceed 15 months. This means that within just over two months of filing the complaint, the patentee will have a fairly concrete, and relatively short, timeline for getting resolution. District courts are not required to meet such a target date, and most cases (particularly patent cases) take longer than 15 months<sup>17</sup> to complete. Indeed, according to a current docket sheet for the MEI case,

<sup>11</sup> 517 U.S. 370 (1996), *aff'g* 52 F.3d 967 (Fed. Cir. 1995)(en banc).

<sup>12</sup> Congress established this court in 1982 and bestowed it with exclusive appellate jurisdiction over patent cases (among other types of case). The Federal Courts Improvement Act, 96 Stat. 25 (1982).

<sup>13</sup> 19 U.S.C. § 1337(d)(1).

<sup>14</sup> The ITC does not, however, have authority to award monetary damages for infringement.

<sup>15</sup> 19 C.F.R. § 210.10.

<sup>16</sup> 19 C.F.R. § 210.51.

<sup>17</sup> By way of example, a current docket sheet for the MEI case indicates that discovery is expected to be completed by September 2006 (15 months from the filing of the complaint).

that case is only expected to have discovery completed at its fifteenth month.

**Nonlitigation uses.** District court suits and ITC investigations are just two ways in which patents may be used, both of which involve formally litigating the patents. Another fairly common use, which does not involve formal litigation, is in licensing and/or transfers. Patent rights are freely assignable and have the attributes of personal property,<sup>18</sup> so it is not uncommon for companies to buy and sell their patents like they would any other asset. For example, companies exiting a particular business area may wish to license and/or transfer their patents in that area to another entity. Conversely, acquiring a patent portfolio in a new business area may be an effective way to gain entrance to that area.

Another use is defensive in nature, and is accomplished by simply holding on to patents. When a company accumulates a significant volume of patents, that volume acts as a deterrent against suits by market rivals, as those rivals would fear a countersuit. The fear of a countersuit may bring rivals to the bargaining table to work out a business solution to their patent disputes, and may help both companies avoid the high costs of patent litigation.

### THE INTERSECTION OF PATENTS AND GAMING

Given the ways in which a patent can be used, and the significant revenues available in the gaming industry, it should come as no surprise that many individuals and companies in the gaming industry are already taking advantage of patents on their innovations. The following section highlights the more recent, and more notable, intersections between patent law and the gaming industry.

#### *Recent gaming patents*

Some recent gaming patents illustrate the breadth of the kinds of inventions that can be patented (patents are not just limited to scientific inventions), and the level of gaming patent activity over at the PTO.

U.S. Patent No. 6,974,132,<sup>19</sup> entitled “Method of Play and Game Surface for a Dice Game Having a Progressive Jackpot,” was issued Dec. 13, 2005, and relates to a particular way of betting for a dice game. The particular dice game in this patent allows players to place two (or more, of course) bets on a roll of a pair of dice. The first bet identifies “hard way” pairs of die rolls, much as found in craps, and pays out if the roll results in the designated pair of numbers (e.g., snake eyes, a pair of threes). The second bet identifies one number on the die, and if the player wins the first bet, the player gets to roll one die again, and receives an additional payout if that second roll results in the number identified in the player’s second bet.

U.S. Patent No. 6,969,316, entitled “Method of Playing Single or Multiple Hand Twenty-One Card Game,” was issued Nov. 29, 2005, and is assigned to gaming industry veteran International Game Technology (IGT). This patent relates to a method of allowing a blackjack player to play multiple hands of blackjack at the same time, and involves allowing the player to establish rules for how his various hands will be played (when to hit or stand, when to double-down, etc.). The rules involve, for example, a point value being assigned to the various cards in the hands.

Patent activity is not, of course, limited to game methods, and current patents are being obtained for technological devices as well. For example, U.S. Patent No. 6,935,949, entitled “Continuous Play Slot Machine and Retrofit Kit,” relates to a device that can be attached to a slot machine to cause the machine to toggle between a continuous mode of play and a manual mode of play. According to the patent, this invention makes it easier for the old or infirm to play their slot machines. As another example, U.S. Patent No. 6,959,925, entitled “Automatic Card Shuffler” and issued Nov. 1, 2005, relates to a particular type of device used to automatically shuffle decks of cards for use in different games.

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<sup>18</sup> 35 U.S.C. § 262.

<sup>19</sup> All of the patents described here are available at the PTO Web site, <http://www.uspto.gov>.

### *Current Litigation*

As the filing of the MEI complaint demonstrates, the gaming industry is also actively litigating its patents. The MEI case is in the early stages, and the gaming industry can only wait to see how that case plays out.

Currently pending before the U.S. Court of Appeals for the Federal Circuit is *Action Gaming, Inc. v. Alliance Gaming Corp.*,<sup>20</sup> a case in which IGT and Action Gaming, Inc. had been awarded damages at trial in excess of \$7 million for patent infringement by rivals Alliance Gaming and United Coin Machine.<sup>21</sup> The patents at issue related to certain types of electronic video poker games, and the jury concluded that the defendants infringed these patents through their Multi-Play Poker games.<sup>22</sup>

In another case, *Harrah's Entertainment, Inc. v. Station Casinos, Inc.*,<sup>23</sup> the plaintiff (Harrah's) sought to enforce a group of patents relating to monitoring and coordinating information regarding a customer's gaming and nongaming activity across multiple locations, such as a customer's performance at different casinos. At issue in that case was the claim phrase "theoretical win profile." After hearing evidence from the parties on how this term should be construed, the Nevada district court concluded that the claim term was indefinite<sup>24</sup> because the patent specification did not provide sufficient description on how such a profile was to be computed. The district court's ruling in this case was recently affirmed on appeal by the Federal Circuit.<sup>25</sup>

### *Historical relationship between patent law and gaming*

The gaming industry has also had several historic cases that served to shape precedent in substantive patent law. The most famous perhaps is *WMS Gaming, Inc. v. International Game Technology*.<sup>26</sup> That case helped define the way in which a certain type of claim language, known as "means plus function" claim language, is to be interpreted in today's computer-driven world.

"Means plus function" claim limitations are used as a matter of convenience to patent applicants and allow the applicant to claim a physical structure by listing the function it per-

forms, instead of calling the structure out by name.<sup>27</sup> For example, if an invention involves holding two pieces of wood together, but the invention doesn't care whether the wood is held together by nail, screw, bolt, or adhesive, the applicant would rather not have to say "nail" in the claim, because that claim would not cover infringers that used a screw. The applicant could file four separate claims (one saying "nail," one saying "screw," one saying "bolt" and one saying "adhesive"), but applicants have to pay for the claims they file, and that could quickly run up the application costs to ridiculous levels. "Means plus function" language allows the applicant to claim this structure as a "means for holding two pieces of wood together," and that claim language would be construed to cover all of the corresponding structures (nail, screw, etc.) described in the patent for holding the wood together.

In the *WMS Gaming* case, the patent claimed a "means for assigning," and the structure described in the patent for doing this assigning was a programmable processor. The patent also described an algorithm performed by the processor to do the assigning, but in construing this claim phrase, the patentee argued that the limitation should be construed to just require the processor, so that any processor that did the claimed assigning would meet that claim limitation. The court disagreed, however, and found that the corresponding structure for such a computerized invention was not just the

<sup>20</sup> No. 05-1287 (Fed. Cir. filed Feb. 25, 2005).

<sup>21</sup> *IGT/Action Gaming Awarded Damages in Alliance Suit*, Press Release, IGT available at <http://www.igt.com> (Sept. 27, 2004).

<sup>22</sup> Briefing on this appeal is pending at the time of this writing and scheduled to be completed in early 2006.

<sup>23</sup> 321 F. Supp. 2d 1184 (D. Nev. 2004).

<sup>24</sup> In violation of 35 U.S.C. § 112, para. 2.

<sup>25</sup> No. 05-1144, 2005 U.S. App. LEXIS 26067, 2005 WL 3086716 (Fed. Cir. Nov. 15, 2005).

<sup>26</sup> 184 F.3d 1339 (Fed. Cir. 1999).

<sup>27</sup> Codified at 35 U.S.C. § 112, para. 6, which states "[a]n element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof."

processor, but was actually the processor programmed with the specific algorithm described in the patent for doing the assigning.<sup>28</sup> This had the effect of dramatically limiting the scope of “means plus function” claims involving programmable processors, and stands today as one of the most-cited cases for the interpretation of “means plus function” claims that involve computer programs.

As another example, the *Mikohn Gaming Corp. v. Acres Gaming, Inc.* case<sup>29</sup> also established precedent that is still cited today. In that case, Acres Gaming sent notices to Mikohn’s customers, informing them that the products they had purchased from Mikohn were believed to infringe Acres Gaming’s patents. Mikohn alleged that these notices constituted tortious interference with business relationships, a state law violation, and obtained a preliminary injunction on that count. In evaluating the likelihood of success on the underlying claim (a factor in awarding preliminary injunction), the Federal Circuit needed to first decide whether federal law, or state law, should apply. The Federal Circuit ultimately concluded that federal law needed to apply, be-

cause the patent laws actually permit a patentee to provide certain types of notice in order to obtain certain damages, and applying consistent federal law would be necessary to avoid the risk of having one set of actions be permitted under federal patent law but impermissible under a state’s tortious interference law.

## THE PATENT CONNECTION

The progress of the MEI case, and others like it, will likely be followed and reported in the gaming industry press, and it is the author’s hope that the discussion above has helped shed some light on the role that patents play in the gaming industry. And perhaps at that next family reunion, that distant cousin won’t seem so distant anymore.

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<sup>28</sup> 184 F.3d 1339, 1348–9 (“In a means-plus-function claim in which the disclosed structure is a computer, or microprocessor, programmed to carry out an algorithm, the disclosed structure is not the general purpose computer, but rather the special purpose computer programmed to perform the disclosed algorithm.”).

<sup>29</sup> 165 F.3d 891 (Fed. Cir. 1998).