

GAMBLING ON PATENTS: The Impact of Patents in the Gaming Industry

By Lars Perry

I. Introduction

Patents have had and continue to have a significant impact on the gaming industry. Every year, millions of dollars are spent by Nevada gaming manufacturers to file for, prosecute and litigate patents. The objective of these activities is usually a strategic one - in order to protect innovation, exclude competitors from certain market segments or create cross-license opportunities. The end result ripples all the way through to casino product offerings or services provided to customers.

II. Patent Law Overview

A patent is an exclusive right granted by the United States government in exchange for the inventor publicly disclosing an invention. It is one of the few areas in which the government is authorized by law to grant a monopoly, allowing the patent holder to restrict others from practicing or using the invention. Patent applications are filed with the United States Patent and Trademark Office (USPTO), which engages in a series of communications with the inventor to determine whether the invention is novel and non-obvious and should ultimately result in the issuance of a patent. The scope of coverage granted protection for an invention is what is referred to as the "claims" of a patent, and the issuance of a patent provides the patent holder exclusive right to make, use, sell, or distribute the patented invention.

The remedies for infringement of a patent can be both legal and equitable. Frequently, what captures the public's attention are the sizable damage awards. For example, in May of 2009, Microsoft Corp., the world's largest software maker, was ordered by a federal jury to pay \$200 million to a Canadian company over a patented way to process electronic documents in Microsoft's Word products. However, potentially more threatening for the accused infringer

is equitable relief in the form of an injunction. This weapon gives the patent holder a significant weapon in dealing with an accused infringer and gaming companies have not hesitated to use it against competitors to gain an edge in the market.

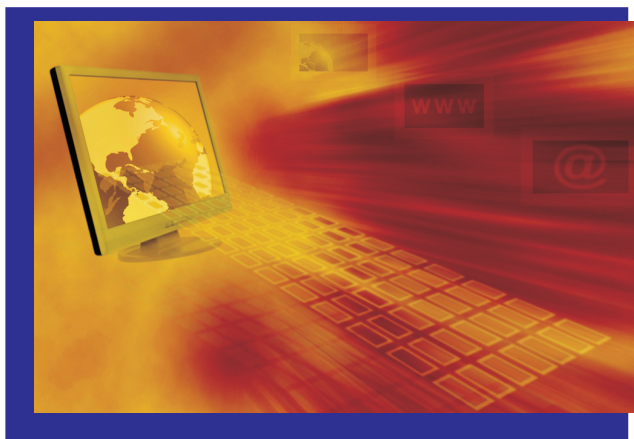
Given the economic power of this tool, it is natural that the patent holder would attempt to leverage its value. Accordingly, the patent holder will approach a potential infringer and allege it infringes the claims contained in the patent. In doing so, the patent owner commonly takes the position that its claims are very broad. In response, the alleged infringer will customarily give the claims a very narrow reading and counter either that it does not infringe the claims, or that the patent is invalid. This underscores one of the biggest challenges involving patents; differing opinions of what the claims mean and what they cover. This is compounded as the claim language often contains words may be subjective, ambiguous or poorly phrased.

To resolve the issues surrounding claim interpretation, patent litigation has a unique process referred to as the Markman, or claim construction, hearing. This is a pretrial hearing where a judge determines the meanings of key words used in a [patent claim](#). The court, in turn, will then determine patent infringement cases by the interpretation of claims. The Markman hearing is extremely important to litigants in further assessing the true scope and applicability of the claims. Unfortunately, for the parties attempting to resolve earnest differences of opinion in the scope of the claims, the Markman occurs well into the litigation process. Additionally, these orders are frequently overturned by the Federal Circuit Court of Appeals. As a result, the parties often become firmly entrenched in their position and a joint resolution remains difficult to achieve.

An additional complexity in patent litigation worth noting is the highly confidential nature of the subject matter. During the course of discovery, the two parties are required to turn over documents covering their business and technology. Naturally, this information is extremely sensitive and would cause significant damage in the hands of a competitor. As a result, discovery information is frequently designated as “highly confidential” and can be reviewed only by counsel of record and designated experts. This adds another challenge in reaching a resolution, as the parties must lean heavily on their counsel for liability and damage assessment.

III. IP in the gaming industry:

The gaming industry is currently one of the more litigious in the area of intellectual property. Over the past fifteen years, the majority of manufacturers have been at either the plaintiff or defense table in a patent action. IGT and Bally have litigated over game and system patents, IGT and Aristocrat over games and payout features, and Acres Gaming and Anchor over game features. In addition, Shuffle Master and Bally have litigated over table game technology, JCM and MEI over bill validator components, and WMS and Sigma over bonusing. For many, patent litigation is now just a normal component of business.



The genesis of this litigation and the importance of patents to the manufacturers in gaming can be largely attributed to the success of IGT in enforcing its Telnaes patent (U.S. no. 4,448,419) in the 90's. This invention patented virtual mapping, a method for using a computer program to allow for a much greater number of stopping positions for reels on a slot machine. IGT set out to license the patent to other manufacturers. When one of the manufacturers resisted, IGT was ultimately able to obtain an injunction restricting the operation of infringing slot machines. That impact awakened the industry to the potential of strategic patenting and the necessity of building a comprehensive patent portfolio.

Over the ensuing years, a number of successive business models were built with the protection of patents. A joint venture between IGT and Anchor successfully used wheel based patents to establish a protective barrier for their Wheel of Fortune game. Action Gaming used patents pertaining to its Triple Play Poker to differentiate its game from other competitors. Taking it even further, a pooling of patents now allows for the license of cashless gaming to companies in the industry.

The creation and maintenance of a patent portfolio is now instrumental for survival in today's industry. Gaming companies now spend millions of dollars on an annualized basis prosecuting patents. The larger manufacturers file more than a thousand patent applications combined a year in an effort to protect their key innovations. Additionally, smaller companies and inventors are actively filing patent applications on a wide range of innovations, from game features to system components.

The end result is the gaming space has now become quite crowded with intellectual property. For example, a general search containing the terms “gaming” and “casino” lists over three thousand issued patents and seven thousand published applications. If the search terms are expanded to encompass fields such as networked gaming, systems and other standard technologies, the patent landscape expands exponentially.

The surge of patent filings is not unique to gaming, as other industries have targeted intellectual property. The USPTO is currently overwhelmed by the sheer volume of filings, with over one million patent applications awaiting review. This in turn has extended the amount of time it may take for an application to work its way through the system and ultimately become a patent. It is not uncommon for a patent in the gaming space to take more than five years to issue. Ironically, the product for which the patent was intended to apply to may have already run its life cycle and no longer be sold.

IV. Adopting IP Strategy in today's Environment:

Currently, there are no fewer than five gaming manufacturer patent lawsuits in various stages of litigation. These lawsuits are extremely expensive, complex, and time consuming, and often have uncertain or unanticipated results. Even after final adjudication by the lower court, the Federal Circuit Court of Appeals routinely overturns the lower courts' decisions. The end result is greater costs for everyone, including consumers who ultimately participate through higher priced products. Given these considerations, it would be beneficial to encourage alternatives to the litigation merry-go-

round which has consumed the gaming industry.

A number of considerations would support gaming manufacturers moving towards a reasonable licensing model versus a practice of technology exclusion. Aristocrat, IGT, Shuffle Master, Bally and other companies have all had key patents invalidated by the courts over the last several years. The recent KSR decision by the U.S. Supreme Court has modified the test for determining whether a patent should be invalidated for obviousness, softening up on evidence which can be admitted on this issue. Additionally, the prospect of patent reform is being bantered around by Congress and new legislation may affect the process of challenging a patent after it has been issued, the calculation of damages and jurisdictional issues. There is also the reality that due to the regulatory requirements for gaming, many of the technologies adopted have already existed in other industries for a number of years.

Other industries have recognized the value of cross-licensing arrangements to eliminate the time, expense and uncertainty of patent litigation. Under one form of cross-license arrangement, each party may grant the other access to general core technologies, while at the same time setting aside patents which may differentiate unique features of their product. The challenge under this type of structure is determining what sections of each company's portfolio should or should not be licensed. Simpler still are cross-license arrangements which authorize use of each party's entire patent portfolio, allowing for products to simply compete in the marketplace. Market leaders such as Microsoft and Toshiba have cross-licensed each other to computer and consumer electronics products technologies. Similarly, Sony and Samsung have cross-licensed each other to patents covering core technologies in areas such as semiconductor, digitization and networked technology. These arrangements eliminate the tension between organizations resulting from the need to reach agreement on a patent-by-patent basis.

The success of a cross-licensing model by gaming companies will depend upon the participants modifying their mindset to the changing dynamics of the market. The new reality is that the sheer volume of intellectual property makes the majority of IP less valuable on a patent by patent basis. Due to the regulatory aspects of gaming, the technologies for gaming often lag behind other

industries. For example, current gaming technologies are migrating towards a networked-based architecture and the amount of potential IP that may arguably touch on some aspect of the network is overwhelming. With the explosion of patent related filings, there may be thousands of potential patents that touch upon microprocessors, systems, communications, components and other related areas of the network. This in turn makes it difficult to attribute a significant value to an individual patent.

Admittedly, this paradigm shift is somewhat difficult. The past success of companies using patents to protect key market segments is fresh. Participants will have to move away from the view that their patents exclusively cover broad swathes of technology. Owners will need to be more realistic assessing the monetary value of their patents. From a licensor's perspective, a royalty fee equating to five

percent of gross revenue for a product may seem like a reasonable target. However, for a potential licensee looking at a large number of potentially relevant patents, signing several such licenses suddenly make the costs of manufacture and placement of product prohibitive.

V. The Future

Whether a greater number of gaming companies will move from the court room to the bargaining table will remain to be seen. Certainly, most have learned the lesson that developing a strong patent portfolio is a necessary and important element in today's business environment. The end result is that very few gaming companies are without risk in targeting their competitors for an infringement action. If they do, they open themselves up to a counterattack. Given these increased risks and the changed litigation landscape, the natural course is for the gaming industry to eventually join other industries in seeking cross license opportunities.

Lars Perry is Vice President of Intellectual Property for Bally Technologies, where he handles patent, licensing, litigation and other related matters. Previously Lars served as General Counsel for Sierra Design Group (2000-2004) until its acquisition by Bally and oversaw all legal matters for the company. Lars is a graduate of the University of San Diego (1990), where he received a J.D. and Masters in International Business. He has practiced law for 20 years and is admitted to the Nevada and California bars. [NGL](#)

