

2020-1399, -1400

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

NEW VISION GAMING & DEVELOPMENT, INC.,
Appellant,

v.

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

and

ANDREI IANCU, Undersecretary of Commerce for
Intellectual Property and Director of the United
States Patent and Trademark Office,
Intervenor.

On Appeal from United States Patent and Trademark Office, Patent Trial and
Appeal Board in Nos. CBM2018-00005 and CBM2018-00006

**REPLY BRIEF OF APPELLANT NEW VISION
GAMING & DEVELOPMENT, INC.**

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TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
ARGUMENT	3
I. Neither SG Nor The PTO Refutes The Significant Structural Bias Associated With The AIA Institution Process	3
A. The PTO Focuses on Out-of-Date Funding Schemes	3
B. PTAB Leadership and Its Dual Roles of Adjudicator and Financial Executive Cause Pecuniary Bias.....	8
C. APJs Have a Pecuniary Interest in Their Institution Decisions	12
D. The PTO’s Case Law Does Not Support Its Position	13
E. SG’s Limited Response to the Due Process Violation	16
II. The Due Process Argument Is Not Waived	18
III. The Institution Decision Arbitrarily Violates The Parties’ Contractual Obligations.....	20
A. The Decision is Reviewable Under <i>Thryv</i>	21
B. The Institution Decision is Arbitrary and Capricious Because It Authorizes a Private Party to Violate Its Contractual Obligations	26
IV. The Proceeding Should Be Remanded Under <i>Arthrex</i>	28
A. The <i>Arthrex</i> Challenge Has Not Been Waived	28
B. Because the <i>Arthrex</i> Issue has not been Waived, the Case Should be Remanded if the Court Reaches the Issue.....	30
V. The PTAB’s § 101 Decision Is Erroneous.....	30

A.	The PTO Does Not Defend the § 101 Decision	30
B.	Section 101 Law and the Correct Application of <i>Alice</i>	31
C.	The Invention Should Be Patent Eligible	32
D.	The § 101 Issue is Not Waived	36
VI.	Conclusion.....	36

CERTIFICATE OF COMPLIANCE

TABLE OF AUTHORITIES

	<u>Page(s)</u>
 Cases	
<i>Adkins v. Children’s Hospital of the District of Columbia</i> , 261 U.S. 525 (1923)	26
<i>Alice Corp. Pty v. CLS Bank International</i> , 573 U.S. 208 (2014)	32, 33, 34
<i>Alpha Epsilon Tau Chapter Housing Association v.</i> <i>City of Berkeley</i> , 114 F.3d 840 (9th Cir. 1997)	15
<i>American Axle & Manufacturing Inc. v. Neapco Holdings LLC</i> , 966 F.3d 1347 (Fed. Cir. 2020)	30
<i>Arthrex Inc. v. Smith & Nephew, Inc.</i> , 941 F.3d 1320 (Fed. Cir. 2019)	28, 29, 30
<i>Avocados Plus Inc. v. Veneman</i> 370 F.3d 1243 (D.C. Cir. 2004)	19
<i>Bennett Regulator Guards, Inc. v. Atlanta Gas Light Co.</i> , 825 Fed. App’x 773 (Fed. Cir. 2020)	25
<i>Concrete Pipe & Products of California, Inc. v.</i> <i>Construction Laborers Pension Trust for Southern California</i> , 508 U.S. 602 (1993)	16
<i>Core Wireless Licensing S.A.R.L. v. LG Electronics, Inc.</i> , 880 F.3d 1356 (Fed. Cir. 2018)	36
<i>Cuozzo Speed Technologies, LLC v. Lee</i> , 136 S. Ct. 2131 (2016)	21, 22, 25
<i>Delaware Riverkeeper Network v. FERC</i> , 895 F.3d 102 (D.C. Cir. 2018)	4, 6

<i>Diamond v. Chakrabarty</i> , 447 U.S. 303 (1980)	33
<i>Diamond v. Diehr</i> , 450 U.S. 175 (1981)	31, 32, 34, 35
<i>Dodocase VR, Inc. v. MerchSource, LLC</i> , 767 Fed. App'x 930 (Fed. Cir. 2019)	27
<i>Doolin Security Savings Bank, F.S.B. v. FDIC</i> , 53 F.3d 1395 (4th Cir. 1995)	14
<i>Esso Standard Oil Co. v. Lopez-Freytes</i> , 522 F.3d 136 (1st Cir. 2008)	9
<i>Ethicon Endo-Surgery, Inc. v Covidien L.P.</i> , 812 F.3d 1023 (Fed. Cir. 2016)	15, 20
<i>Fall Line Patents, LLC v. Unified Patents, LLC</i> 818 Fed. App'x 1014 (Fed. Cir. 2020)	25
<i>Freytag v. Commissioner</i> , 501 U.S. 868 (1991)	18
<i>General Plastic Industrial Co. v. Canon Kabushiki Kaisha</i> , No. IPR2016-01357, 2017 WL 3917706 (P.T.A.B. Sept. 6, 2017)	24
<i>Hammond v. Baldwin</i> , 866 F.2d 172 (6th Cir. 1989)	7, 13
<i>HP Inc. v. MPHJ Technology Investments LLC</i> , 817 F.3d 1339 (Fed. Cir. 2016)	25
<i>Hulu, LLC v. Sound View Innovations, LLC</i> , Case IPR2018-01039, Paper 31, 2020 WL 5924197 (P.T.A.B. Oct. 6, 2020)	8, 9, 14
<i>Humphries v. CBOCS West, Inc.</i> , 474 F.3d 387 (7th Cir. 2007)	36
<i>In re Cisco Systems Inc.</i> , No. 2020-148, 2020 WL 6373016 (Fed. Cir. Oct. 30, 2020)	24, 25

<i>In re DBC</i> , 545 F.3d 1373 (Fed. Cir. 2008)	29
<i>In re Grams</i> , 88 F.2d 835 (Fed. Cir. 1989)	31
<i>In re Smith</i> , 815 F. 3d 816 (Fed. Cir. 2016)	34
<i>Joy Manufacturing Co. v. National Mine Service Co.</i> , 810 F.2d 1127 (Fed. Cir. 1987)	27
<i>Kingston Technology Co. v. Polaris Innovations Ltd.</i> , IPR2016-01621, Paper 26 (P.T.A.B. Oct. 10, 2017)	20
<i>Koninklijke Philips N.V. v. Iancu</i> , 829 Fed. App'x 967 (Fed. Cir. 2020)	24
<i>Lucia v. S.E.C.</i> , 138 S. Ct. 2044 (2018)	29
<i>Lynch v. United States</i> , 292 U.S. 571 (1934)	26
<i>Mayo Collaborative Services v. Prometheus Laboratories, Inc.</i> , 566 U.S. 66 (2012)	31, 32, 33
<i>McCarthy v. Madigan</i> , 503 U.S. 140 (1992)	19
<i>McRO, Inc. v. Bandai Namco Games America, Inc.</i> , 837 F.3d 1299 (Fed. Cir. 2016)	33
<i>Meyes v. Niles Township, Illinois</i> , 477 F. Supp. 357 (N.D. Ill. 1979)	13
<i>Patlex Corp. v. Mossinghoff</i> , 771 F.2d 480 (Fed. Cir. 1985)	4
<i>Perry Capital LLC v. Mnuchin</i> , 864 F.3d 591 (D.C. Cir. 2017)	23

<i>Realtime Data LLC v. Reduxio Systems, Inc.</i> , No. 19-2198, 2020 WL 6228818 (Fed. Cir. Oct. 23, 2020)	30, 31
<i>Rose v. Village of Peninsula</i> , 875 F. Supp. 442 (N.D. Ohio 1995)	9, 10, 16, 17
<i>Ryan v. Bentsen</i> , 12 F.3d 245 (D.C. Cir. 1993)	18
<i>SAS Institute, Inc. v. Iancu</i> , 138 S. Ct. 1348 (2018)	21, 22, 25
<i>Seoul Semiconductor Co. v. Document Security Systems Inc.</i> , IPR2018-00522, Paper 34, 2019 WL 3294830 (P.T.A.B. July 22, 2019)	29
<i>SIPCO, LLC v. Emerson Electric Co.</i> , 980 F.3d 865 (Fed. Cir. 2020)	24
<i>TecSec, Inc. v. Adobe, Inc.</i> , 978 F.3d 1278 (Fed. Cir. 2020)	36
<i>Thryv, Inc. v. Click-to-Call Technologies, LP</i> , 140 S. Ct. 1367 (2020)	<i>passim</i>
<i>Tumey v. Ohio</i> , 273 U.S. 510 (1927)	9
<i>United States v. Benitez-Villafuerte</i> , 186 F.3d 651 (5th Cir. 1999)	15
<i>Utica Packing Co. v. Block</i> , 781 F.2d 71 (6th Cir. 1986)	7
<i>Van Harken v. City of Chicago</i> , 103 F.3d 1346 (7th Cir. 1997)	13, 14
<i>Ward v. Village of Monroeville</i> , 409 U.S. 57 (1972)	<i>passim</i>
<i>Weinberger v. Salfi</i> , 422 U.S. 749 (1975)	19

<i>ZTE (USA) Inc. v.</i> <i>Fundamental Innovation Systems International LLC,</i> IPR2018-00425, Paper 52, 2019 WL 2866003 (P.T.A.B. July 2, 2019)	19, 20
-------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------

Statutes

5 U.S.C. § 706(2)(A)	<i>passim</i>
5 U.S.C. § 706(2)(C)	25
12 U.S.C. § 2250.....	11
12 U.S.C. § 4617(f)	23
25 U.S.C. § 2717.....	10
35 U.S.C. § 2.....	4
35 U.S.C. § 3.....	4
35 U.S.C. § 6(a)	19
35 U.S.C. § 6(b)	19
35 U.S.C. § 42.....	4
35 U.S.C. § 42(b)	3
35 U.S.C. § 42(c).....	3
35 U.S.C. § 101.....	<i>passim</i>
35 U.S.C. § 102.....	22
35 U.S.C. § 103.....	22
35 U.S.C. § 112.....	22
35 U.S.C. § 311(b)	19, 27
35 U.S.C. § 312.....	25
35 U.S.C. § 314(a)	24

35 U.S.C. § 314(d)	22
35 U.S.C. § 315.....	25
35 U.S.C. § 321.....	19, 22
42 U.S.C. § 7178(f)	6, 10
Pub. L. No. 106-113, 13 Stat. 1501A-554 (1999).....	4
Pub. L. No. 112–29, 125 Stat. 284 (2011) (AIA §§ 10 and 18)	3, 4, 24

Rules

37 C.F.R. § 42.71(d)	29
----------------------------	----

Other Authorities

157 Cong. Rec. H4432 (June 22, 2011)	5
<i>Setting and Adjusting Patent Fees During Fiscal Year 2020</i> , 85 Fed. Reg. 46,932 (Aug. 3, 2020).....	6
<i>Setting and Adjusting Patent Fees During Fiscal Year 2017</i> , 82 Fed. Reg. 52,780 (Nov. 14, 2017).....	5
U.S. Patent & Trademark Office, <i>Patent Examiner Count System</i>	17
Ellen Nakashima, <i>Trademark Office to Lay Off Third of Staff by</i> <i>September</i> , Wash. Post (May 30, 2002).....	5

INTRODUCTION

If a district court charged \$20,000 to file a summary judgment motion, and then, after denying the motion, charged another \$27,500 to proceed to the merits—and those fees funded court operations and the judges’ salaries and bonuses—that scheme would be deemed unconstitutional. That funding arrangement would create the appearance of improper pecuniary interests, even without any actual bias on the part of the judges. Numerous cases have so held.

The PTAB process is little different. A petitioner pays a first large initial fee with the petition. If the APJs want, the case proceeds to the “trial” stage, and the petitioner pays a second large fee, thus guaranteeing more PTAB revenue. The financial revenue from institution are necessary to support 40% of the PTAB’s AIA budget and its operation as a “business unit” within the larger PTO “business” model. The financial benefits inure to PTAB leadership and APJs through salaries and bonuses tied to “decisional units.”

There are no material disputes about the facts of the PTAB funding scheme and its decisionmaking and employment policies. What is disputed is whether the inherent financial incentives to grant institution

are enough to violate due process. The PTO points to no other federal agency in which an internal board's finances are so dependent (24% of total budget) on the granting of an initial petition. This structure creates, at a minimum, the appearance of a system that steers decisions towards granting institution and earning fees. Even the PTO's own data suggests a non-random anomaly, as identified by *Amicus* US Inventor as the "October effect."

The issue is not whether New Vision identified any actual bias or wrongdoing. What matters under the Due Process Clause is the appearance of a structural pecuniary incentive for the PTAB and the APJs to institute. Indeed, PTAB institution decisions generate 40% of the PTAB's annual AIA-related fee collections. Other courts have struck down arrangements where the questionable payments amounted to 10%-25% of the adjudicator's total budget.

John Feola invented a new card game used by a major casino company to earn millions. But the casino company doubly reneged on its settlement agreement—first on the license itself, and second by filing the AIA challenge. The independent inventor was forced to face a process tainted with structural pecuniary bias. That violates due process.

ARGUMENT

I. Neither SG Nor The PTO Refutes The Significant Structural Bias Associated With The AIA Institution Process

A. The PTO Focuses on Out-of-Date Funding Schemes

The primary shortcoming of the PTO's response is not acknowledging the PTO's current near-total independent control over the fees it charges, collects, and internally allocates. The current funding scheme is so vastly different from pre-AIA schemes that older precedent does not support the PTO's arguments.

The AIA is the culmination of an extraordinary consolidation of PTO control over its own funding, making the agency unlike most, if not all, federal agencies. The PTO now has near-complete independence from the Congressional appropriations process, with a dedicated exclusive fund within the Treasury Department for PTO fees. 35 U.S.C. § 42(b),(c). The PTO now sets its own fee levels, without the need to seek Congressional approval. AIA § 10(a)(1). The PTO is also a "performance-based" agency, statutorily mandated to run on business principles to serve its "customers." And the PTAB itself runs as a "business unit," with the expectation that fees paid will support the PTAB's "business unit" expenses. Appx4392.

This was not always the case. Before 1990, PTO user fees went into the general Treasury, and then Congress decided how much to appropriate, with little correlation to the PTO total fees collected. Appx4390. This former funding scheme was in operation when *Patlex Corp. v. Mossinghoff*, 771 F.2d 480 (Fed. Cir. 1985), was decided.

In 1990, Congress raised PTO fees to cover the PTO's full operating expenses, but the money still flowed through the general Treasury and was ultimately controlled by Congress. Appx4390. From 1990 to 2011, Congressional appropriations were often lower than the PTO's collected fees—sometimes by hundreds of millions of dollars. Appx4390-4391. This older funding structure is similar to the Federal Energy Regulatory Commission's funding structure described in *Delaware Riverkeeper Network v. FERC*, 895 F.3d 102 (D.C. Cir. 2018).

In 1999, Congress mandated that the PTO “shall exercise independent control of its budget allocations and expenditures.” Pub. L. No. 106-113, §§ 4711-4713, 4202-4205, 113 Stat. 1501A-554 to -555 and -571 to -578 (1999), codified at 35 U.S.C. §§ 2, 3, 42. Congress's goal was to have the agency be more “business-like,” with income matching expenses. Indeed, when PTO income later fell, layoffs could happen, as

in 2002 when the PTO laid off 140 trademark examining attorneys.¹ Interestingly, not once does the PTO's brief acknowledge that the agency "operates like a business." 82 Fed. Reg. 52,780, 52,780 (Nov. 14, 2017).

In 2011, with the AIA, the PTO's control over its fee-generation and budget reached its zenith with near-unique budget independence. Indeed, Congress gave the PTO essentially full control over fee collection and usage. *See* 157 Cong. Rec. H4432 (June 22, 2011) (Rep. Bob Goodlatte) (explaining that the AIA "makes clear the intention . . . to appropriate to the USPTO any fees collected"). The PTO's funding since 2013 has conformed to Congress's intention. PTO Br. 4-5 (noting that, "[i]n the last few years, Congress has appropriated to USPTO all the money it collects").

That last point highlights a major flaw in the PTO's response. The PTO repeatedly claims that the agency is at the mercy of Congressional appropriations. *See* PTO Br. 16 ("Where Congress is responsible for

¹ Ellen Nakashima, *Trademark Office to Lay Off Third of Staff by September*, Wash. Post (May 30, 2002), <https://www.washingtonpost.com/archive/politics/2002/05/30/trademark-office-to-lay-off-third-of-staff-by-september/8b9ddbe0-76a1-4635-98e7-311f42ff0091/>.

budget decisions and appropriations, the necessary direct control is absent.”). While true in the past, it no longer is. The PTO effectively knows that it can set fees at the level it wants and retain all the fees it collects this year—including AIA fees.²

That is but one reason why the PTO’s reliance on *Delaware Riverkeeper* is misplaced. *See* 895 F.3d at 112 (noting that “FERC’s fees and charges are ‘credited to the general fund of the Treasury,’ 42 U.S.C. § 7178(f), not placed into its own coffers”).

Although the PTO raises theoretical possibilities about appropriations, PTO Br. 30-31, 35-36, none has occurred. The current reality is that the PTO gets 100% of the fees its sets—fee levels that are decided by PTO and PTAB leadership without Congressional approval.

In short, the PTO invokes an outdated representation of PTO funding, with citations to pre-AIA budgets, reports, and laws. In contrast, the current “pay-to-play” structure for PTAB institution is disturbingly problematic, particularly because the PTAB leadership are

² The PTO recently increased AIA fees by approximately 25%, noting the agency’s “business-like” operations and “changing market needs.” *Setting and Adjusting Patent Fees During Fiscal Year 2020*, 85 Fed. Reg. 46,932, 46,945 (Aug. 3, 2020).

involved in running business operations and budgets as well as deciding cases on the merits. Appx4004. The PTAB has some of the highest-paid, non-presidentially-appointed government employees.³ To maintain that “fee-for-service” model in a “business-like” agency, the PTAB as a whole and each individual APJ are incentivized—whether intentionally or not—to ensure that enough AIA trials are instituted to generate enough fees to support the overall PTAB budget and the APJ salaries.

Again, the correct focus is the appearance of an overarching structural financial bias. If patent owners or petitioners cannot know with reasonable certainty whether petitions are granted or denied based on merits or finances, there is a due process problem. *See Hammond v. Baldwin*, 866 F.2d 172, 177 (6th Cir. 1989) (“The administrative process ‘requires the appearance of fairness and the absence of a probability of outside influences on the adjudicator; it does not require proof of actual partiality.’” (quoting *Utica Packing Co. v. Block*, 781 F.2d 71, 77 (6th Cir. 1986))).

³ With bonuses, an APJ earns almost the same as Article III district court and appeals court judges.

B. PTAB Leadership and Its Dual Roles of Adjudicator and Financial Executive Cause Pecuniary Bias

Undisputed are the dual roles of PTAB leadership APJs. This mixing of executive authority (with PTAB finances responsibilities) and adjudicative authority (with the power to decide patentability) is extremely problematic under the Due Process Clause. *See* NV Br. 35-39.

In a footnote, the PTO contends that the influence of the Chief APJ, Deputy Chief APJ, and Vice Chief APJ is “not relevant” because they were not involved in this case. *See* PTO Br. 33-34 n.5. But that narrow retort misses the broader structural bias argument, and the PTAB’s *Hulu, LLC v. Sound View Innovations, LLC* case only confirms the problematic mixing of responsibilities. IPR2018-01039, Paper 31, 2020 WL 5924197 (P.T.A.B. Oct. 6, 2020)

The *Hulu* case illustrates the very structural bias problems associated with the dual roles of PTAB leadership. There, the original PTAB panel denied institution, but then a different panel comprising PTAB leadership—the Precedential Opinion Panel—overruled the original panel, making it easier to institute AIA review. The original panel later granted the petition, enabling the PTAB to keep the additional revenue for the trial phase. *Id.*

The ultimate problem with instances like *Hulu* is that the PTAB's structure and funding mechanism make it impossible for the public to know whether the PTAB leadership overruled the original panel solely on the merits or also (or even primarily) because PTAB leadership was concerned that the panel decision would necessarily lead to fewer institutions and lower revenue. For this reason, courts have repeatedly found problems when an agency combines adjudicatory and executive decisionmaking responsibilities in a single position. *See Tumey v. Ohio*, 273 U.S. 510, 532 (1927); *Ward v. Village of Monroeville*, 409 U.S. 57, 60 (1972); *Esso Standard Oil Co. v. Lopez-Freytes*, 522 F.3d 136, 146-47 (1st Cir. 2008); *Rose v. Village of Peninsula*, 875 F. Supp. 442, 453 (N.D. Ohio 1995).

The PTO also does not dispute that PTAB leadership is closely involved in PTAB budgeting. *See* PTO Br. 16-17. New Vision did not suggest that the leadership had "control" of the budgeting process, as the PTO wrote. *Id.* The PTAB leadership's substantial involvement in PTAB financial management is enough to be problematic for due process purposes, because the PTAB leadership also decide the merits of petitions and actively influence overall patent policy.

The intermingling is especially troublesome because 24% of all PTAB funding flows directly from institution decisions, as well as 40% of the fees for AIA trials. *See* NV Br. 17-18. The PTO does not dispute these numbers. Nor does the PTO square these numbers with relevant precedent. *See, e.g., Ward*, 409 U.S. at 58 (unconstitutional where fines accounted for between 35% to 50% of the village income); *Rose*, 875 F. Supp. at 450 (unconstitutional where fines accounted for over 10% of village's revenue).

Without being specific, the PTO claims that New Vision's structural bias argument "could jeopardize many government programs for which Congress has established a user-fee system." PTO Br. 38. The PTO identifies no specific "user-fee system" that would be adversely affected, though it cites several statutes without further explanation.⁴ *Id.* at 6-7.

Upon closer inspection, none of the PTO's cited examples appears to be analogous to the PTAB's funding and decisionmaking scheme. *See, e.g.,* 25 U.S.C. § 2717 (range of permissible fees set by Congress); 42 U.S.C. § 7178(f) (no indication of bonuses to be paid to adjudicators).

⁴ The PTO also cites a GAO report, *see* PTO Br. 6, but the relevance of the 23-year-old report is unclear.

Some examples are entirely unrelated to private-party disputes and non-analogous to the PTAB's uncommon two-tiered review for generating revenue and operating as a "business unit." *See, e.g.*, 12 U.S.C. § 2250.

In short, the PTO has not identified a single other federal agency that authorizes employees (who are not administrative law judges) to make fee-generating decisions, adverse to a private party, under a remotely similar funding scheme. The PTO is entirely user-fee funded, with near autonomy over its budget. The PTAB operates as a separate PTO "business unit," with about \$23 million of its budget dependent on fees generated by granting petitions to institute.

Finally, neither the PTO nor SG dispute New Vision's point that *Thryv, Inc. v. Click-to-Call Technologies, LP*, 140 S. Ct. 1367 (2020) makes it all the more important that the institution decision be free from any potential pecuniary bias. With so much at stake for a patent owner or a petitioner—and so much at stake for the PTAB's budget—the agency should be required to structure the decisionmaking process in a manner that removes any appearance of pecuniary bias.

C. APJs Have a Pecuniary Interest in Their Institution Decisions

The PTO has no meaningful disagreement with New Vision’s description of APJ compensation. The PTO also does not dispute that a minimum number of “decisional units” is required for certain ratings and bonus payments. *See* PTO Br. 42.⁵ The PTO’s agreement confirms the pecuniary interest connecting institution decisions with APJ compensation and the “decisional unit” count system.

The PTO tries to rebut this pecuniary interest by reference to *ex parte* appeals. *See* PTO Br. 42. But *ex parte* appeals are not the concern here. They generate far less money per case (as little as \$1,140 for an entire *ex parte* appeal). More importantly, the fees for an *ex parte* appeal do not depend on an APJ’s decision to grant or deny the appeal.

While actual bias need not be shown, the *amicus* brief of US Inventor provides additional cause for concern. PTO data show, at a minimum, some anomaly—“the October effect”—that cannot be explained by the merits. US Inventor’s brief is not dispositive of actual

⁵ While the PTO notes that New Vision cites “extra-record material,” the PTO does not once dispute the authenticity or accuracy of the documents New Vision cites.

bias, but it further supports the concern about tying institution decisions to “decisional unit” quotas to performance reviews and bonuses.

D. The PTO’s Case Law Does Not Support Its Position

The PTO’s cited cases are largely unavailing. No precedent is entirely controlling given the unique scheme of the PTAB’s institution decisionmaking and funding, and the PTO’s misreliance on several cases is worth noting.

In *Hammond*, the Sixth Circuit stated: “[W]e hold to the basic principle that the entire government of a state cannot be disqualified from decisionmaking on grounds of bias when all that is alleged is a general bias in favor of the alleged state interest or policy.” 866 F.2d at 177. The Sixth Circuit’s holding addressed nothing like what the PTAB does. In fact, the appeals court recognized the very principle New Vision argues here—a violation of due process occurs when “the decisionmaker was engaged in both adjudicative and executive functions.” *Id.* at 177 (citing *Ward and Meyes v. Niles Township, Illinois*, 477 F. Supp. 357 (N.D. Ill. 1979)).

The PTO also overlooks the significant differences between APJs and the hearing officers in *Van Harken v. City of Chicago*, 103 F.3d 1346

(7th Cir. 1997). Writing for the Seventh Circuit, Judge Posner noted that the hearing officers had “no quota of fines” to impose and were not paid by the number of hearings resolved. *Id.* at 1353. With APJs, however, their pay, bonuses, and ratings depend in part on “decisional unit” quotas. Appx3822-3823; Appx3835. Further, unlike in *Van Harken*, the PTAB’s overall budget essentially equals the fees collected to cover its operating costs as an independent “business unit.” Appx4128.

Judge Posner also observed that a stronger case for structural bias could stand “[i]f the Director of Revenue of his subordinates were hearing these parking cases.” *Id.* at 1353. That is exactly what can happen with the PTAB decision, for example, as in the *Hulu* case. The PTO has no response to New Vision’s explanation that “[t]he impermissible mixing of judicial and administrative/executive roles is perhaps at its extreme with the Precedential Opinion Panel.” NV Br. 38 (citing Appx4375-4386).

Doolin Security Savings Bank, F.S.B. v. FDIC, 53 F.3d 1395 (4th Cir. 1995), does not answer control the question, as the PTO argues. The plaintiff there did “not isolate certain decisionmakers and indicate reasons why those particular adjudicators are biased.” *Id.* at 1406. New

Vision identifies the specific biases associated with the financial gain for the PTAB and its APJs.

Similarly far-afield is *United States v. Benitez-Villafuerte*, 186 F.3d 651 (5th Cir. 1999), which dealt with an unsupported allegation that INS as a whole was unconstitutionally biased in favor of deporting illegal immigrants. The argument was dismissed in a single paragraph, *id.* at 660, with no analysis to suggest any applicability to the factually distinct PTAB decisionmaking and funding.

The PTO also incorrectly characterizes New Vision's invocation of *Ethicon Endo-Surgery, Inc. v. Covidien LP*, 812 F.3d 1023 (Fed. Cir. 2016). *See* PTO Br. 47-48. Allowing the same PTAB panel to make both institution and final decisions creates some bias, albeit not enough by itself to violate due process. *See* NV Br. 43. But the first-look bias, addressed in *Ethicon* and recognized by other courts, further exacerbates the structural financial bias created with the PTAB process.⁶

⁶ The PTO's reliance on this Court's Internal Operating Procedures misses the mark. *See* PTO Br. 48. A motions panel of this Court does not decide if an appellant provided enough evidence to earn the right to proceed to the merits. The Court also does not earn an additional fee based on whether the motions panel grants the motion. The PTAB does when it grants institution.

Alpha Epsilon Phi Tau Chapter Housing Association v. City of Berkeley, 114 F.3d 840 (9th Cir. 1997), is equally unavailing. There, the agency decisions controlled only 2% to 5% of agency budget. 114 F.3d at 846; *cf. Ward*, 409 U.S. at 58 (unconstitutional where fines imposed by judge accounted for between 35% to 50% of the village income); *Rose*, 875 F. Supp. at 450 (unconstitutional where fines accounted for over 10% of village's revenue).

E. SG's Limited Response to the Due Process Violation

SG suggests that the trial phase does not “implicat[e] any due process issues,” SG Br. 52, but that misses the point. If the initial decision is tainted with improper potential bias, the due process violation is not cured by the trial phase. *See Concrete Pipe & Prods. of Cal., Inc. v. Constr. Laborers Pension Tr. for S. Cal.*, 508 U.S. 602, 617 (1993) (“Even appeal and a trial *de novo* will not cure a failure to provide a neutral and detached adjudicator.”).

SG also incorrectly contends that, to accept the structural bias in AIA institution decisions, the Court would have to find the entire patent examination process biased. While the patent examiner count system

certainly creates some questionable incentives,⁷ those are completely unlike the combination of factors in the AIA review process.

SG incorrectly suggests that, because only \$23 million is at stake, there can be no structural bias. SG Br. 51. The absolute dollar amount is significant, regardless of the scenario. Plus, SG's focus avoids the relevant percentages. Neither SG nor the PTO disputes that about 40% of AIA-related fees are collected only if the PTAB grants institution, amounting to about 24% of the PTAB's collections depending solely on instituting petitions. NV Br. 17; Appx4335-4338. Courts have repeatedly noted that such a large percentage is an important factor. *See, e.g., Ward*, 409 U.S. at 58 (unconstitutional where 35% to 50% of the village income comes from fines); *Rose*, 875 F. Supp. at 450 (10% of village's revenue from fines was unconstitutional).

⁷ *See* U.S. Patent & Trademark Office, *Patent Examiner Count System*, at <https://www.uspto.gov/patent/initiatives/patent-examiner-count-system>.

II. The Due Process Argument Is Not Waived

Both the PTO and SG argue that the due process argument is waived. It is not waived for several reasons.⁸

First, the PTAB itself does not have the authority to decide the due process issue raised in this case. If the PTAB did make the decision, that would itself raise constitutional questions, such as whether three non-ALJ PTO employees can override the PTO Director's decisions in terms of fee allocation, procedure, and other aspects of the PTAB process. Just as it would be beyond the PTO Director's competence to strike down a section of Title 35 as unconstitutional, it is equally beyond the competence of APJs to decide that the PTAB funding and decisionmaking scheme is unconstitutional. *Cf. Ryan v. Bentsen*, 12 F.3d 245, 247 (D.C. Cir. 1993) ("Because the constitutionality of a statutory provision is an

⁸ For consistency, New Vision uses "waiver," as there is no discernable difference between "waiver" and "forfeiture" for purposes of this appeal, and courts frequently use the terms interchangeably, particularly in the non-criminal context. *See Freytag v. Commissioner*, 501 U.S. 868, 894 n.2 (1991) (Scalia, J., concurring in part) (explaining that Supreme Court "cases have so often used them interchangeably that it may be too late to introduce precision"); *id.* ("I shall not try to retain the distinction between waiver and forfeiture throughout this opinion, since many of the sources I shall be using disregard it.").

issue beyond his competence to decide, exhaustion is futile.” (citing *Weinberger v. Salfi*, 422 U.S. 749, 765-66 (1975))).

The PTO makes the curious argument that New Vision should have invoked the PTAB’s “expertise” on “on constitutional challenges.” But as a matter of law, the PTAB does not have any particular expertise in constitutional due process issues. *See* 35 U.S.C. § 6(a) (requiring “scientific ability”). The PTAB itself is only empowered and authorized to decide very narrow and specific questions of patentability. 35 U.S.C. § 6(b); *see also id.* §§ 311(b), 321(b).

Second, the conclusion of non-waiver also follows from other cases. *McCarthy v. Madigan*, 503 U.S. 140, 147-48 (1992) (noting that waiver does not apply when “the challenge is to the adequacy of the agency procedure itself”); *Avocados Plus Inc. v. Veneman*, 370 F.3d 1243, 1247 (D.C. Cir. 2004) (explaining that waiver is particularly inappropriate when the administrative process “may be inadequate because of agency bias”).

Third, there can be little doubt that the PTAB would not have granted New Vision’s requested relief. The PTAB has refused to even entertain briefing on similar issues. *ZTE (USA) Inc. v. Fundamental*

Innovation Sys. Int’l LLC, IPR2018-00425, Paper 52 at 29, 2019 WL 2866003, at *12 (P.T.A.B. July 2, 2019) (declining to entertain due process challenge); *Kingston Tech. Co. v. Polaris Innovations Ltd.*, IPR2016-01621, Paper 26 (P.T.A.B. Oct. 10, 2017) (declining to accept briefing on an *Oil States* Article III challenge).

Finally, SG offers unreasonable suggestions when it writes that “New Vision could have asked for one panel to make the institution decision and a different panel to decide the trial, if instituted” or could have asked the PTO Director himself to make the institution decision. SG Br. 42. The PTO has resisted the former approach, *see Ethicon*, 812 F.3d at 1030-31, and asking the Director to decide institution is impractical and wishful thinking.

III. The Institution Decision Arbitrarily Violates The Parties’ Contractual Obligations

In the present case, it was arbitrary and capricious for the PTO to interfere with—or enable the intentional breach of—a private settlement contract. The PTAB did that by refusing to even consider the parties’ forum selection clause in the settlement agreement. At a minimum, this institution decision should be vacated under 5 U.S.C. § 706(2)(A).

A. The Decision is Reviewable Under *Thryv*

First, at least some PTAB institution decisions are reviewable under *Thryv*, and the Administrative Procedure Act. Indeed, *Cuozzo Speed Technologies, LLC v. Lee*, 136 S. Ct. 2131, 2142 (2016), noted that no APA issue was before the Court: “Cuozzo does not contend that the decision not to allow its amendment is ‘arbitrary’ or ‘capricious,’ or ‘otherwise [un]lawful.’” *SAS Institute, Inc. v. Iancu*, 138 S. Ct. 1348, 1359 (2018), similarly reaffirmed that § 706(2)(A) review is available: “If a party believes the Patent Office has engaged in ‘shenanigans’ by exceeding its statutory bounds, judicial review remains available consistent with the Administrative Procedure Act, which directs courts to set aside agency action ‘not in accordance with law’ or ‘in excess of statutory jurisdiction, authority, or limitations.’”

The PTO and SG cannot be correct when they suggest that *Thryv* precludes essentially all reviewability of the institution decision. SG seemingly wants to preclude any and all review of any institution decision—no matter the decision making process. SG Br. 16 (“Institution decisions are not appealable.”). The Supreme Court said no such thing in *Thryv*. Rather, *Thryv*’s decision rested on “not ventur[ing] beyond

Cuozzo’s holding that § 314(d) bars review at least of matters ‘closely tied to the application and interpretation of statutes related to’ the institution decision.” 140 S. Ct. at 1373. *Thryv* preserves “the strong presumption in favor of judicial review,” does not displace *Cuozzo*’s and *SAS Institute*’s “carve ins” for reviewability of arbitrary and capricious reasoning, and focuses the preclusion analysis on whether it is based on a statute closely tied to the institution decision, such as 35 U.S.C. § 314(d). *See* 140 S. Ct. at 1373.

Importantly, New Vision’s argument does not rest on the application of any “institution-related statute.” New Vision’s appeal on this issue does not implicate the merits of patentability through 35 U.S.C. §§ 101, 102, 103, or 112. Nor does New Vision’s position rely on another “institution-related statute.” *See, e.g.*, 35 U.S.C. §§ 321-329.

Rather, New Vision asks this Court to apply the arbitrary and capricious standard of § 706(2)(A)—which is entirely distinct from the AIA. New Vision’s position depends on whether a federal agency acts arbitrarily and capriciously when the agency takes a discretionary action that has the effect of actively interfering with a private party’s right under a private contract. The answer is yes, as explained below.

Further, New Vision’s argument here is far more limited than other instances where courts have determined that Congress precluded judicial review under the APA. *See, e.g., Perry Capital LLC v. Mnuchin*, 864 F.3d 591, 601, 611 (D.C. Cir. 2017) (barring review based on 12 U.S.C. § 4617(f): “no court may take any action to restrain or affect the exercise of powers or functions of the Agency as a conservator”). There, unlike here, Congress removed any doubt that judicial review, even under the APA, was unavailable.

Indeed, as the PTO and SG both argue, the agency was granted discretion on whether to institute. When that discretion implicates the merits of patentability or the application of an AIA-related statute, *Thryv* prevents this Court from reviewing that decision. Per *Thryv*, the PTO will not be second-guessed on how it interprets or applies most AIA-related statutes in the context of the institution decision.

But when the PTO’s discretionary analysis implicates broader and more fundamental issues—such as private contractual rights and obligations—the standard APA review acts as the safeguard to ensure that the agency follows the law. Indeed, no one could reasonably question

that this Court could review an institution decision if the PTO were making that decision based on the gender of the patent inventor.

This Court's recent applications of *Thryv* have not answered the specific question here. For instance, in *Koninklijke Philips N.V. v. Iancu*, 829 Fed. App'x 967, 967-68 (Fed. Cir. 2020) (non-precedential), the Court ruled that it lacked jurisdiction to entertain the patent owner's APA challenge based on "misapplication" of *General Plastic Industrial Co. v. Canon Kabushiki Kaisha*, No. IPR2016-01357, 2017 WL 3917706 (P.T.A.B. Sept. 6, 2017). That Board decision addressed whether a follow-on petition should be denied based on a number of equitable factors—a decision clearly within the Board's discretion and far different from the forum selection clause ignored in this case. *See infra*.

Other recent decisions are likewise distinguishable. *See, e.g., SIPCO, LLC v. Emerson Electric Co.*, 980 F.3d 865, 869-70 (Fed. Cir. 2020) (whether a patent qualifies for CBM per AIA § 18(d) as a "covered business method patent" is non-appealable); *In re Cisco Sys. Inc.*, No. 2020-148, 2020 WL 6373016, at *2 (Fed. Cir. Oct. 30, 2020) (non-precedential) (no jurisdiction to review decision based on § 314(a)); *Bennett Regulator Guards, Inc. v. Atlanta Gas Light Co.*, 825 Fed. App'x

773, 775 (Fed. Cir. 2020) (non-precedential) (confirming that *Thryv* precludes the Court’s review of § 315(a) time-bar decisions); *Fall Line Patents, LLC v. Unified Patents, LLC*, 818 Fed. App’x 1014, 1017-18 (Fed. Cir. 2020) (non-precedential) (denying mandamus review of the “real parties in interest” finding under § 312(a)(2)).⁹

The issue is not whether APA review is available. *Cuozzo* and *SAS* plainly say it is. The relevant issue—and the admittedly more difficult question—is when a party can challenge the institution decision under the APA. Various decisions have referenced “shenanigans,” exceeding statutory authority, and implicating constitutional questions. *See, e.g., Cisco Sys.*, 2020 WL 6373016, at *2. Here, there was a complete error in the applicable standard when the PTAB invoked a non-existent requirement that a patent owner must establish a “contractual estoppel

⁹ SG appears to argue that all APA arguments are foreclosed by *HP Inc. v. MPHJ Technology Investments LLC*, 817 F.3d 1339 (Fed. Cir. 2016). *See* SG Br. 33. But *HP* was decided before *Cuozzo* and *SAS*, and SG’s reading of *HP* cannot be squared with the Supreme Court’s clear language. *See, e.g., SAS*, 138 S. Ct. at 1359 (stating that “judicial review remains available consistent with the Administrative Procedure Act,” citing 5 U.S.C. §§ 706(2)(A), (C)).

defense” in order for the PTAB to consider and respect a contractual forum selection clause. Review here is tailor-made for § 706(2)(A).

B. The Institution Decision is Arbitrary and Capricious Because It Authorizes a Private Party to Violate Its Contractual Obligations

This Court has not ruled on whether the PTAB’s complete disregard of a settlement agreement’s forum selection clause amounts to arbitrary and capricious agency action. Neither the PTO nor SG condone the Board’s refusal to consider the forum selection clause. This Court should hold that, at a minimum, the PTAB must consider the forum selection clause and not rely on a non-existent “contractual estoppel defense.”

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

The AIA includes no hint that Congress wanted the PTAB to facilitate a patent owner's or a petitioner's active disregard of a private agreement's forum selection clause. Nor does the AIA require a patent owner to prove a "collateral estoppel defense" before the PTAB can deny institution. *See* Appx0093-0096 (PTAB noting New Vision's "failure" to prove "a contractual bar/estoppel defense against the institution"). Because AIA reviews are discretionary and Congress established them as an alternative to district court litigation, the reasonable conclusion is that the PTAB should deny a petition when the parties contractually agree to resolve the patent dispute in district court.¹⁰

On appeal, the PTO reiterates the PTAB's distinction of *Dodocase VR, Inc. v. MerchSource, LLC*, 767 Fed. App'x 930 (Fed. Cir. 2019). But the PTAB's observation—that *Dodocase* involved a judicial order—does not support its refusal to even weigh the contractual forum selection

¹⁰ Compare the AIA's discretion for instituting under the AIA with the mandatory requirement of the former *inter partes* reviews. *See* 35 U.S.C. § 311 (2006) (stating that inter partes reexamination "shall" be ordered if reasonable likelihood of prevailing is shown); *cf. Joy Mfg. Co. v. Nat'l Mine Serv. Co.*, 810 F.2d 1127, 1130-33 (Fed. Cir. 1987) (Newman, J., dissenting) (interpreting a settlement agreement as precluding any further challenge to the patent and thus precluding reexamination).

clause without proof of the so-called “contractual estoppel defense.” A patent owner should not be forced to obtain a federal injunction in order for the PTAB to consider and respect the private parties’ settlement agreement and forum selection clause.

In sum, the institution decision should be vacated. The forum selection clause should be a determinative factor in denying institution, absent exceptional circumstances. The Board should consider the parties’ agreement, without imposing a burden on the patent owner to prove a “contractual estoppel defense.”

IV. The Proceeding Should Be Remanded Under *Arthrex*

The only meaningful dispute on *Arthrex Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019), is whether the issue is waived. It was not. Further, all agree that, under *Arthrex*, the case should be remanded—the question is when.

A. The *Arthrex* Challenge Has Not Been Waived

First, the Supreme Court has declined to take up a similar waiver issue raised in *Arthrex* itself. The Court granted *certiorari* on the Appointments Clause issues but denied on the waiver question.

Second, as New Vision explained in its opening brief, “[w]hen a judge has heard a case and issued a decision on the merits, the judge cannot be expected to consider the matter as though he had not adjudicated it before.” NV Br. 66 (quoting *Lucia v. S.E.C.*, 138 S. Ct. 2044, 2055 (2018), and *Arthrex*, 941 F.3d at 1340). Thus, New Vision had no reason to believe that the same PTAB panel would rule any differently, and neither the PTO nor SG addresses the Supreme Court’s guidance here.

Third, SG’s suggestion of filing a “second rehearing request” is infeasible and misunderstands the Board rules. Section 42.71(d) generally closes the door to second requests for rehearing, and the PTAB refused such requests in similar circumstances. *E.g.*, *Seoul Semiconductor Co. v. Document Security Sys. Inc.*, IPR2018-00522, Paper 34 at 29, 2019 WL 3294830, at *11 (P.T.A.B. July 22, 2019) (declining a second request for rehearing). Given the timing of events before the PTAB, the circumstances here qualify as “exceptional,” as the PTO argues is required under *In re DBC*, 545 F.3d 1373 (Fed. Cir. 2008). *See* PTO Br. 22.

Finally, much of SG's waiver argument is largely repeated from its motion. *See* ECF No. 66. New Vision rests on its opposition to avoid unnecessary duplication.

B. Because the *Arthrex* Issue has not been Waived, the Case Should be Remanded if the Court Reaches the Issue

If the Court reaches the *Arthrex* issue, the PTO and SG contend that the necessary remand should be stayed. That argument is premature.

The Supreme Court's decision in *Arthrex* could come as late as June 2021. The most efficient route would be for the parties to address any possible stay after this Court issues its decision here. If the case turns on *Arthrex*, SG can move to stay at that time if it still wants to do so.

V. The PTAB's § 101 Decision Is Erroneous

A. The PTO Does Not Defend the § 101 Decision

The PTO notably does not defend the PTAB's decision on § 101. The PTO could have included a single sentence to support the PTAB's decision, particularly given the apparent coordination between SG and the PTO.

B. Section 101 Law and the Correct Application of *Alice*

Almost all members of this Court have expressed dissatisfaction with the current state of § 101. *E.g., Am. Axle & Mfg. Inc. v. Neapco Holdings LLC*, 966 F.3d 1347, 1357-67 (Fed. Cir. 2020) (six judges dissenting from denial of *en banc*); *Realtime Data LLC v. Reduxio Systems, Inc.*, No. 19-2198, 2020 WL 6228818, at *1 (Fed. Cir. Oct. 23, 2020) (O'Malley, J.) (describing current § 101 law as “complex” and “baffling”).

The only way to find some arguable coherence in the law is to accept the Supreme Court’s three different § 101 tests as mutually exclusive. First, the “machine-or-transformation” test excludes purely mental conceptions, and overbroad claims that embrace purely mental embodiments. *Diamond v. Diehr*, 450 U.S. 175, 187-89 (1981); *In re Grams*, 88 F.2d 835, 840-41 (Fed. Cir. 1989).

Second, the *Mayo/Alice* “inventive concept” test catches combinations that start with something “long prevalent” and combine elements that are so widely used and so readily combined that they don’t add up to an “inventive concept.” *Mayo Collaborative Servs. v. Prometheus Labs. Inc.*, 566 U.S. 66, 72-73 (2012). Under *Mayo/Alice*, at

least some claim elements must be “long prevalent,” and all must be “conventional.” *Alice Corp. Pty v. CLS Bank, Int’l*, 573 U.S. 208, 221-22 (2014).

Third, the pre-*Mayo* “law of nature” test filters out purely natural phenomena that exist without human intervention, even if not previously known to humans. *Diamond v. Chakrabarty*, 447 U.S. 303, 310 (1980).

The Supreme Court’s opinions have considered the three tests as distinct and mutually exclusive, focusing on different aspects of what it views as exceptions to patent eligibility. *Compare Alice*, 573 U.S. at 224 (explaining that it was “beside the point” that a computer was physical, thus noting the distinction from *Diehr*’s focus on “machine-or-transformation”), *with Diehr*, 450 U.S. at 189-90 (explaining that “novelty” is “of no relevance” for § 101).

C. The Invention Should Be Patent Eligible

New Vision’s novel gaming invention should be patent eligible. It was widely-licensed card game that generated millions of dollars in revenue. *See NV Br.* 8-9. Under a correct legal analysis, this type of highly valuable invention should be patent eligible.

The PTAB erred by improperly conflating the legal tests of patent eligibility. The PTAB used the reasoning of *Diehr*'s "machine or transformation" in Step 1 to classify part of New Vision's claim as "rules of a game," and *Alice* Step 2 reasoning to classify the remainder as "conventional." *See* Appx0022-0046.

When the three tests are properly applied, New Vision's novel card game is patent-eligible. Under the *Diehr* "machine or transformation" test, the claims recite and employ a physical "deck of cards" and therefore pass this test. Under the pre-*Mayo* "law of nature" test, the invention involves the use of human-made physical cards.

Under the *Mayo/Alice* "inventive concept" test, Step 1 requires a "long prevalent" feature, considered without "oversimplification." *McRO, Inc. v. Bandai Namco Games Am., Inc.*, 837 F.3d 1299, 1313 (Fed. Cir. 2016). But the PTAB did oversimplify. Claim 1, step (c), requires a bonus hand formed by combining cards *from multiple dealt hands*. Appx0450; Appx2049; Appx1151-52. New Vision explained how the PTAB's analysis departed from Supreme Court precedent. NV Br. 70-73. SG relies on this Court's precedent but does not attempt to reconcile its position to the Supreme Court's three distinct tests.

Indeed, card games similar to New Vision’s novel game have been patented prior to the current confusion with patent-eligibility law. *See, e.g.*, U.S. Patent No. 6,003,870 (method of playing a card game); U.S. Patent No. 5,954,334 (method of playing a card game); U.S. Patent No. 5,395,119 (method of wagering on a baccarat game); U.S. Patent No. 4,659,087 (card game). The PTO even continues to issue patents with similar types of “gaming” claims as in New Vision’s patents. *See, e.g.*, U.S. Patent No. 10,102,707 (issued October 2018, titled “Sorting Games of Chance”); U.S. Patent No. 10,846,994 (issued November 2020 to a method of operating a video poker game with new rules). The PTO’s continued issuance of similar claims may explain the agency’s silence on the § 101 issue here.

With respect to *In re Smith*, 815 F.3d 816 (Fed. Cir. 2016), SG does not dispute New Vision’s explanation that *Smith* can be read as an *Alice* case, where the Step 1 “abstract idea” is chosen for its *Alice* “long prevalent” length and breadth of use, not for its *Diehr* “machine-or-transformation” character. This Court had little choice but to agree with the PTAB that the Step 1 concept was “abstract.” 815 F.3d at 818-19. Even so, *Smith* gave no hint as to whether the “directed to” concept was

“abstract” in the *Diehr* machine-or-transformation sense or in the *Alice* “long prevalent” sense. *Id.*

This Court need only clarify that *Smith*’s Step 1 analysis was an *Alice* “long prevalent” analysis. The applicable analogies between *Smith*’s invention and “exchanging financial obligations” and “hedging risk” were based on length and breadth of use, not machine-or-transformation character. That analogy reconciles *Smith* with *Alice*. But reading *Smith* to rely on *Diehr* for Step 1 and *Alice* for Step 2 leads to a clash between this Court and the Supreme Court.

Unlike the appellant in *Smith*, New Vision consistently argued that the non-conventionality of the “forming only one bonus hand from one of said cards from each of a subset of said plurality of hands” limitation. *E.g.*, Appx1151-1152. Neither SG nor the PTAB identified any evidence to refute the fact that New Vision’s bonus hand is anything other than new. Without evidence of “long prevalent” analogous to that used in *Alice*—a century-old standard treatise, and a current university textbook used worldwide—New Vision’s bonus hand is not “abstract” in the *Alice* sense. The claims are eligible at Step 1.

D. The § 101 Issue is Not Waived

New Vision has not waived its patent-eligibility argument. First, New Vision has consistently argued that the claim language forming the “inventive concept” is step (c), “forming only one bonus hand from one of said cards from each of a subset of said plurality of hands.” Appx1150-1151; Appx1811-1814. Whether a “specific asserted improvement” under Step 1 or “something more” under Step 2, the PTAB never engaged with the specific claim language, instead referring only to generic “rules of a game.”

Second, even if SG were correct, waiver may be excused where an appeal presents a legal issue, particularly in an unsettled area. *Humphries v. CBOCS West, Inc.*, 474 F.3d 387, 391 (7th Cir. 2007). Here, § 101 law is undoubtedly “confused” and “baffling.” Plus, the Court can and should address SG’s fully briefed § 101 arguments. *Cf. TecSec, Inc. v. Adobe Inc.*, 978 F.3d 1278, 1294, 1297 (Fed. Cir. 2020) (addressing Adobe’s “new formulation on appeal”); *Core Wireless Licensing S.A.R.L. v. LG Electronics, Inc.*, 880 F.3d 1356, 1362 n.3 (Fed. Cir. 2018) (same).

VI. Conclusion

For the foregoing reasons, the Court should reverse.

Date: December 15, 2020

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

This brief complies with the word-length limitation of Federal Circuit Rule 32(b)(1). This brief contains 7,000 words, excluding the portions set forth in FRAP 32(f) and Federal Circuit Rule 32(b)(2). This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5)(A) and the type style requirements of Federal Rule of Appellate Procedure 32(a)(6). The brief has been prepared in a proportionally spaced typeface using Microsoft® Word and 14-point Century Schoolbook type.

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Dated: December 15, 2020