

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.

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

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

David E. Boundy
Cambridge Technology Law LLC
P.O. Box 590638
Newton, MA 02459
DavidBoundyEsq@gmail.com
(646) 472-9737

Matthew J. Dowd
Robert J. Scheffel
Dowd Scheffel PLLC
1717 Pennsylvania Avenue, NW
Suite 1025
Washington, D.C. 20006
mdowd@dowdscheffel.com
rscheffel@dowdscheffel.com
(202) 559-9175

*Counsel for Appellant New Vision
Gaming & Development, Inc.*

CERTIFICATE OF INTEREST

Counsel for Appellant certifies the following:

1. The full name of every party or amicus represented by me is:

New Vision Gaming & Development, Inc.

2. The name of the real party in interest represented by me is:

New Vision Gaming & Development, Inc.

3. The parent companies, subsidiaries (except wholly owned subsidiaries), and affiliates that have issued shares to the public, of the parties represented by me are:

None

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court are:

Matthew J. Dowd, Robert J. Scheffel, Dowd Scheffel PLLC
David E. Boundy, Cambridge Technology Law LLC
Richard A. Baker, Jr. (patent agent), New England Intellectual
Property, LLC
Steven Martin, Altman & Martin

5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal are:

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

Date: June 30, 2020

/s/ Matthew J. Dowd
Signature of counsel
Matthew J. Dowd
Counsel for Appellant

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
STATEMENT OF RELATED CASES	3
STATEMENT OF JURISDICTION.....	3
STATEMENT OF THE ISSUES	4
STATEMENT OF THE CASE AND FACTUAL BACKGROUND	5
I. Procedural Background	5
II. Factual Background.....	5
A. John Feola’s Novel Gaming Invention.....	5
B. New Vision and SG/Bally Enter into an Agreement for the Bonus Hand Game.....	8
C. Pursuant to the Forum Selection Clause, New Vision Sues in Nevada District Court to Enforce the Agreement	11
D. The PTAB’s Adjudicatory Process, Fee Structure, and Compensation Structure.....	13
1. The Two-Step Process for AIA Reviews.....	13
2. The Substantial Financial Revenue Generated by AIA Reviews	14
3. PTAB Organization, Financing, and Compensation.....	18
E. Disregarding the Contractual Forum Selection Clause, SG/Bally Files for CBM Review, and the PTAB Cancels the Patents	22
SUMMARY OF THE ARGUMENT.....	25
ARGUMENT.....	28

I. Standard Of Review 28

II. The CBM Decisions Should Be Vacated Because The AIA Institution Process Is Unconstitutional..... 29

 A. The Due Process Clause Entitles a Party to an Impartial and Disinterested Tribunal 29

 B. “Structural Bias” is Enough to Violate the Due Process Clause 32

 C. The PTAB’s Organization, Decisionmaking Process, Fee Structure, and APJ Compensation Scheme Create a Structural Bias that Violates Due Process 34

 1. PTAB Leadership APJs Mix Administrative and Judicial Functions, Creating an Impermissible Appearance of Bias 35

 2. The APJs Make Institution Decisions in the Face of Revenue Consequences, Performance Reviews, Production Requirements, and Bonus Incentives 39

 3. The APJ’s Lack of Judicial Independence Exacerbates the Structural Bias 44

 4. *Thryv v. Click-to-Call* Increases the Potential for Undue Influence from the Structural Bias..... 46

 5. The Structural Bias is Similar to That Held Unconstitutional in Other Cases 47

 6. The AIA Review Structure Is Significantly Different From Cases that Have Rejected a Due Process Challenge 51

 D. The PTO Can Fix the Constitutional Problem 56

 E. The Constitutionality Argument is Ripe 57

III. The PTAB’s Disregard Of The Forum Selection Clause Should Be Set Aside Under 5 U.S.C. § 706(2)(A) 58

 A. The PTAB Abdicated Its Discretionary Authority 58

B.	The Possible Conflict Between <i>Thryv</i> and the APA.....	63
IV.	The Proceeding Should Be Remanded Under <i>Arthrex</i>	64
V.	The PTAB Erred By Holding The Invention As Not Patent Eligible	66
A.	Section 101 Law and the Correct Application of <i>Alice</i>	67
B.	The PTAB Overlooked the Significant Improvement of the Claimed Invention	69
C.	The PTAB Misapplied <i>In re Smith</i> and <i>In re Marco Guldenaar</i>	70
D.	The Proposed Amended Claim is Patent Eligible	73
VI.	Conclusion	73

ADDENDUM

CERTIFICATE OF COMPLIANCE

CERTIFICATE OF SERVICE

TABLE OF AUTHORITIES

	<u>Page(s)</u>
Cases	
<i>ACCO Brands Corp. v. Fellowes, Inc.</i> , 813 F.3d 1361 (Fed. Cir. 2016).....	28
<i>Aetna Life Insurance Co. v Lavoie</i> , 475 U.S. 813 (1986).....	32
<i>Alice Corp. Pty v. CLS Bank International</i> , 573 U.S. 208 (2014).....	<i>passim</i>
<i>Alpha Epsilon Tau Chapter Housing Association v. City of Berkeley</i> , 114 F.3d 840 (9th Cir. 1997).....	34, 37, 51, 56
<i>Apple Inc. v Fintiv, Inc.</i> , IPR2020-00019, Paper 11 (P.T.A.B. Mar. 20, 2020)	59, 63
<i>Arthrex Inc. v. Smith & Nephew, Inc.</i> , 941 F.3d 1320 (Fed. Cir. 2019).....	<i>passim</i>
<i>Berkheimer v. HP Inc.</i> , 881 F.3d 1360 (Fed. Cir. 2018).....	29, 68
<i>Brown v. Vance</i> , 637 F.2d 272, 282 (5th Cir. 1981).....	33
<i>buySAFE, Inc. v. Google, Inc.</i> , 765 F.3d 1350 (Fed. Cir. 2014).....	68, 69
<i>Cain v. White</i> , 937 F.3d 446 (5th Cir. 2019).....	42, 49, 50, 51
<i>Califano v. Sanders</i> , 430 U.S. 99 (1977).....	58
<i>Caliste v. Cantrell</i> , 937 F.3d 525 (5th Cir. 2019).....	49, 50, 51

CardioNet, LLC v. InfoBionic, Inc.,
955 F.3d 1358 (Fed. Cir. 2020) 70

Commonwealth of Northern Mariana Islands v. Kaipat,
94 F.3d 574 (9th Cir. 1996)..... 37

Cooter & Gell v. Hartmarx Corp.,
496 U.S. 384 (1990) 59

Cuozzo Speed Technologies, LLC v. Lee,
136 S. Ct. 2131 (2016)..... 58, 60, 64

Delaware Riverkeeper Network v. FERC,
895 F.3d 102 (D.C. Cir. 2018) 53, 54, 55

DePiero v. City of Macedonia,
180 F.3d 770 (6th Cir. 1999)..... 37

Dickinson v. Zurko,
520 U.S. 150, 155 (1999) 28, 64

Dodocase VR, Inc. v. MerchSource, LLC,
767 Fed. App’x 930 (Fed. Cir. 2019)..... 59

Dodocase VR, Inc. v. MerchSource, LLC,
No. 17-CV-07088-EDL,
2018 WL 1475289 (N.D. Cal. Mar. 26, 2018)..... 60, 61

Doolin Security Savings Bank, F.S.B. v. FDIC,
53 F.3d 1395 (4th Cir. 1995)..... 29, 56

Dugan v. Ohio,
277 U.S. 61 (1928)..... 31

Enfish, LLC v. Microsoft Corp.,
822 F.3d 1327 (Fed. Cir. 2016)..... 69

ESIP Series 2, LLC v. Puzhen Life USA, LLC,
958 F.3d 1378 (Fed. Cir. 2020) 63

Esso Standard Oil Co. v. Lopez-Freytes,
522 F.3d 136 (1st Cir. 2008)*passim*

Ethicon Endo-Surgery, Inc. v Covidien L.P.,
812 F.3d 1023 (Fed. Cir. 2016)..... 14, 43

Gibson v. Berryhill,
411 U.S. 564 (1973)..... 30, 41

Hirsh v. Justices of Supreme Court of California,
67 F.3d 708 (9th Cir. 1995)..... 37

HTC Corp. v. Cellular Communications Equipment, LLC,
877 F.3d 1361 (Fed. Cir. 2017)..... 28

Hulu, LLC v. Sound View Innovations, LLC,
Case IPR2018-01039, Paper 29,
2019 WL 7000067 (PTAB Dec. 20, 2019) (precedential)..... 38

In re Marco Guldenaar Holding B.V.,
911 F.3d 1157 (Fed. Cir. 2018)..... 70, 72

In re Smith,
815 F.3d 816 (Fed. Cir. 2016)..... 70, 71, 72, 73

Lucia v. S.E.C.,
138 S. Ct. 2044 (2018)..... 27, 45, 66

Marshall v. Jerrico, Inc.,
446 U.S. 238 (1980)..... 55, 56

Mayo Collaborative Services v. Prometheus Laboratories, Inc.,
566 U.S. 66 (2012).....*passim*

Motor Vehicle Manufactures Association of U.S., Inc. v. State Farm Mututal Automobile Insurance Co.,
463 U.S. 29 (1983)..... 28, 29

Patlex Corp. v. Mossinghoff,
771 F.2d 480 (Fed. Cir. 1985)..... 52, 53

Rose v. Village of Peninsula,
875 F. Supp. 442 (N.D. Ohio 1995).....*passim*

<i>SAS Institute, Inc. v. Iancu</i> , 138 S. Ct. 1348 (2018).....	55, 64
<i>Shaw Industries Group v. Automated Creel Systems</i> , 817 F.3d 1293 (Fed. Cir. 2016).....	62, 63
<i>The Bremen v. Zapata Off-Shore Co.</i> , 407 U.S. 1 (1972).....	62
<i>Thryv, Inc. v. Click-to-Call Technologies, LP</i> , 140 S. Ct. 1367 (2020).....	26, 46, 63, 64
<i>Trading Technologies International Inc. v. IBG LLC</i> , 921 F.3d 1378 (Fed. Cir. 2019).....	68
<i>Tumey v. Ohio</i> , 273 U.S. 510 (1927).....	<i>passim</i>
<i>United Church of the Medical Center v. Medical Center Commission</i> , 689 F.2d 693 (7th Cir. 1982).....	30
<i>Valley v. Rapides Parish School Board</i> , 118 F.3d 1047 (5th Cir. 1997).....	43
<i>Ward v. Village of Monroeville</i> , 409 U.S. 57 (1972).....	<i>passim</i>
<i>Withrow v. Larkin</i> , 421 U.S. 35 (1975).....	43
<i>Wolkenstein v. Reville</i> , 694 F.2d 35 (2d Cir. 1982).....	33
Statutes	
5 U.S.C. § 559	63
5 U.S.C. § 706(2)(A)	<i>passim</i>
5 U.S.C. § 7513	44

5 U.S.C. § 7521	44
28 U.S.C. § 1295(a)(4)(A).....	3
35 U.S.C. § 3(c)	65
35 U.S.C. § 6	13
35 U.S.C. § 6(a)	13
35 U.S.C. § 6(b)(4).....	13
35 U.S.C. § 42	15
35 U.S.C. § 42(c)(2)	15, 54
35 U.S.C. § 101	<i>passim</i>
35 U.S.C. § 141(c)	3
35 U.S.C. § 311	14, 64
35 U.S.C. § 311(a)	15, 16, 53
35 U.S.C. § 318	14
35 U.S.C. § 321	14
35 U.S.C. § 321(a)	15, 16, 53
35 U.S.C. § 328	3, 14
35 U.S.C. § 329	3
42 U.S.C. § 717(j)	54
42 U.S.C. § 7178(a)(1).....	53
42 U.S.C. § 7178(f)	53
Pub. L. No. 108-477, § 801, 118 Stat. 2809 (2004).....	16
Pub. L. No. 112-29, 125 Stat. 284 (2011).....	3, 13

Rules

5 C.F.R. Part 351 44

5 C.F.R. § 930.204(a) 44

5 C.F.R. § 930.206(a)-(b)..... 45

5 C.F.R. § 930.210..... 44

37 C.F.R. § 42.15(a)-(c) 15

37 C.F.R. § 42.71..... 66

Other Authorities

Setting and Adjusting Patent Fees, Final Rule,
78 Fed. Reg. 4212 (Jan. 18, 2013) 15

Setting and Adjusting Patent Fees During Fiscal Year 2017,
82 Fed. Reg. 52,780 (Nov. 14, 2017)..... 15

Declaration of John Feola in Support of Plaintiff’s Partial Motion for
Summary Judgment, *New Vision Gaming & Development, Inc. v.*
Bally Gaming Inc., No. 2:17-cv-01559-APG-PAL
(D. Nev. Mar. 13, 2018) (ECF 28-1) 8

Executive Order 13,843, *Excepting Administrative Law Judges*
From the Competitive Service (July 10, 2018),
reprinted 83 Fed. Reg. 32,755 (July 13, 2018) 45

Gene Quinn, *Structural Bias at the PTAB: No Dissent Desired,*
IP Watchdog (June 6, 2018) 22

General Order in Cases Involving Requests for Rehearing
Under Arthrex, Inc. v, Smith & Nephew, Inc., 941 F.3d
1320 (Fed. Cir. 2019),
2020 WL 2306121 (P.T.A.B. May 1, 2020)..... 65

Glenn J. McLoughlin, *U.S. Patent and Trademark Office*
Appropriations Process: A Brief Explanation,
CRS Report RS20906 (Aug. 28, 2014)..... 15

Hoa Nguyen, *Making Successful New Table Games for Atlantic City
Casinos a Challenge*, The Press of Atlantic City (Oct. 20, 2012) 6

Scott McKeown,
Judicial Independence & The PTAB (Dec. 12, 2017) 21, 22

INTRODUCTION

This appeal identifies a constitutional flaw with the Patent Trial and Appeal Board’s (“PTAB”) structure and process for deciding whether to institute post-grant proceedings under the Leahy-Smith America Invents Act (“AIA”). The overall structure creates impermissible incentives for the PTAB, its leadership, and the individual administrative patent judges (“APJs”). The AIA decisionmaking structure falls squarely within the ambit of *Tumey v. Ohio*, 273 U.S. 510 (1927), and related cases, where courts have held that a “temptation” from “structural bias” can violate the Due Process Clause—even in the absence of any actual bias.

The AIA review process operates under a set of conditions that very well may be unique in the federal government. It is entirely user-fee funded, and the PTO’s budget is effectively based on its fee collections. The PTAB operates as a “business unit” with its own budget responsibilities. About 40% of the approximately \$57 million in annual AIA fee collections depends on granting petitions to institute. The PTAB leadership APJs have dual roles as executive and adjudicator. The APJs making most institution decisions are subjected to performance reviews

and management tools by PTAB leadership, and the APJ's salary and bonus structures incentivize higher "production," which means more institutions. Lastly, APJs lack the judicial independence of Article III judges or even administrative law judges.

This uncommon system creates temptations beyond what is permissible under the Due Process Clause. It is not difficult to see how PTAB leadership APJs face conflicting interests between their adjudicatory responsibilities to decide AIA petitions and their executive responsibilities to manage PTAB finances and revenue. It is also not difficult to see how the average APJ could be tempted—or seen as tempted—to grant borderline petitions, in order to ensure continued workflow, possible bonuses, and robust PTAB fee collections. Indeed, about \$23 million annually rests solely on APJ decisions to grant AIA petitions.

The structural bias ingrained in the AIA decisionmaking process violates due process. It creates the types of "temptations" that courts have repeatedly warned against to ensure that the administrative adjudicatory process is not only fair and impartial but appears fair and impartial. The PTO can fix the current structure, and that makes it all

the more imperative to ensure impartiality in the administrative adjudicatory process.

STATEMENT OF RELATED CASES

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

STATEMENT OF JURISDICTION

This Court has jurisdiction pursuant to 28 U.S.C. § 1295(a)(4)(A), 35 U.S.C. §§ 141(c), 144, and 329 because these appeals arise from final decisions in covered business method (“CBM”) review proceedings. The PTAB had jurisdiction under Pub. L. No. 112–29, § 18(a), 125 Stat. 311, 329-30 (2011) and 35 U.S.C. § 328. The notices of appeal were timely filed on January 18, 2020, after the PTAB’s decisions denying rehearing on November 20, 2019. These appeals are from final agency decisions that dispose of all parties’ claims.

STATEMENT OF THE ISSUES

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

2. Whether the Patent Trial and Appeal Board (“PTAB”) decisions should be set aside under 5 U.S.C. § 706(2)(A) because the PTAB (a) did not consider, as part of its discretion to deny institution, a contractual obligation that precluded an AIA post-grant challenge, and (b) placed the burden on the patent owner to identify a “contractual estoppel defense.”

3. Whether the PTAB’s decisions should be vacated and remanded because the PTAB panel that decided the cases was unconstitutional under the Appointments Clause.

4. Whether the PTAB erred in holding the claims as directed to patent-ineligible subject matter under 35 U.S.C. § 101.

STATEMENT OF THE CASE AND FACTUAL BACKGROUND

I. Procedural Background

The decisions on appeal arise in two CBM reviews. On December 15, 2017, SG/Bally filed two CBM petitions against U.S. Patent Nos. 7,451,987 and 7,325,806, challenging all twelve claims of each patent. Appx0402-0440; Appx2002-2039. On June 22, 2018, the PTAB instituted CBM reviews on all patent claims. Appx0086-0120; Appx0206-0240. The PTAB issued final written decisions on June 19, 2019, cancelling all claims under 35 U.S.C. § 101. Appx0001-0067; Appx0121-0187. The PTAB later denied rehearing on November 20, 2019. Appx0068-0085; Appx0188-0205.¹

II. Factual Background

A. John Feola's Novel Gaming Invention

John Feola, the inventor, has a long history of inventing new games for the gaming industry. Appx1165-1167. Mr. Feola has designed numerous games for industry-leading casinos in Nevada and New Jersey,

¹ The same patents and parties are involved in a civil action in the District of Nevada. This case is currently stayed. *See infra*.

as well as for various state lotteries.² Despite never graduating high school, Mr. Feola has been awarded about thirty issued patents for his gaming inventions, and he created New Vision Gaming (“New Vision”) as the company to license his inventions. Appx1165-1167.

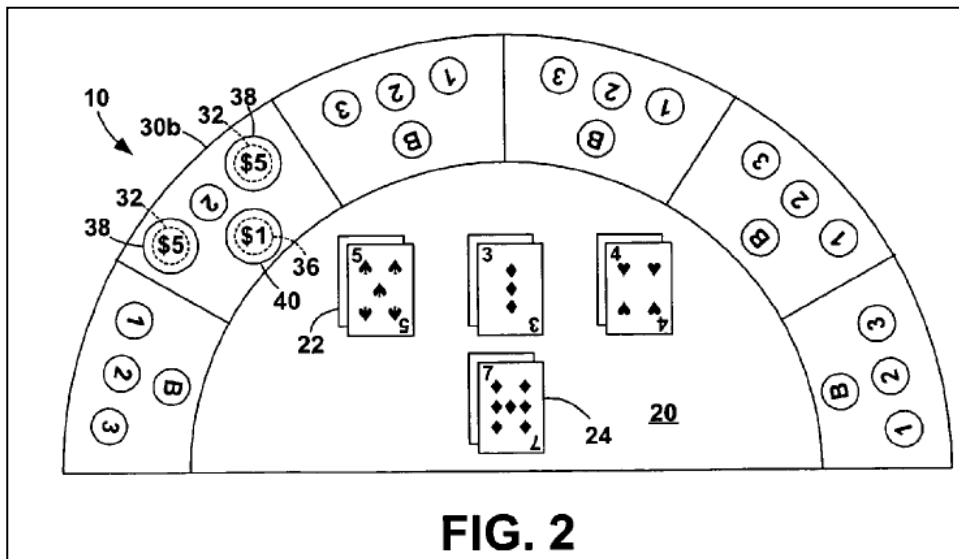
Two of his patents—the ’806 and ’987 patents—at issue here are directed to a novel bonus feature for a card game. Appx0444-0451; Appx2043-2050. The inventive concept creates a bonus hand by combining cards from two or more hands in a base game, which can be poker or blackjack. Appx0450-0451; Appx2049. Players play the game under either standard rules or modified rules. Appx0448; Appx0449. The card used from the players’ hands to form the bonus hand may be selected by rule (such as the first-dealt card, the second-dealt card, or the last-dealt card), or may be selected as chosen by the player. Appx0449. In the example of Figure 2, one player contributes the five of spades, one player contributes the three of diamonds, and another contributes the four of hearts. Appx0449. Bonus hands that combine cards from a single

² Hoa Nguyen, *Making Successful New Table Games for Atlantic City Casinos a Challenge*, The Press of Atlantic City (Oct. 20, 2012), https://www.pressofatlanticcity.com/news/breaking/making-successful-new-table-games-for-atlantic-city-casinos-a-challenge/article_ea5e8028-1b23-11e2-9a57-0019bb2963f4.html.

player and the dealer are known, Appx0448, but a bonus hand made up of cards from a plurality of independent hands is a novel feature. Appx0450.

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

The players can also bet on the bonus hand. Appx0449. As shown in Figure 2 below, a player bets \$5 on hands 1 and 3 and \$1 on the bonus hand B. The bonus hand may be scored by whatever method the casino



chooses. Appx0450 5:3-38. The bonus hand may be scored as a poker

hand with a high payout for a royal flush and a low payout for a pair or may be scored for the sum of the card values. Appx0450. Depending on the cards in the bonus hand and the scoring used, winnings are paid to the players. *Id.*

Claim 1 of the '987 patent reads:

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

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

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

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

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

(e) paying said winning player a payout.

Appx2049.

B. New Vision and SG/Bally Enter into an Agreement for the Bonus Hand Game

After the patents issued, New Vision offered the bonus hand invention to Roger Snow, SG/Bally's director of table games.³ Mr. Feola

³ Declaration of John Feola in Support of Plaintiff's Partial Motion for Summary Judgment, *New Vision Gaming & Development, Inc. v. Bally*

recalled that SG/Bally's Mr. Snow not only liked the game's bonus feature but also said "Bally would love to have a patent on the game so that they could better market the game." *Id.*

In June 2014, SG/Bally signed an agreement with New Vision, under which SG/Bally agreed to pay royalties for its use of the game's bonus feature. Appx1096-1111. Recognizing the natural connection between the gaming industry and Nevada, the parties agreed that any dispute about the agreement and/or the patents would be resolved in Nevada courts. Appx1102 ¶ 13(f). The agreement states: "[T]he parties agree and consent to the exclusive jurisdiction of an appropriate state or federal court located within the State of Nevada, Clark County, to resolve any such dispute." *Id.*⁴

Additionally, the agreement's royalty structure is unconventional in three respects. First, royalties flow from the use of a specific game, not from practicing the patents. Appx1098-1099 ¶ 5. No clause of the

Gaming Inc., No. 2:17-cv-01559-APG-PAL, ¶ 6 (D. Nev. Mar. 13, 2018) (ECF 28-1).

⁴ The agreement also has several unconventional terms that are not directly at issue on appeal and that the parties agree are confidential. Appx1096-1104.

agreement conditions any obligation on infringement, including the obligation to pay royalties. *Id.* SG/Bally agreed to pay to use Mr. Feola's game, independent of whether that game infringes or not, and even if the agreement itself were terminated. Appx1098 ¶ 5(a), ¶ 13(a). Conversely, the use of other games that might practice the patents owes no royalty. Appx1098 ¶ 5.

Second, New Vision committed to assist SG/Bally in maintaining compliance with the "highly regulated nature" of the gaming business. Appx1101 ¶ 13(b). Breach of this commitment was grounds for SG/Bally to terminate royalty payments. Appx1098 ¶ 5. Third, royalties are to continue one year past any final adjudication of invalidity. Appx1098 ¶ 4(e). A severability/salvage clause obligates the parties to effectuate those economic terms. Appx1102 ¶ 13(g).

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

and any remedy for invalidity is handled in a specific clause. Appx1098 ¶ 4(e).

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

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

Counsel for New Vision responded on June 7, 2017, by reminding SG/Bally that the agreement called for payments to continue so long as SG/Bally continued to use the game, even if the agreement was terminated. Appx0496.⁵ The letter requested an accounting and estimated that SG/Bally owed about \$500,000. Appx0495. New Vision included a copy of a district court complaint filed (but not yet served) for

⁵ New Vision’s June 2017 letter observed: “Bally’s obligation to make quarterly payments is simply not dependent upon the use or applicability of the patents but is based upon time and use of specific games. Again, none of the contractual conditions that would allow Bally to stop payment have occurred.” Appx0496.

contract damages and invited SG/Bally to discuss possible settlement. Appx0496.

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

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

New Vision moved to dismiss and for partial summary judgment. Appx0772-0784; Appx0952-0976. The district court granted New Vision's motion in part, dismissing three of SG/Bally's contract defenses and rejecting SG/Bally's request for a refund of paid royalties. Order, *New*

Vision Gaming & Development, Inc. v. Bally Gaming Inc., No. 2:17-cv-01559-APG-PAL (D. Nev. Mar. 13, 2018) (ECF 40).

SG/Bally then filed the CBM petitions (in contravention of the agreement's forum selection clause). Appx0402-0443; Appx2002-2039. After unsuccessfully opposing the petitions, New Vision moved to stay that patent aspect of the district court case to avoid having to litigate the patent issue in two different proceedings. *New Vision* (D. Nev. Jul. 14, 2018) (ECF 49). The court stayed the entire case. (D. Nev. Nov. 26, 2018) (ECF 82). The Nevada case remains stayed.

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

Before getting to the CBM reviews, an overview of the PTAB and its decisionmaking and revenue-generating procedures is necessary as relevant to the due process challenge.

1. The Two-Step Process for AIA Reviews

The AIA fundamentally altered the process for challenging patents. Pub. L. No. 112-29, 125 Stat. 284 (2011). The PTAB adjudicates the new post-grant AIA challenges. 35 U.S.C. § 6(a), (b)(4). The PTAB comprises the "Director, the Deputy Director, the Commissioner for Patents, the

Commissioner for Trademarks, and the administrative patent judges.”
Id. § 6.

Under the AIA, a petitioner files a petition, and the PTAB first decides whether to grant the petition and institute review. 35 U.S.C. §§ 311, 321. Although the Director has the statutory authority to decide institution, the Director has delegated that authority to the PTAB. *See generally Ethicon Endo-Surgery, Inc. v. Covidien LP*, 812 F.3d 1023 (Fed. Cir. 2016). If institution is granted, the review continues to “trial phase,” and the PTAB (not the Director) makes the final decision on patentability. 35 U.S.C. §§ 318, 328.

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

2. The Substantial Financial Revenue Generated by AIA Reviews

The specific funding scheme for AIA post-grant proceedings is unlike most adjudicatory processes in other federal agencies. The PTO

requires the payment of two fees upon filing. One fee covers the PTAB's costs for the institution phase to decide the petition; the second fee covers costs for the trial phase, if the PTAB grants the petition. 37 C.F.R. § 42.15(a)-(c). If the petition is denied, the trial phase fee can be returned. *Setting and Adjusting Patent Fees, Final Rule*, 78 Fed. Reg. 4212, 4233-34 (Jan. 18, 2013). Under this structure, the PTAB generates more revenue when it grants AIA petitions.

The PTO also has substantial autonomy over its budget and revenue. The PTO is a fee-funded agency that “operates like a business.” *Setting and Adjusting Patent Fees During Fiscal Year 2017*, 82 Fed. Reg. 52,780, 52,780 (Nov. 14, 2017). It is generally appropriated the full amount of revenue generated from AIA proceedings. Plus, AIA § 22 established a Patent and Trademark Fee Reserve Fund (“Reserve Fund”) in the Treasury. *See* 35 U.S.C. § 42. The Reserve Fund is for fees “collected in excess of the appropriated amount.” *Id.* § 42(c)(2). While the PTO is funded by the congressional appropriations process, the fees in the Reserve Fund are available only to the PTO. *Id.*⁶

⁶ *See generally* Glenn J. McLoughlin, *U.S. Patent and Trademark Office Appropriations Process: A Brief Explanation*, CRS Report RS20906 (Aug. 28, 2014). Appx4387-4393.

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

The PTO sets the AIA fees at a level of its best estimate for cost recovery. 35 U.S.C. § 321(a); Appx4128. The institution and trial phase fees are set to cover the estimated costs of those phases. Appx4259; Appx4127-4128. This permits the PTAB to operate within its budget and to fund APJ salaries, bonuses, and the other operating expenses. For example, for 2021, the PTO proposes to charge a fee of \$20,000 plus \$475 per claim over 20 claims based on the estimated 2018 cost of a CBM institution phase as \$21,465. Appx4128. For the trial phase, the estimated cost is \$29,842, and the proposed fee is \$27,500 plus \$1,050 per claim over 20. Appx4128.

The PTO also estimates future PTAB workflow in connection with fee and budget setting. Appx4315-4318; Appx4319-4350.⁷ For fiscal year 2021, the PTAB's total projected fee collections (ex parte appeals and AIA proceedings) are about \$94 million. Appx4338 (cell R326). Of that total, about \$57 million will be fees for AIA post-grant proceedings. Appx4335-4338.⁸ Projected institution-phase fees are about \$34 million, and projected trial-phase fees are about \$23 million. Appx4335-4336. Thus, of all AIA-related fees, about 60% are for the institution phase, and 40% are for the post-institution trial phase. *See* Appx4335-4336. In other words, about 40% of the AIA-related fees are collected only if the PTAB

⁷ Appx4319-4350 is the PTO's spreadsheet that provides, among other information, estimated fee collections, broken down by PTO business units. *See* Aggregate Revenue Tables, https://www.uspto.gov/sites/default/files/documents/Agg_Rev_Tables_July2019.xlsx. Using the second-row column labels, the sum of cells R291:R326 provide estimated fee collections for 2021 for all PTAB collections. Appx4335-4338. AIA-related total fee collections for FY2021 are provided by summing cells R296:R307, R309, and R310. Estimates for AIA-related fees for other years are calculated accordingly. For instance, FY2020 estimated AIA-related collections are the sum of cells O296:O307, O309, and O310 (FY2020), and FY2022 estimates are the sum of cells S296:S307, S309, and S310. *Id.*

⁸ Estimated FY2021 AIA petition request fees (institution phase) are calculated by summing R296, R299, R302, R305, and R310. Estimated FY2021 post-institution fees (trial phase) are the sum of R297, R298, R300, R301, R303, R304, R306, and R307.

grants institution of AIA petitions. This amounts to about 24% of the PTAB's collections being dependent on instituting petitions.

3. PTAB Organization, Financing, and Compensation

From 2011 to 2020, the PTAB grew from about 60 APJs to about 260 to handle the new AIA reviews. Appx3881-3887. The APJs are organized hierarchically, all supervised by the Chief APJ. Appx4614-4616. The Chief APJ and the Deputy Chief APJ are the PTAB's "senior level executive management" and make up the Office of the Chief Judge. Appx4614. Below them are the Vice Chief APJs, who manage PTAB divisions consisting of judges and patent attorneys. Appx4615. Each division has six sections of APJs, and a "Lead APJ" manages each section of "line APJs." Appx4615.⁹

The Chief APJ, the Deputy Chief APJ, and the Vice Chief APJs have executive/administrative responsibilities, on the one hand, and judicial responsibilities, on the other. *See* Appx4004-4027 (Chief APJ); Appx4028-4033 (Deputy Chief APJ); Appx4106-4113 (Vice Chief APJ). The Chief APJ "perform[s] Business Unit Head functions" of the PTAB,

⁹ For clarity, we use the term "line APJ" to distinguish the base APJ from other titles for APJs.

which includes “execut[ing] the operating budget; prepar[ing] budget requests with justifications; and manag[ing] resources.” Appx4004-4005; Appx3995-3996.¹⁰ The Deputy Chief APJ and the Vice Chief APJs are similarly involved in the financial management of the PTAB business unit. Appx4030-4031; Appx4108-4109.

While overseeing the PTAB’s finances, PTAB leadership also makes decisions on the merits of AIA proceedings. *See* Appx3903. The Chief APJ and others will issue directives, such as the standard operating procedures (“SOPs”). Appx4351-4386. The PTAB leadership can participate on a Precedential Opinion Panel, which is “used to establish binding agency authority.” Appx4375-4378.

Sometimes seen as equivalent to federal judges, APJs operate under fundamentally different employment rules, which PTAB leadership uses to incentivize the APJs. *See* Appx3818-3838; Appx3888-3901. An APJ is rated by supervisors. *E.g.*, Appx4036-4063. Lead and line APJs receive an overall “Performance Rating” as part of the “Classification and Performance Management Record.” Appx3818-3859;

¹⁰ The USPTO is organized as “business units,” and the PTAB is a separate “business unit.” *See* Appx4406; Appx4484.

Appx4036-4063; Appx4074-4102. The APJ is rated on a scale of 100 to 500. *E.g.*, Appx4099 (“Total Score”). The numerical rating is the sum of four “Performance Elements,” each of which is a numerical rating. *Id.* One Performance Element is “Production,” which is based on the number of “decisional units” an APJ produces. Appx3822-3823.¹¹ Each Performance Element independently and generally limits the APJ’s final “Performance Rating” because all four Performance Elements are “critical.” *See, e.g.*, Appx3835 (noting that “if any critical element is less than fully successful[,] the rating can be no higher than the lowest critical element rating”).

For example, line and Lead APJs must earn 84 and 59 decisional units, respectively, to be eligible for the “Fully Successful” rating. Appx3823; Appx3935. If a line APJ produces only 83 decisional units, he/she cannot, according to PTO documents, be rated as “Fully Successful.” *See* Appx3823; Appx3945; Appx3971; Appx3975; Appx4060; Appx4063; Appx4066; Appx4099; Appx4102. Indeed, APJs are instructed

¹¹ A “decisional unit” equates to an action such as writing a decision or order in an AIA proceeding. *See* Appx3823; Appx4043-4046; Appx4081-4084.

to “normally seek efficiency gains and utilize available resources to enhance annual production.” Appx3814.

Unlike a district court judge, an APJ can receive higher compensation based on his or her rating. Appx3881-3887. The APJ can receive a bonus of \$4,000 to \$10,000. Appx3881. The APJ’s salary can be increased, up to five percent, depending on the APJ’s numerical rating and final Performance Rating, Appx3881, which necessarily turns on the APJ’s production of “decisional units.”

Also unlike a federal judge, an APJ is discouraged from writing a concurrence or dissent. See Appx3813. Rather than automatically receiving credit for a concurrence or dissent, the APJ must ask permission from a Vice Chief APJ to receive any credit for that work. *Id.* (“Concurrences, dissents, and remands are not normally efficient mechanisms for securing the ‘just, speedy, and inexpensive’ resolution of an appeal before the Board.”). This unusual policy may explain the “surprisingly” few concurrences and dissents. See Scott McKeown, *Judicial Independence & The PTAB* (Dec. 12, 2017) (noting the “it is

somewhat surprising that 98% of PTAB merit-based decisions are unanimous”).¹²

Importantly, APJs are not administrative law judges (“ALJs”). The APJ-versus-ALJ distinction has meaningful consequences because, as explained below, APJs are not afforded the legal protections that ensure that ALJs are not unduly influenced by political or other non-merit-based factors, including structural pecuniary incentives. *See infra*. The AIA has thus created one of the largest bodies of non-ALJ agency employees who were intended to supplant decisionmaking by Article III judges.

E. Disregarding the Contractual Forum Selection Clause, SG/Bally Files for CBM Review, and the PTAB Cancels the Patents

Turning back to New Vision’s patents, while the district court contract dispute was pending, SG/Bally filed CBM petitions to cancel the patent claims, contrary to the agreement to resolve disputes in Nevada court. Appx0402-0440; Appx2002-2039. SG/Bally’s only ground in the CBMs was that all patent claims were ineligible under 35 U.S.C. § 101.

¹² <https://www.patentspostgrant.com/judicial-independence-ptab/#more-12559>. *See also* Gene Quinn, *Structural Bias at the PTAB: No Dissent Desired*, IP Watchdog (June 6, 2018), <https://www.ipwatchdog.com/2018/06/06/structural-bias-ptab-no-dissent-desired/id=94507/>.

New Vision opposed institution on several grounds, including that the forum selection clause of its agreement with SG/Bally was a reason to deny institution. Appx0740-0742; Appx1070-1073. In New Vision's view, the parties' forum selection agreement contractually prohibited SG/Bally from filing the CBM petitions. Appx0742; Appx1071.

Nevertheless, the PTAB instituted, notwithstanding the parties' Nevada forum selection clause. Appx0086-0120; Appx0206-0240. The PTAB ruled that New Vision had not met its burden of identifying "a contractual bar/estoppel defense against the institution" of the CBM review. Appx0093-0096. The PTAB also concluded that it was more likely than not that the patent claims are directed to the abstract idea of allowing bonus wagers in a game. Appx0112-0115. The PTAB did not discuss the gaming invention's key aspect—forming the bonus hand from a plurality of hands—but it nonetheless stated that the remaining limitations of the claims were insufficient to integrate an "application" or add an "inventive concept." Appx0116-0118.

New Vision filed a motion to amend the claims. Appx1126-1135. The amendment added hardware-oriented language such as "providing a

video screen on which said plurality of player hands are displayed.” Appx1130. The PTAB denied the motion to amend. Appx0167-0186.

In its final written decisions, the PTAB declined to reconsider its institution decision. Appx0006-0011; Appx0126-0131. The PTAB reiterated its position that the burden was on New Vision to identify a “contractual estoppel defense.” Appx0006-0008. The PTAB never stated whether it was exercising discretion. *Id.*

The PTAB held that all claims of the ’987 and ’806 patents were unpatentable “abstract ideas” under 35 U.S.C. § 101. Appx0022-0046; Appx0143-0166. To identify an “abstract idea” for *Alice* Step 1, the PTAB equated the game rules to the “rules for conducting a wagering game” of *In re Smith*, 815 F.3d 816 (Fed. Cir. 2016). Appx0022-0031. The PTAB then looked at the other claim limitations and found them insufficient to escape the “abstract” label. Appx0032-0037; Appx0039-0046. The proposed claim amendments were likewise held unpatentable. Appx0052-0065; Appx0167-0186.

New Vision requested rehearing, Appx1938-1954, which was denied. Appx0068-0085; Appx0188-0205. This appeal follows.

SUMMARY OF THE ARGUMENT

Due process requires an impartial and disinterested tribunal. The inherent tie between the PTAB's institution decisions of AIA reviews and the substantial revenue generated by those decisions—which account for about 40% of the PTAB's trial proceedings budget—has created a structural bias unlike any other in the federal executive branch. PTAB executives and APJs impermissibly mix administrative and judicial functions that create, at a minimum, an appearance of bias. Post-institution fees pay for APJ salary increases, and the same APJs make the decisions to grant institution and thus generate that revenue for the PTAB. Without continual institutions to cancel patents, the PTAB's budget will diminish, with likely adverse employment consequences on the APJs.

The structural bias is magnified by an APJ's lack of judicial independence. APJs are subject to performance reviews by superiors, including other APJs as well as other PTO officials. Those performance reviews, which depend in part on productivity, help determine the salaries and possible bonuses earned by the APJ. This situation is completely unlike an Article III judge or an ALJ, who cannot receive

bonuses, and the situation further contributes to the impermissible structural bias inherent in the AIA institution decisionmaking process.

The strong institutional bias for generating revenue for the PTAB, along with the financial incentive biases imposed on APJs from bonuses and salary raises, creates a perceived structural bias that exceeds any permissible arrangement under the Due Process Clause. Indeed, these unique features of the AIA post-grant review process—a bipartite payment scheme, APJs incentivized by production and bonus schemes, and an essentially self-funded adjudicatory board—are features that combine to create the structural bias the Supreme Court and appellate courts have repeatedly warned against.

The Supreme Court’s recent decision in *Thryv, Inc. v. Click-to-Call Technologies, LP*, 140 S. Ct. 1367 (2020), magnifies the structural appearance of bias. *Thryv* insulates many, if not most, institution decisions from any meaningful review by this Court.

Second, the decision should be vacated because the PTAB abdicated its obligation to exercise its discretionary authority in the face of SG/Bally’s contractual obligation to not bring a PTAB challenge. The PTAB improperly placed the burden on New Vision to identify a

“contractual estoppel defense.” No such bright-line rule precluded the PTAB from considering, as a matter of discretion, whether the CBM petitions should have been denied pursuant to the contractual obligation that all disputes over the agreement are to be resolved in a Nevada court.

Third, at a minimum, the PTAB decision should be vacated and remanded in view of *Arthrex*. The PTAB panel that decided the CBMs was unconstitutionally appointed. Under *Arthrex* and *Lucia*, a new decision by a new panel of APJs is required.

Fourth, if the Court reaches the patent-eligibility issue, it should reverse. The claimed gaming invention is innovative and thus not abstract under a proper *Alice* analysis. The novel step (c)—“forming a bonus hand from at least one of said cards from each of a subset of said plurality of hands”—is an innovative advance in the gaming industry, used in major casinos throughout the country. Under *Alice*, that type of innovation should be enough to pass the low bar of patent eligibility. At the very least, the PTAB erred in failing to set forth the findings required by the APA “substantial evidence” standard on this claim feature.

ARGUMENT

I. Standard Of Review

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

This Court “review[s] Board decisions in accordance with the Administrative Procedure Act, 5 U.S.C. § 706(2).” *HTC Corp. v. Cellular Commc’ns Equip., LLC*, 877 F.3d 1361, 1367 (Fed. Cir. 2017) (citing *Dickinson v. Zurko*, 527 U.S. 150, 152 (1999)). Under the APA, this Court reviews the PTAB’s legal conclusions de novo and its factual findings for substantial evidence. *ACCO Brands Corp. v. Fellowes, Inc.*, 813 F.3d 1361, 1365 (Fed. Cir. 2016).

A reviewing court must set aside any agency action that is arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law. 5 U.S.C. § 706(2)(A). An agency must also “cogently explain why it has exercised its discretion in a given manner.” *Motor*

Vehicle Mfrs. Ass'n of U.S., Inc. v. State Farm Mut. Auto. Ins. Co., 463 U.S. 29, 48 (1983).

Eligibility under § 101 is an issue of law with underlying issues of fact. *Berkheimer v. HP Inc.*, 881 F.3d 1360, 1368 (Fed. Cir. 2018).

II. The CBM Decisions Should Be Vacated Because The AIA Institution Process Is Unconstitutional

A. The Due Process Clause Entitles a Party to an Impartial and Disinterested Tribunal

The Due Process Clause prohibits procedures that “offer a possible temptation to the average man as a judge.” *Tumey v. Ohio*, 273 U.S. 510, 532 (1927). “The Supreme Court has jealously protected the due process requirement of impartiality when the decisionmakers stood to gain substantial, personal pecuniary benefits from their adjudicative decisions.” *Doolin Security Savings Bank, F.S.B. v. FDIC*, 53 F.3d 1395, 1406 (4th Cir. 1995).

A procedure creates this unconstitutional temptation if the decisionmaker has a “direct, personal, substantial pecuniary interest” in the proceeding’s outcome. *Tumey*, 273 U.S. at 523. Unconstitutional bias also exists where a decisionmaker with administrative or executive

responsibilities has a sufficiently “strong” “motive” to rule in a way that would aid the institution. *Id.* at 533; *see also Ward*, 409 U.S. at 60.

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

Three Supreme Court cases form the general basis for “structural bias” due process claims. In *Tumey v. Ohio*, a mayor could convict someone for unlawful liquor possession in a mayor’s court. 273 U.S. at 516-17. The mayor received more compensation when he convicted and fined the defendant, and the extra compensation came from the criminal fines. *Id.* at 520. The fines also supported the village’s general treasury fund, which the mayor presided over as the village chief executive officer.

Id. at 533. This was a due process violation for two reasons. First, the mayor had “a direct, personal, substantial, pecuniary interest” in fining the person, namely the mayor’s bonus pay tied to the convictions. *Id.* at 523. Second, the mayor had a strong “official motive to convict and to graduate the fine to help the financial needs of the village.” *Id.* at 535.

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

In 1972, another Ohio mayor’s court was challenged in *Ward v. Village of Monroeville*. The mayor exercised judicial and executive responsibilities and was responsible for the village’s finances. 409 U.S. at 58. The mayor reported to the village council on budgetary matters, but a “major part of village income” came from the fines and fees imposed

by the mayor. *Id.* This arrangement was unconstitutional as a “possible temptation” because “the mayor’s executive responsibilities for village finances may make him partisan to maintain the high level of contribution from the mayor’s court.” *Id.* at 60.

B. “Structural Bias” is Enough to Violate the Due Process Clause

With structural bias, the constitutional deficiency lies not with a decisionmaker shown to be biased but with an overall process that creates too strong a motive and unfair temptation for “the average man as a judge.” *Ward*, 409 U.S. at 60. Indeed, “[t]he administrative process ‘requires the appearance of fairness and the absence of a probability of outside influences on the adjudicator; it does not require proof of actual partiality.’” *Hammond v. Baldwin*, 866 F.2d 172, 176 (6th Cir. 1989) (quoting *Utica Packing Co. v. Block*, 781 F.2d 71, 77 (6th Cir. 1986)). Due process “may sometimes bar trial by judges who have no actual bias and who would do their very best to weigh the scales of justice equally between contending parties.” *Aetna Life Ins. Co. v Lavoie*, 475 U.S. 813, 825 (1986).

A major contributing factor to unconstitutional structural bias is the existence of “substantial” institutional funding that is reliant on a

particular outcome. *See Ward*, 409 U.S. at 58 (unconstitutional where fines imposed by judge accounted for between 35% to 50% of the village income); *Rose v. Village of Peninsula*, 875 F. Supp. 442, 450 (N.D. Ohio 1995) (O'Malley, J.) (unconstitutional where fines accounted for over 10% of village's revenue).

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

Another recurring feature of unconstitutional decisionmaking structures is when monetary fines imposed by a decisionmaker flow back to the decisionmaker’s benefit, even if somewhat indirectly. *See, e.g., Esso Standard Oil Co. v. Lopez-Freytes*, 522 F.3d 136 (1st Cir. 2008)

(holding as unconstitutional an account funded by environmental fines over which the environmental agency has spending discretion because, in part, “any fine imposed will flow directly to the [agency’s] budget”).

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

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

The AIA review process operates under a set of conditions that very well may be unique in the federal government: (1) 40% of the PTAB’s AIA trial budget comes from fees generated by institution grants; (2) the PTAB leadership APJs have dual roles, as executive to manage PTAB finances and as adjudicator of AIA proceedings; (3) the line and Lead APJs who make most institution decisions are subject to performance reviews by PTAB leadership; (4) an APJ’s salary and bonus plan

incentivizes higher “production,” which leads to more institutions; (5) APJs lack the judicial independence of Article III judges and ALJs; (6) the PTO is user-fee funded, sets its own fees, and receives appropriations generally based on its fee collections; and (7) the PTAB operates as a “business unit” with its own budget responsibilities.

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

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

The Chief APJ, Deputy Chief APJ, and Vice Chief APJs each have some responsibility for institution decisions. They provide policy direction and ensure the quality and consistency of AIA decisions. *See* Appx4004-4006 (Chief APJ); Appx4030-32 (Deputy Chief APJ);

Appx4108-4110 (Vice Chief APJ). Their oversight of AIA decisions is necessarily intended to maximize conformity in the institution and final written decisions. Those PTAB leaders are also authorized to participate on PTAB institution panels, and in fact do so on occasion. See Appx4351-4374.

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

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

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

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

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

at 847 (no violation where financial gain tied to board's decisions was only "two to five percent of the entire budget").

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

The impermissible mixing of judicial and administrative/executive roles is perhaps at its extreme with the Precedential Opinion Panel. Appx4375-4386. The Precedential Opinion Panel purports to have the authority to designate PTAB decisions as "precedential," thus effectively binding all future PTAB panels. Appx4377; *see also Hulu, LLC v. Sound View Innovations, LLC*, Case IPR2018-01039, Paper 29, 2019 WL 7000067 (PTAB Dec. 20, 2019) (precedential) (Boalick, Chief APJ).

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

Other aspects of the impermissible combination of financial management authority and petition-phase decisionmaking responsibility in PTAB leadership positions confirm the structural bias. Ultimately, the PTAB leadership is placed in situations analogous to those struck down as unconstitutional. This alone may be enough to vacate the PTAB's decision in the present case.

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

The line and Lead APJs, who make most institution decisions, also operate under a system that generates incentives to grant institution, regardless of the merits of the petition. In this system, the “average man as judge”—or more aptly “the average person as patent judge”—is exposed to temptations that undermine the appearance of fairness. The APJs decide petitions knowing that denying a petition will adversely

affect the PTAB “business unit” revenue and will likely affect their own financial and employment situation. This situation falls squarely within the ambit of *Tumey* and *Ward*.

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

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

Although a decision to institute does not absolutely guarantee an economic benefit for the APJ, a guarantee is not necessary. To violate due process, all that is necessary is a reasonable connection between the decision and the pecuniary benefit. *See Gibson v. Berryhill*, 411 U.S. 564, 578 (1973). The *Gibson* Court found unconstitutional a review process whereby an optometry board revoked licenses of other licensed optometrists. The Court understood that the board's revocations would "possibly redound to the personal benefit of members of the Board." *Id.* (emphasis added).

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

More so, overall PTAB fee collections and funding are linked to the workload via AIA institution grants. Appx4127-4128. An average APJ is exposed to unfair influences due to this known connection between the PTAB's fee collection/budget and the need to generate revenue to cover costs, as the PTO "operates as a business" and the PTAB is a "business

unit.” If the PTAB’s overall workload decreases—through decreased institutions—then the PTAB may very well decrease the PTAB budget and be left with a need for fewer line and Lead APJs.

The institution decision’s possible effect on the individual APJ’s financial situation cannot be overstated. For example, if the institution rate were reduced by 25%, that would equate to a reduction in trial phase work by about 25%. This reduction in APJ workload could very well cause many line APJs to fall short of the 84 decisional units required for the “Fully Successful” rating. *See* Appx4043; *see also* Appx4080-4084. That in turn would diminish the possibility of salary raises and monetary bonuses. *See* Appx3881 (tying pay adjustments to numerical performance ratings, which in turn depends on productivity).

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

Additional systemic bias may result as “prejudging bias.” The same three APJs who granted institution will oversee the case during the trial

phase. The APJ's exposure to the case pre-institution—before seeing all of the evidence—exposes the APJs to possible bias. That prejudging bias by itself has been held insufficient to violate due process rights. *Ethicon Endo-Surgery*, 812 F.3d at 1023. But the prejudging arrangement is not without bias. *See Withrow v. Larkin*, 421 U.S. 35, 51 (1975) (“That is not to say that there is nothing to the argument that those who have investigated should not then adjudicate.”); *Valley v. Rapides Parish School Board*, 118 F.3d 1047, 1053 (5th Cir. 1997) (affirming decision that school board members “had reached prehearing commitments on questions of [adjudicative] fact, thus establishing an unconstitutional level of impartiality”). This additional source of bias further warrants a judicial check on the flawed AIA institution process.

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

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

The APJ's lack of judicial independence amplifies the pecuniary and institutional bias. APJs lack significant independence compared to an Article III judge, or even an ALJ.¹³ Without any reasonable independence from the agency, the APJs appear beholden to the PTAB business unit to maintain or increase PTAB revenues. The APJ's lack of independence also creates the appearance that the APJ will be too easily influenced to ensure the workflow for continued employment.

In contrast, ALJs have significant independence through statutory and regulatory protections. Agencies have limited ability to discipline or remove ALJs, except for cause. 5 U.S.C. §§ 7513, 7521. ALJs are protected against reduction in force with rights to reassignment, reemployment priority, and to be referred back into OPM's pool of ALJs to be reassigned to other agencies. 5 C.F.R. § 930.210; *see also* 5 C.F.R. Part 351. ALJs do not serve for a set period of time in office. They instead receive "a career appointment . . . exempt from . . . probationary period requirements." 5 C.F.R. § 930.204(a). An agency may not rate job

¹³ *See generally* Kent Barnett & Russell Wheeler, *Non-ALJ Adjudicators in Federal Agencies: Status, Selection, Oversight, and Removal*, 53 Ga. L. Rev. 1 (2018).

performance or provide any award or incentive to ALJs. 5 C.F.R. § 930.206(a)-(b).¹⁴

The APJ works in a different environment, lacking the above ALJ protections. *See Arthrex*, 941 F.3d at 1336 (severing § 7513(a)). The stark contrast is perhaps most succinctly captured by the fact that an APJ's yearly performance is reduced to a single number. *See, e.g.*, Appx4060. Furthermore, unlike an ALJ, the APJ is not exempt from probationary period requirements. Appx4043. APJs have to “demonstrate ramped up productivity” during their first year at the PTAB. Appx4043.

In the end, all the above illustrates the significant temptation—and importantly the appearance of temptation—for the APJs to rule in favor of institution for non-merits-based reasons. The perceived temptation may be to earn decisional units or satisfy the APJ's supervisor. The perceived temptation may instead be concerns over reduced employment

¹⁴ After *Lucia*, Executive Order 13,843 excepted newly appointed ALJs from non-statutory civil service protection but left in place the protections listed here for ALJs appointed before July 10, 2018. Executive Order 13,843, *Excepting Administrative Law Judges From the Competitive Service* (July 10, 2018), reprinted 83 Fed. Reg. 32,755 (July 13, 2018)

due to decreased PTAB revenues. These structural biases unfairly influence—or create the appearance of influence—on the “average person as patent judge,” particularly after *Arthrex* and the lack of employment protections under Title 5.

4. *Thryv v. Click-to-Call* Increases the Potential for Undue Influence from the Structural Bias

The Supreme Court’s recent decision in *Thryv*, 140 S. Ct. at 1367, further warrants correcting the improper structural bias. *Thryv* makes it even more difficult to challenge the PTAB’s institution decisions. By restricting judicial review, *Thryv* heightens the need to ensure impartiality—and perceived impartiality—in the AIA institution decisionmaking process.

After *Thryv*, the “average person as patent judge” will understand that an institution decision will rarely be second-guessed. This will lead the average APJ—whether unintentionally or not—to be less vigilant about guarding against external biases. Without meaningful judicial review, patent owners and petitioners may well think that existing structural biases are the reason for “erroneous” institution decisions. This undermines a basic maxim in due process: “The administrative process requires the appearance of fairness and the absence of a

probability of outside influences on the adjudicator.” *Hammond*, 866 F.2d at 176 (quotation omitted). Restricted judicial review multiplies the risk that even pecuniary motives will strain the “appearance of fairness.”

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

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

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

The EQB’s three board members enforced Puerto Rico’s environmental statutes and regulations. *Id.* at 146. These salaried board members had no personal pecuniary interest in the fines imposed and collected, but the board exercised control over funds “which are supplied, at least in part, by fines which it imposes.” *Id.* at 147. The court

recognized that, “[a]lthough members of the [Board] may not stand to gain personally . . . a pecuniary interest need not be personal to compromise an adjudicator’s neutrality.” *Id.*

The EQB’s unconstitutional structure is analogous to the PTAB’s structure. The PTAB leadership manages the finances and also participates in substantive decisions. The PTAB leadership APJs’ review process creates a similar scenario for post-institution fees. The AIA fees generated are used to fund the operations of the PTAB, including salaries and bonuses for APJs. *See* § II.C., *supra*.

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

PTAB revenue. This conforms to the PTAB's instruction to APJs to "utilize available resources to enhance annual production." Appx3814.

Also similar to the bias in the AIA review structure is *Rose v. Village of Peninsula*. There, the district court focused on the substantial percentage (about 11-13%) of the village's revenue tied directly to fines imposed by the mayor, concluding that it fell within "the ambit of *Ward*." 875 F. Supp. at 451. The PTAB situation is more substantial, with 40% of its AIA trial-related fees, and 24% of its overall fees, wholly dependent on granting petitions to institute. See Appx4335-4338.

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

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

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

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

In short, the unusual organizational and fee-generating structure of AIA reviews creates a temptation at least as strong in *Esso*, *Rose*, *Cain*, and *Caliste*. New Vision is unaware of any similar decisionmaking scheme whereby the budget of a federal adjudicatory board depends so heavily and so disproportionately on the continued granting of initial petitions—particularly when those petitions are decided by agency employees who will benefit from granting petitions, and by the board management who are responsible for budgeting, hiring, and other executive functions.

6. The AIA Review Structure Is Significantly Different From Cases that Have Rejected a Due Process Challenge

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

This Court addressed a due process challenge thirty-five years ago in *Patlex Corp. v. Mossinghoff*, 771 F.2d 480 (Fed. Cir. 1985). There, the inventor of certain aspects of the laser, Gordon Gould, argued that the reexamination process created an inherent financial temptation and violated due process. Gould saw the \$1,200 refund of the reexamination fee as a temptation to grant reexamination. *Id.* at 487. While rejecting the challenge, this Court noted that “there is some merit in some of the concerns expressed by Gould,” thus recognizing that the reexamination process created at least some perceived bias. *Id.*

The Court ultimately rejected the due process challenge but offered little analysis. *Id.* at 487. Importantly, *Patlex* cannot be read as blessing the substantial incentives created by the current AIA review process. There are numerous differences between the reexamination system upheld in *Patlex* and the current AIA review system.

First, at the time, the PTO was largely dependent on annual appropriations from Congress. There was no segregated Reserve Fund for the PTO within the Treasury, as there is now. Under the current system, excess fees placed in the Reserve Fund are for sole use by the PTO. *See* 35 U.S.C. § 42.

Second, at the time, Congress set the PTO fees for reexamination. 771 F.2d at 487. That is, of course, not the case here. The PTO can now raise AIA fees on its own accord. 35 U.S.C. §§ 311(a), 321(a); *see also* Appx4127-4128.

Third, there is no indication in *Patlex* that the PTO employee tasked with reviewing and deciding the reexamination requests were in any way incentivized as the current APJs are. Indeed, there is no suggestion that the PTO employee who reviewed the reexamination request would receive any bonus or had “production” requirements.

The current AIA review structure also differs from the process upheld in *Delaware Riverkeeper Network v. FERC*, 895 F.3d 102 (D.C. Cir. 2018). There, an environmental group challenged the constitutionality of the Federal Energy Regulation Commission’s (“FERC”) structure for approving new gas pipelines. *Id.* at 105. FERC’s mandate required it to issue a certificate of “public convenience and necessity” before any new gas pipelines can be built. *Id.* at 106. FERC was also statutorily required to recover the costs of the certification process by statute. *Id.* (citing 42 U.S.C. § 7178(a)(1)). Those costs are “credited to the general fund of the Treasury.” *Id.* (citing 42 U.S.C. § 7178(f)).

The D.C. Circuit rejected the challenge. Unlike the PTAB structure, FERC has no direct input on the fees it collects. It is completely beholden to the congressional appropriations process for funding. *Id.* at 106 (citing 42 U.S.C. § 717(j)). Whatever control FERC may have over its funding is far less than the PTO, which sets its own fees, and can increase fee collections by instituting more AIA post-grant proceedings, unlike FERC. *See id.* at 112. Nor is there any indication that FERC “operates like a business,” with different business units, as the PTO does.

Indeed, as stated, PTO and PTAB financials are more closely tied to user fees and the AIA fees, respectively, than in years past. Excess fees are deposited into the Reserve Fund, which are available for use only by the PTO. 35 U.S.C. § 42(c)(2).

Nor was there any suggestion that the FERC employees stood to gain in any way when they approved new pipelines. FERC employees did not have salary raises and bonuses dependent on the production of “decisional units.” Based on the opinion, their employment did not rest on the number of pipeline certificates they issued.

Finally, the D.C. Circuit did not identify any concerns about the improper combination of executive and adjudicatory responsibilities in a single decisionmaker. 895 F.3d at 111-12. That combination is a significant concern with the PTAB's leadership APJs.

Similarly, *Marshall v. Jerrico, Inc.*, 446 U.S. 238 (1980), does not save the PTAB process as currently configured. There, the administrators were “akin to that of a prosecutor or civil plaintiff” rather than a judge. *Id.* at 247. That role is decidedly different from an APJ, who is the adjudicator (much like a district court judge) deciding patent rights in a contested litigation. *See Return Mail, Inc. v. U.S. Postal Serv.*, 139 S. Ct. 1853, 1866 (2019) (noting that “the AIA post-issuance review proceedings are adversarial, adjudicatory proceedings”); *SAS Inst. Inc. v. Iancu*, 138 S. Ct. 1348, 1355 (2018) (recognizing inter partes review as a “party-directed, adversarial process”). Moreover, the administrators earned a fixed salary, irrespective of their assessments. 445 U.S. at 245. Again, this is markedly different from the APJs, who can earn salary increases and bonuses based in part on their production of “decisional units.” Appx4043.

Moreover, in *Marshall*, the sums collected were very small, "substantially less" than 1% of the agency's budget over three years. 445 U.S. at 250. That again is far from the PTAB structure, where fees flowing from institution amount to about 40% of the PTAB's AIA-based budget/collections and about 25% of the PTAB's entire budget/collections. Appx4335-4336. Thus, unlike *Marshall*, the PTAB creates a scenario where there is a "realistic possibility" that the institution decisions will be "distorted by the prospect of institutional gain." 445 U.S. at 250.

In the end, those cases rejecting due process challenges only confirm why the AIA process undermines the appearance of impartiality. *Cf. Alpha Epsilon Tau*, 114 F.3d at 847 (9th Cir. 1997) (rejecting gain because financial gain was only "two to five percent of the entire budget"); *Doolin Security Savings Bank*, 53 F.3d at 1406 (rejecting challenge because the party "allege[d] that the entire decisionmaking apparatus of the FDIC is biased").

D. The PTO Can Fix the Constitutional Problem

The unconstitutionality of the PTAB institution process is a product of PTO regulations and implementation. The Court need not invalidate any statute. A solution does not require this Court to legislate from the

bench. Rather, the PTO on its own accord can fix the problem of impermissible structural bias.

E. The Constitutionality Argument is Ripe

Finally, there is no reasonable dispute that New Vision's constitutional challenge is ripe. Waiver does not apply for the same reasons noted in *Arthrex*, 941 F.3d at 1326-27. The right to an unbiased adjudicator is a "fundamental constitutional safeguard" and implicates "exceptionally important" structural interests. *Id.* The need for the appearance of unbiased adjudicators has a wide-ranging effect on property rights and the nation's economy, and timely resolution is critical for patent owners and patent challengers alike. *Id.*

Neither the panel nor the PTAB as a whole would have adjudicated the constitutionality of its own procedure. *See, e.g., ZTE (USA) Inc. v. Fundamental Innovation Sys. Int'l LLC*, IPR2018-00425 paper 52, slip op. at 29, 2019 WL 2866003 at *12 (PTAB Jul. 2, 2019). The Supreme Court itself has cautioned that "[c]onstitutional questions obviously are unsuited to resolution in administrative hearing procedures." *Califano v. Sanders*, 430 U.S. 99, 109 (1977).

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

If the Court reaches the forum selection issue, the Court should vacate the institution decision because the PTAB so fundamentally failed to exercise its discretion. This is not an instance where the PTAB exercised its discretion and the patent owner disagreed with the discretionary analysis.

Here, the PTAB acted contrary to controlling standards by imposing a bright-line test and placing the burden on the patent owner to identify a so-called “contractual estoppel defense.” The panel here has laid the foundation for unnecessary conflict between federal agencies, on the one hand, and state and federal courts, on the other.

A. The PTAB Abdicated Its Discretionary Authority

Denial of a petition is a matter committed to the PTO's discretion. *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2140 (2016). That discretion can be based on whether a different proceeding should be the one to resolve the validity of the challenged patent, and factors are to be balanced in the interest of “efficiency [and] fairness.” *Apple Inc. v Fintiv, Inc.*, IPR2020-00019, Paper 11 at 6-7, 2020 WL 2126495, at *2-*3 (P.T.A.B. Mar. 20, 2020) (precedential). Furthermore, an agency acts

arbitrarily and capriciously when it applies a wrong legal standard during its assessment of its discretionary authority. 5 U.S.C. § 706(2)(A); *see also Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 405 (1990) (“A district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law. . . .”); *United States v. Frazier*, 387 F.3d 1244, 1259 (11th Cir. 2004) (holding that the lower court abused its discretion when applying the wrong legal standard).

Here, the parties’ agreed forum selection clause was a classic factor that the PTAB should have considered as part of its discretionary analysis. The forum selection clause calls for the resolution of this dispute in Nevada. Appx1102. The forum selection clause unambiguously states SG/Bally’s contractual obligation to litigate “any dispute” about the agreement in Nevada courts. *Id.*

The agreement is almost exactly the same type of agreement at issue in *Dodocase VR, Inc. v. MerchSource, LLC*, 767 Fed. App’x 930 (Fed. Cir. 2019) (non-precedential), where this Court upheld an injunction by the district court.¹⁵ The PTAB distinguished *Dodocase* on the basis that

¹⁵ New Vision cited the underlying district court case to the PTAB. Appx1071-1073 (citing *Dodocase VR, Inc. v. MerchSource, LLC*, No. 17-cv-07088-EDL, 2018 WL 1475289 (N.D. Cal. Mar. 26, 2018)).

the district court had issued an injunction ordering the petitioner there to cease the PTAB proceeding. Appx0094-0095.

But the PTAB's approach only highlights the legal error that amounts to "arbitrary and capricious" decisionmaking. "Arbitrary and capricious" under 5 U.S.C. § 706(2)(A) is one of the class of "shenanigans" that allows review and set-aside of a decision to institute. *Cuozzo*, 136 S. Ct. at 2142. Instead of considering the relevant information, the PTAB erroneously imposed the burden on New Vision to identify a contractual estoppel defense that would bar institution. That is not a proper exercise of discretion.

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

For example, the PTAB also could have determined that discretion favored denying the CBMs, so that it would not create a potential conflict with Nevada contract law. *Cf. Dodocase VR*, 2018 WL 1475289, at *8

(explaining how party breached its contractual obligations by filing an AIA proceeding in contravention of an agreement's forum selection clause). The PTAB alternatively could have said the benefit of reviewing the patent outweighed the consequence of condoning a party's breach of its contractual obligation. Those considerations would have been relevant under a proper discretionary analysis.

The PTAB faulted New Vision for not obtaining an injunction from the district court. But there was no reason why the PTAB could not have simply exercised a discretionary analysis, recognizing that, had New Vision moved for an injunction, the district court would almost certainly have granted it. *Cf. Dodocase VR*, 2018 WL 1475289, at *13-14. The PTAB's insistence that a party obtain an injunction only creates unnecessary work for the parties and the district court, and it creates the potential for confusion between the PTO and the federal and state courts.

Further, New Vision did in fact identify relevant precedent, contrary to the PTAB's assertion. *Compare* Appx0215 to Appx0741-0742. New Vision cited *The Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 10 (1972), which holds that forum selection clauses "are *prima facie* valid and should be enforced unless enforcement is shown by the resisting

party to be ‘unreasonable’ under the circumstances.” Appx0741-0742. The PTAB ignored this precedent, without even a citation, let alone an explanation of why *Bremen* was insufficient to warrant denial of the petition on discretionary grounds. Appx0093-0096.

The PTAB’s hard-lined approach implicitly (and perhaps unknowingly) rejected without explanation the Supreme Court’s reasoning in *Bremen*. By enabling SG/Bally to proceed with the CBMs, the PTAB implicitly rejected *Bremen*’s holding that forum selection clauses “are *prima facie* valid and should be enforced,” absent a showing of unreasonableness.

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

In contrast, the PTAB framed the issue as requiring a “contractual estoppel defense” in order to deny the petitions. That view conflicts with the PTAB’s recent precedential decision. *Apple Inc.*, 2020 WL 2126495, at *2 (holding that, in denying institution, the PTAB may consider any “other circumstances that impact the Board’s exercise of discretion”). The PTAB identified no reason why it was prohibited from exercising discretion to even consider the forum selection clause. Where an agency has discretion, it must exercise it; an agency may not arbitrarily tie its hands to avoid the exercise of that discretion. *Dalton v. United States*, 816 F.2d 971, 975 (4th Cir. 1987).

B. The Possible Conflict Between *Thryv* and the APA

New Vision recognizes the tension between this argument and *Thryv*. One might read *Thryv* as barring almost all judicial review of institution decisions. *Cf. ESIP Series 2, LLC v. Puzhen Life USA, LLC*, 958 F.3d 1378, 1386 (Fed. Cir. 2020). That reading would effectively displace APA judicial review. But displacing the APA requires express congressional action. 5 U.S.C. § 559 (“Subsequent statute may not be held to supersede or modify [the APA] except to the extent that it does so expressly.”); *Zurko*, 520 U.S. at 155. The AIA and *Thryv* are entirely

silent on whether the AIA was intended to displace the APA. 35 U.S.C. §§ 311-329; *Thryv*, 140 S. Ct. at 1370-77.

Other recent Supreme Court decisions explicitly explain that 5 U.S.C. § 706(2)(A) is still applicable to the PTAB's institution decision. *See SAS Inst.*, 138 S. Ct. at 1359 (citing 5 U.S.C. §§ 706(2)(A), (C) when stating that judicial review is still available for certain "shenanigans"); *Cuozzo*, 136 S. Ct. at 2142 (same).

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

IV. The Proceeding Should Be Remanded Under *Arthrex*

If the Court disagrees on the preceding arguments, the PTAB's decision should be vacated and remanded pursuant to *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019), and subsequent cases. Remand has been the appropriate course of action in similar circumstances. *See General Order in Cases Involving Requests for Rehearing Under Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320

(*Fed. Cir. 2019*), 2020 WL 2214225 (PTAB May 4, 2020) (Boalick, Chief APJ) (listing 103 proceedings remanded).

In *Arthrex*, this Court held that APJs are principal officers and must be appointed by the President and confirmed by the Senate. *Id.* at 1335. “[B]ecause they are not, the current structure of the Board violates the Appointments Clause.” *Id.* To remedy the constitutional violation, this Court severed the applicability of Title 5’s removal provisions as applied to APJs under 35 U.S.C. § 3(c). *Id.* at 1338.

For any case with a final written decision rendered by an unconstitutional panel, the case “must be vacated and remanded,” assuming the party raised the issue on appeal. *Id.* at 1340. On remand, under *Arthrex*, a new panel must be designated to hear the post-grant proceeding. *Id.*

In this case, when the final written decisions issued in June 2019, these APJs were unconstitutional under the *Arthrex* decision. The same was true when New Vision filed its motion for reconsideration on July 17, 2020. Appx1938-1954. Thus, the *Arthrex* holding was not applicable when the parties’ briefing had been fully completed.

Rehearing in November 2019 did not cure the defect. Both *Arthrex* and *Lucia v. S.E.C.*, 138 S. Ct. 2044 (2018), foreclose that argument. When 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.” *Lucia*, 138 S. Ct. at 2055; *Arthrex*, 941 F.3d at 1340. “To cure the constitutional error, another [administrative judge] must hold the new hearing.” *Lucia*, 138 S. Ct. at 2055; *Arthrex*, 941 F.3d at 1340. This is especially true here, where the rehearing was under the PTAB’s narrow “misapprehended or overlooked” scope of review. 37 C.F.R. § 42.71; Appx0189.

V. The PTAB Erred By Holding The Invention As Not Patent Eligible

If the Court reaches the patent-eligibility issue, the Court should reverse. The claimed invention is directed to a novel, nonobvious, and patent-eligible bonus hand of a card game. The invention was and is used in casinos throughout the country. The PTAB’s decision overlooks fundamental reasoning of *Alice*, which has not been fully appreciated by this Court.

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

The Supreme Court has long recognized an “important implicit exception” to 35 U.S.C. § 101: “Laws of nature, natural phenomena, and abstract ideas are not patentable.” *Alice Corp. Pty v. CLS Bank Int’l*, 573 U.S. 208, 216 (2014); *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66, 70 (2012). Patent eligibility under *Mayo/Alice* involves a two-step test. Step 1 asks whether the claims are “directed to” a patent-ineligible category. *Alice*, 573 U.S. at 217. If so, Step 2 asks if additional claim elements, either individually or as an ordered combination, provide an “inventive concept” that “transform[s] the nature of the claim[s]’ into a patent-eligible application.” *Id.*

An application faithful to *Alice* should control the analysis. *Alice* never holds that all economic practices are abstract—only fundamental economic practices that were long prevalent. 573 U.S. at 219-20. *Alice* repeatedly stresses that Step 1 “abstractness” rests on the length and scope of use, both of which were shown with factual evidence. *Id.* Indeed, the Court’s analysis is peppered with that focus. *Id.* at 219 (referencing a “fundamental economic practice long prevalent”); *id.* at 220 (“a building

block of our modern economy”); *id.* at 220 (noting the “longstanding commercial practice”).¹⁶

Conversely, *Alice* states in abundantly plain and unnuanced words that the character of claim elements—that is, the kinds of factors relevant to the “machine or transformation” test—is “beside the point.” *Alice*, 573 U.S. at 224. Machine-or-transformation reasoning does not mix-and-match with the *Mayo/Alice* test.

Under that proper view, *Mayo/Alice* Step 1 should find an “abstract idea” only where the relevant limitation is “long prevalent.” As with Step 2, merely “known” in a single prior art reference is insufficient. *Cf. Berkheimer*, 881 F.3d at 1369 (holding that “well-understood, routine, and conventional” is a fact issue for Step 2 and requires more than a § 102-type showing of “known in the prior art”).

To be sure, some decisions seemingly conflict with this view of *Alice*. *See, e.g., Trading Techs. Int’l Inc. v. IBG LLC*, 921 F.3d 1378, 1385 (Fed. Cir. 2019) (holding that, “no matter how groundbreaking the advance,” it can still be abstract); *buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350,

¹⁶ The Supreme Court took pains to support its conclusions about the “fundamental” and “long prevalent” nature of the invention at issue by citing books and articles, one over a century old. *Id.* at 220.

1354-55 (Fed. Cir. 2014) (business methods are abstract, notwithstanding *Bilski v. Kappos*, 561 U.S. 593, 607-08 (2010)). Other cases seemingly follow *Alice*, where the Step 1 focus is on the “specific asserted improvement” that is itself new, thus ending the *Alice* inquiry. *E.g.*, *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1335-36 (Fed. Cir. 2016). Regardless, *Alice* is clear that, if an idea is “innovative,” it is not “abstract” in the *Mayo/Alice* sense.

B. The PTAB Overlooked the Significant Improvement of the Claimed Invention

Here, the PTAB erred in its Step 1 analysis of claim step (c), which requires a bonus hand formed by combining cards from multiple player hands. Appx0450; Appx2049. New Vision explained that this limitation captured a “significant improvement” over traditional games. Appx1151-1152; Appx1157; Appx1811; Appx1814. The PTAB never evaluated whether the specific bonus hand of claim step (c) was even known, let alone so “longstanding” and “prevalent” as to be “fundamental” and “abstract,” in the *Alice* sense. Appx0020-0029.

Neither the PTAB nor SG/Bally disputed that the bonus hand formed from cards contributed from players’ hands was new and inventive over other gaming methods. *Id.* At best, in its Step 2 analysis,

the PTAB observed that some bonus bets, formed under completely different rules, were known. Appx0040. But one rule doesn't substitute for another in Step 1.

Therefore, the PTAB erred in two respects. First, the PTAB oversimplified the claims and thereby failed to consider the claim language with the requisite precision. *CardioNet, LLC v. InfoBionic, Inc.*, 955 F.3d 1358, 1371 (Fed. Cir. 2020). Cards from a plurality of hands (claim step (c)) versus cards from the dealer and one player (the example relied on by the PTAB, Appx0040) are two different things.

Second, the PTAB analyzed Step 1 as an issue of law based on machine-or-transformation character of the claim language, when *Alice* suggests that Step 1 be analyzed as an issue of fact based on "long prevalent," at least in close cases. Either of those two errors requires reversal.

C. The PTAB Misapplied *In re Smith* and *In re Marco Guldenaar*

The PTAB relied on *In re Smith*, 815 F.3d at 819, and *In re Marco Guldenaar Holding B.V.*, 911 F.3d 1157 (Fed. Cir. 2018), to conclude that all rules for wagering games are "abstract." Appx0022-0029. While understandable, the PTAB's overly broad reading of those cases

constitutes reversible legal error. Neither case holds that any and all methods directed to any game are abstract and therefore *per se* patent-ineligible.

Smith analogizes a “wagering game” to the “fundamental economic practices” in *Alice* and to *Bilski* and concludes that the specific “wagering game” in *Smith* was “abstract.” 815 F.3d at 819. But *Smith* lays out no analysis based on the reasoning or facts of *Alice*; the nature of the analogy is unstated. Both *Bilski* and *Alice* concluded that specific economic transactions were abstract because each was “long prevalent” or “fundamental.” Neither *Bilski* nor *Alice* suggests that *all* economic transactions are abstract or that economic activities are abstract as a class. Indeed, both held the opposite: *Bilski* held that there is no categorical exclusion for business methods, 561 U.S. at 606-07, and *Alice* stresses that the claim limitation’s character is “beside the point,” 573 U.S. at 224. Only fundamental economic activities are abstract in an *Alice* sense. The analytical silence in *Smith* must be read in that light.

On careful reading, *Smith* concludes that the specific game rules at issue were “abstract” not because they were wagering rules, but because they were old. *Smith*, 815 F.3d at 818-19. Each step of *Smith*’s claim

was “long prevalent”: shuffling and dealing cards, reviewing a hand for pairs of certain values, dealing an additional card, the dealer standing or hitting depending on a count, and resolving a bet based on whether the player’s or dealer’s hand is closer to a target value. *Smith*, 815 F.3d at 817-18.

Guldenaar, in turn, equates a dice game to *Smith*’s card game. 911 F.3d at 1160. But *Guldenaar*, likewise, fails to draw any reasoning from *Alice*. Like *Smith*, *Guldenaar*’s appellant did not dispute that all limitations were conventional, either alone or in combination. 911 F.3d at 1161. The one point that *Guldenaar* did contend to be novel, the markings on his dice, were discounted under the “printed matter” rule. *Id.* Read carefully, neither *Smith* nor *Guldenaar* stands for more than this: An economic practice may be a *Mayo/Alice* “abstract idea” when evidence establishes that it is “long prevalent” or “fundamental.”

Here, the PTAB never addressed the relevant question in analyzing the bonus hand limitation of step (c). The PTAB simply noted that “rules of a game” and a “bonus bet” are abstract, Appx0022-0047, Appx0083-0084, as if entire categories are abstract as a matter of law, no matter how new or innovative a specific example may be. Either the PTAB erred

in reading *Smith* too broadly, or *Smith* should be overruled *en banc* to conform this Court's precedent to *Alice* and *Bilski*.

D. The Proposed Amended Claim is Patent Eligible

New Vision proposed contingent claim amendments that would narrow the claims to require that the player hands be displayed on a video screen. Appx1130; Appx1134. The amendment was offered to meet any objection under the “machine or transformation” prong of § 101. Appx1134. The PTAB denied entry of the amendment, because the amendment added only more rules of a game and conventional hardware. Appx0053-0055.

Step (c) is new, so the claim is eligible under the *Mayo/Alice* test. The proposed amendments obviate any further problem under the “machine or transformation” test.

VI. Conclusion

For the foregoing reasons, the Board's decisions should be vacated or reversed.

Date: June 30, 2020

Respectfully submitted,

/s/ Matthew J. Dowd

Matthew J. Dowd
Robert J. Scheffel
Dowd Scheffel PLLC
1717 Pennsylvania Avenue, NW
Suite 1025
Washington, D.C. 20006
(202) 559-9175
mdowd@dowdscheffel.com
rscheffel@dowdscheffel.com

David E. Boundy
Cambridge Technology Law LLC
P.O. Box 590638
Newton, MA 02459
DavidBoundyEsq@gmail.com
(646) 472-9737

*Counsel for Appellant New Vision
Gaming & Development, Inc.*