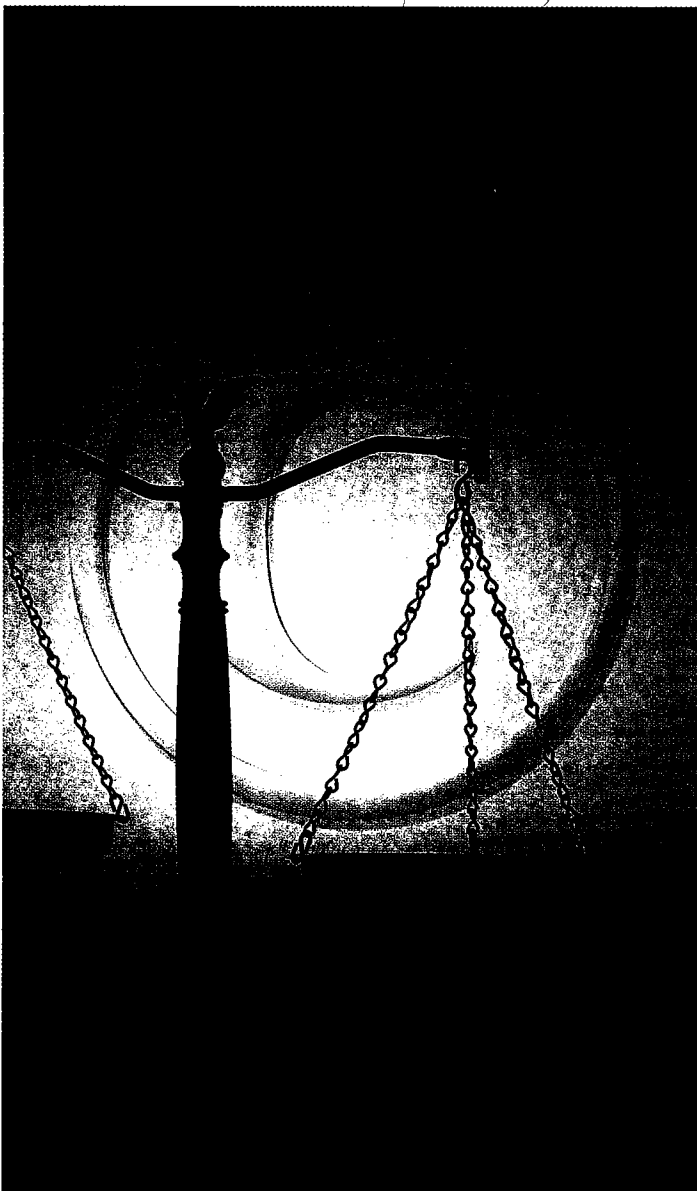


PRIME V. PROGRESSIVE: AN IP BATTLE THAT WILL SHAPE THE GAMING INDUSTRY

By Robert A. Rowan

Editor's Note: This article is a case study meant to provide a real-life complement to Derek Webb's article, "The Importance of Intellectual Property Rights as a Regulatory Concern" (see page 24).



On New Year's Eve 1998, Derek Webb received a call from a Las Vegas Sun reporter asking him what it felt like to be a defendant in a federal patent infringement lawsuit. Unbeknownst to the principal of Prime Table Games and inventor of Three Card Poker (TCP), Progressive Games Inc., then owned by Mikohn Gaming Corp., had filed suit against Webb and Prime, asserting that Prime's TCP infringed certain patents that purportedly protected Caribbean Stud, another (allegedly) proprietary casino table game then at the apex of its popularity. Significantly, just prior to the lawsuit, Progressive's corporate parent, Mikohn, had unsuccessfully attempted to buy out Prime's rights in TCP.

Shortly after filing the infringement suit, Mikohn representatives made another offer to Prime to buy the TCP rights, this time for less consideration than they had previously offered.

Also unbeknownst to Webb, the patents on which he and Prime were being sued were worthless. As proven in court 10 years later, the Caribbean Stud patents had been obtained by an intentional fraud on the U.S. Patent and Trademark Office by concealing and affirmatively misrepresenting the rules of a pre-existing game, Sklansky Casino Poker.

Webb was also unaware that Mikohn's in-house gaming expert had, prior to Progressive's lawsuit, authored a memo to Mikohn's executive committee acknowledging that Webb had been able to bypass the Caribbean Stud patents. The same memo also set out the expert's opinion that TCP was "the one novel table game that is both a proven commodity and ... has the variety/playability to remain a contender for a substantial length of time ..." and that Mikohn's acquisition of TCP would

"firmly entrench" Mikohn as the "market leader ... in table games."

Shortly after filing the infringement suit, Mikohn representatives made another offer to Prime to buy the TCP rights, this time for less consideration than they had previously offered. Webb had no interest in selling out to the entity that had just sued him, but having neither the financial resources nor the facts necessary to defend against Progressive's suit,

As proven in court 10 years later, the Caribbean Stud patents had been obtained by an intentional fraud.

Prime had little choice but to sell to someone. The beneficiary of Prime's predicament turned out to be Shuffle Master Inc.

Shuffle Master was also engaged in protracted litigation with Progressive regarding some of the same patents asserted against Prime, but with respect to Shuffle Master's Let It Ride. Six months after Prime's sale of TCP, Shuffle Master reached a settlement with Progressive that required Shuffle Master to pay Progressive \$2.75 million, but also required Progressive to pay Shuffle Master virtually the same amount over a five-year period, at \$580,000 a year. Reading a news report of these unusual settlement terms made Webb suspicious that something was amiss.

Three years later, after unearthing additional facts and being in a position to finance major patent/antitrust litigation, Prime instituted its own suit under the Sherman Antitrust Act in federal district court in Mississippi, the state where TCP was first started in the United States, alleging attempted monopolization of the proprietary casino table game market.

As a necessary predicate to his antitrust allegations, Prime had to first overcome the statutory presumption of validity, to which all U.S. issued patents are entitled,¹ and to overcome the First Amendment right of litigants "to petition the government for a redress of grievances." To do that, Prime had to prove that the patents on which it had been sued were obtained by a deliberate fraud on the Patent and Trademark Office and that Progressive knew of its patents' invalidity when it sued Prime ("Walker Process fraud"²), or alternatively, that Progressive knew that its patents were not infringed by TCP and that its suit on that basis was not a bona fide attempt to obtain judicial relief, but rather a means to interfere with the business relationships of a competitor by the cost and hardship of the litigation itself (Noerr-Pennington "sham litigation"³). Prime proved such facts, first to a nine-person jury who heard Prime's evidence in a trial lasting more than five weeks, then to the presiding judge of the Mississippi court on post-trial motions filed by Progressive.

The jury unanimously concluded that each of the patents on which Prime had been sued, as well as the "mother patent" from which they had been issued, had been obtained by intentional fraud on the Patent and Trademark Office and that, besides knowing that fact when it sued Prime, Progressive and Mikohn also knew the Caribbean Stud patents were not

infringed on by TCP, even if valid. The jury further found Prime had been damaged by Progressive's attempt to use those patents to monopolize the relevant proprietary casino table game market and that Prime had lost profits of \$13 million it would have otherwise earned from TCP. This verdict, which was then tripled to \$39 million under antitrust laws, was sustained by the trial judge, who also awarded Prime and Webb their attorneys' fees and costs. Subsequently, the defendants settled for \$24.7 million, including Prime's

multimillion-dollar legal fees. The \$39 million judgment was one of the 50 largest jury verdicts in 2007. ○

1 See, 35 U.S. Code, Section 282.

2 See, *Walker Process Equipment v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 177 (1965).

3 See, *Professional Real Estate Inc. v. Columbia Pictures Inc.*, 508 U.S. 49, 60-61 (1993).

Robert Rowan is a Partner and Shareholder of the Arlington, Va., patent and trademark law firm Nixon & Vanderhye. He was Co-Lead Counsel with Joseph Presta for Webb and Prime. Rowan and Presta, who have been litigating antitrust and patent cases since 1973 and 1993, respectively, were assisted by Michael Crawford and Lisa Moore.

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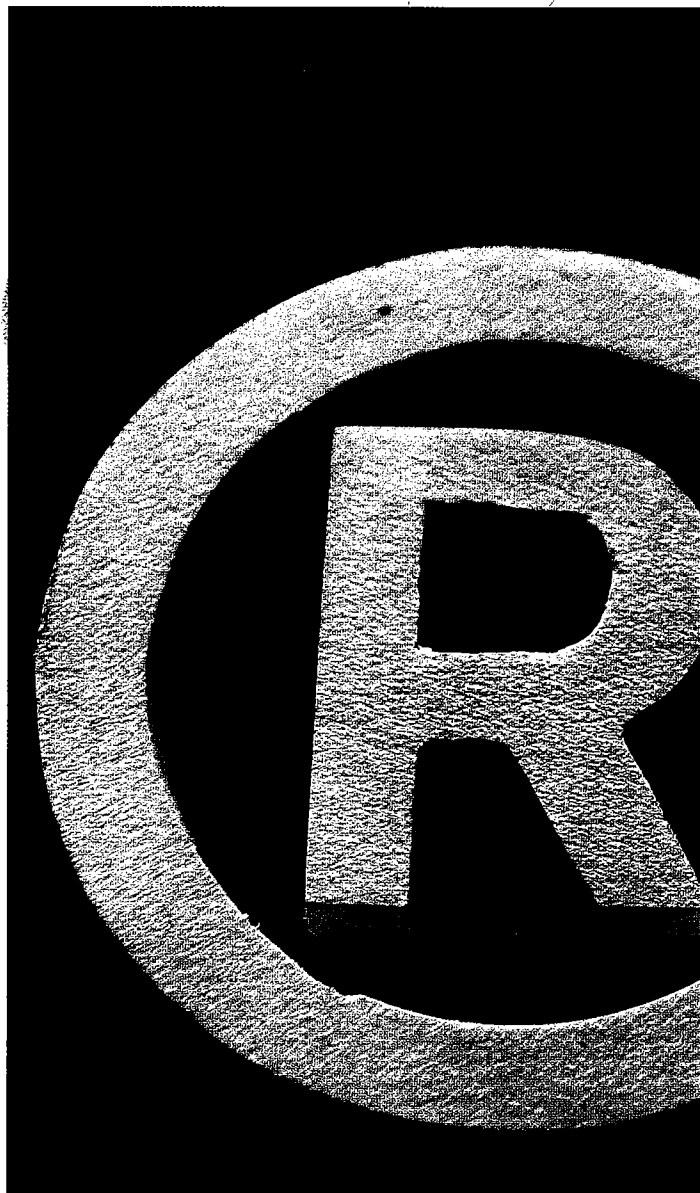
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THE IMPORTANCE OF INTELLECTUAL PROPERTY RIGHTS AS A REGULATORY CONCERN

By Derek Webb

Editor's Note: This article explores the growing importance of intellectual property in the gaming industry and the potential regulatory responses. It is meant to complement Robert Rowan's article, "Prime v. Progressive: An IP Battle That Will Shape the Gaming Industry" (see page 22).

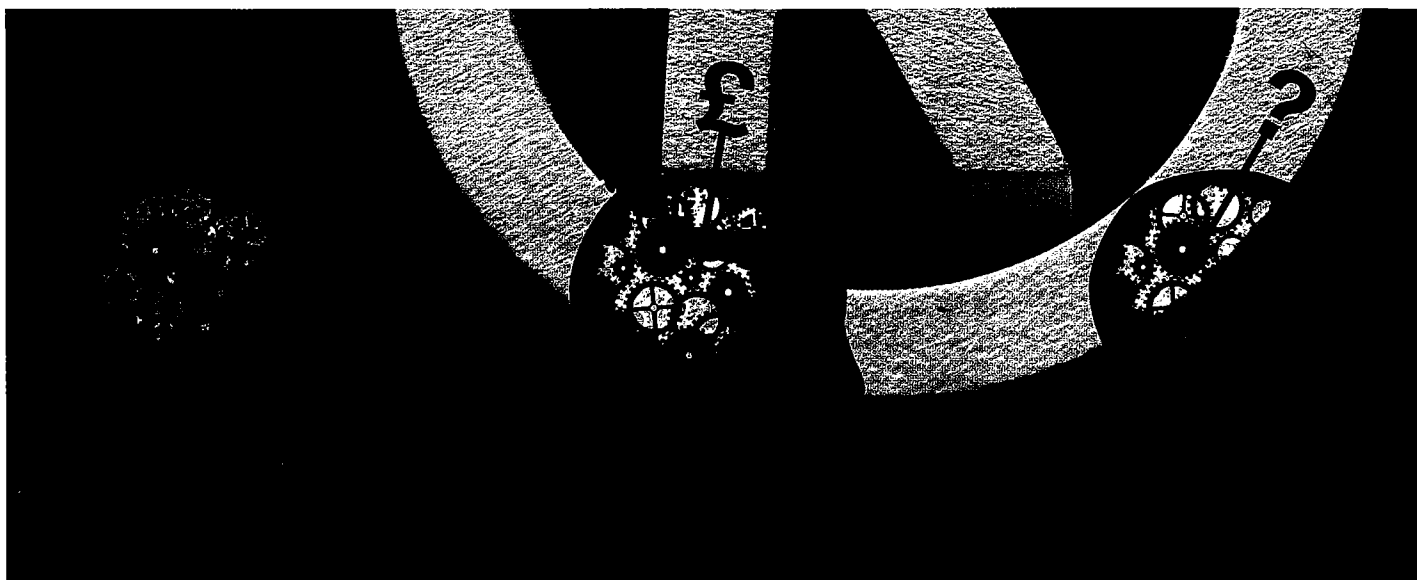


Intellectual property (IP) relates to patents, trademarks, design rights, copyrights, etc. They are "intellectual," as they are intangibles; and they are "property," as they are owned by someone. All casino operators and all casino vendors of proprietary games are IP owners. Increasingly, the value of a gaming company is directly tied to its IP rights. For example, what is the value of the name "Caesars Palace" to Harrah's or the name and patents associated with "Wheel of Gold" to IGT? The industry as a whole, as well as the governments that derive revenues from its continued success, should have an interest in protecting bona fide IP ownership and in defending against spurious claims of proprietary rights.

We are now in an IP revolution, with a growing part of the total wealth of the world resting in IP rights. Just as in previous revolutions, the law does not always keep pace with economic changes. IP abuse has many forms, including theft or attempted theft of IP of another party; false representations to acquire or defeat IP rights; and theft or attempted theft of the revenue of others, based on improperly acquired IP rights or evasion of IP rights. These actions can result in financial losses and injuries that can be just as devastating to the injured party as physical theft.

All readers will understand the history of gaming and the need for regulation. The basic premises are: participation in gaming is a privilege rather than a right; gaming should be fair and honest and should not be brought into disrepute; and organized crime should not have involvement in gaming operations.

As part of gaming regulation, a process of background investigation checks the character and suitability of applicants for gaming licensees, including owners, operators, certain employees and certain classes of vendors, depending upon the jurisdiction. These investigations are important because past behavior is often predictive of how an applicant will behave as a licensee. Part of the background check relates to assessment of probity and integrity. If these are essential



If there is any dispute over game content IP between any parties, then those parties should be required to notify regulators of that dispute. Regulators should have the ability to investigate the dispute. This should be a minimum regulatory standard.

requirements of a gaming licensee and if abuse of IP rights is an indicator of a low standard of probity and integrity, then it follows that gaming regulators should be willing to investigate IP abuse.

Is Intellectual Property Regulated Properly?

Some regulators will say, "This is a commercial issue, so we are not going to get involved." Those regulators should consider if this view is consistent with their public policies. Regulators requiring background investigations for vendors of IP rights only (no physical equipment) also should require representations regarding the IP rights and should maintain the ability to investigate those representations. As IP representations are the sole basis for the relationship between the vendor and the gaming industry, if these core representations are not subject to investigation, it can render the overall investigation meaningless.

Creating other IP issues are 1) the growth of Internet gaming; 2) the possibly of legalized intranet state gaming in the United States; 3) the possibility of legalized Internet gaming in the United States; and 4) the entry into non-U.S. Internet gaming by licensed casinos and suppliers in the United States. IP in Internet gaming is a cross-border matter. However, many regulators of Internet gaming do not even require that their licensees comply with the laws of all countries in which they transact business.

In a survey of U.K. Internet players commissioned by Prime Table Games, one question was, "Should Internet casinos get permission from the inventors of games before using their games?" Answers were: No – 6 percent; Don't Know –

11 percent; and Yes – 83 percent. Surely players are entitled to know that no one will profit from their losses through IP abuse.

If there is any dispute over game content IP between any parties, then those parties should be required to notify regulators of that dispute. Regulators should have the ability to investigate the dispute. This should be a minimum regulatory standard.

Changing economic dynamics, such as the growth of IP and the growth of remote wagering, mandate that regulators re-examine outdated or inadequate regulations and procedures. This re-examination should focus on the ownership and abuse of IP and Internet rights, especially when matters relating to such rights have already been determined or adjudicated by another regulatory or judicial body and are matters of public record or have otherwise been brought to the attention of gaming regulators. This should become a regular and continuing part of the background checks of probity and integrity of persons or entities governed by gaming regulations. ○

Derek Webb is a Principal of Prime Table Games, a provider of new table games primarily in the United States and the United Kingdom. Prime Table Games created and marketed Three Card Poker, the most successful proprietary table game in the industry. While Prime Table Games retained the U.K. rights to Three Card Poker, Shuffle Master acquired the United States and other rights from Prime Table Games in 1999. He can be reached at derek@primetablegames.net.