

PLAYING THE PATENTS GAME

The recent agreement between IGT and Net Entertainment demonstrates how important it is for European iGaming companies considering the US to be cognizant of gaming technology patents ahead of entering the market, write **Paul Taufer** and **Stacy Rush** from DLA Piper's Philadelphia office.

The US gaming market generates billions of dollars in revenue every year, and it is no wonder that gambling technology suppliers are looking to expand into the US to take advantage of the nascent US iGaming market, now that the regulatory environment is permitting them to do so, with patents increasingly central to their expansion strategy.

Entities looking to enter the iGaming space in the US should be particularly cognizant of gaming technology patents. Patents in the iGaming industry are limited in Europe, largely as a result of the patent system there, which is generally resistant

if they felt their European IP position was bullet-proof. This can potentially result in an unexpected patent infringement action, and create a potential risk for damages, legal fees, and a possible injunction. The end result can force the new product to be pulled from the market. Significant business disruption and financial loss can be avoided with proper due diligence prior to entry into the market.

Proper diligence may uncover patents owned by others that could present an infringement risk, for example through a 'freedom to operate' patent survey. The freedom to operate patent survey is

can be reduced significantly and products launched sooner, so a company may be able to broaden its reach in a shorter time frame.

The NetEnt and IGT agreement

The two gaming companies NetEnt and IGT recently announced that they have reached an "IP patent cross-license agreement", where NetEnt can offer patented game features from IGT's patent portfolio in the North American market. IGT owns the rights to one of the largest patent portfolios of slot machine game features in North America. NetEnt, although strong in the digital entertainment space in Europe, is a relatively recent entrant to the North American market following its licensure in New Jersey. The deal between the two companies provides NetEnt with safer access to the North American market in this key gaming area.

A patent cross-license agreement is where both entities license patents or associated intellectual property to one another. Parties who engage in this kind of agreement tend to own patents and IP that complement one another, and one or both of the companies want to gain access to the technology owned by the other entity. While it may, it does not always involve payment from one company to another, and instead, both companies can benefit by gaining access to the other company's patents. There is also the key benefit of avoiding the risk of infringing the other company's patents. Also, where the license includes access to another company's products and technology, another potential benefit is that the agreement can provide an indemnity against infringing

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to protecting software-based inventions. However, such protection is commonplace and widespread in the US. As a result, companies in the traditional land-based gaming industry in the US typically focus substantial resources to establish strong patent portfolios surrounding their products and technology. Such strategies have naturally led to many iGaming-related patents being filed as that segment of the industry rapidly developed. For this reason, businesses blindly entering the US market may inadvertently infringe on a patent, even

designed to establish whether a proposed game or gaming technology may infringe on any patents. If infringement does exist, a company may consider modifying their product or technology to avoid the patent at issue, or alternatively, may consider entering into a business relationship to license another company's patents.

A licence agreement, in addition to avoiding a patent infringement risk, may provide several financial benefits, including access to already established brands and technologies. Product development costs

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any other's patents as well, should the licensed products or technology be used, significantly reducing the risks even further associated with a product launch in a new market.

While the exact terms of the deal are not available, it is clear that both companies stand to benefit from this agreement. From NetEnt's perspective, the license agreement provides access to already established brands and technologies in the North American market, speeding up the time that would typically be needed for product launch and reaching a wide customer base. IGT is a world leader in gaming equipment, and manufactures half of all slot machines in the US¹, so it is likely that the deal would provide NetEnt with an opportunity to expand its business by offering its technology in land based slot machines and physical machines on the casino floor². NetEnt also eliminated its risk of infringing IGT patents and possibly other patents as well. This was particularly significant since NetEnt is just entering the US market.

Business as usual

The licensing deal with NetEnt is in line

with the normal business operations of IGT. In fact, IGT has been accumulating patents and building up its IP portfolio and licensing patents for decades. For example, all modern slot machines use a variation of the Telnaes patent, a patent granted to Norwegian mathematician Inge Telnaes in 1984. The patent revolutionized the gambling industry, as it was the first invention to incorporate a random number generator on a computer chip to determine the outcome of a slot machine game³. IGT bought the patent in 1988, and then licensed it to the entire industry⁴.

Last year, IGT greatly expanded upon its ownership and access to IP in merging with GTECH, and it currently has a presence in over 100 companies worldwide. The licensing deal with NetEnt further solidifies the importance of IGT's vast and impressive IP portfolio in the gaming world, and its necessity in building up its portfolio. Not only is there a significant economic benefit in the deal for IGT, the licensing opportunity signifies that IGT has maintained and increased its hold as a powerful force in gaming and entertainment, and that its patents are relevant and necessary.

Conclusion

It is clear that companies looking to enter into the US gaming space should be aware of patents before entering the market. The leaders in the US gaming industry tend to own enormous patent portfolios, and will aggressively protect their IP. NetEnt and IGT's license agreement is an exemplary model of the strategies companies can take in order to effectively expand their global reach. NetEnt and IGT are only one representation of numerous companies who are already effectively utilizing this strategy. Entities should look to these models in order to effectively and profitably expand their growth.

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¹ <https://www.netentcasinos.com/blog/netent-signs-ip-patent-cross-license-agreement-with-igt/>

² <http://www.vegasyguy.com/articles/netent-patent-license-igt/>

³ <http://www.uh.edu/engines/epi2740.htm>

⁴ <http://www.lexology.com/library/detail.aspx?g=7f2e14a5-db92-42d9-8cf5-36af06e55efa>