[IP lawyers take a look at recent precedent to unpack exactly what U.S. patent law says about and to the game industry -- including how you should defend yourself, how you might approach patents, and what damages and other sticky situations might arise if challenged.]

Patents have often been looked on unfavorably by some in the video game industry. But passing by the philosophical question of whether patents are “good” or “bad” on the whole, it is important as a practical matter to understand the answers to two questions for any particular patent -- what does that patent cover, and what happens if that patent is infringed?

Although patents may not cover anything close to what some patent owners may claim, and damages may not approach what some patent owners may demand, a patent may nevertheless be extremely valuable to its owners -- and extremely dangerous to accused infringers.

The perceived strength of patents has shifted over the years, like a pendulum, as courts have ruled on new cases involving new technologies, changing the landscape of patent protection.

Several recent developments in patent law are likely to have a significant impact on the video game industry, affecting the acquisition and assertion of patents by their owners and the defense against patents asserted by others. We explore some of the most relevant issues below.

**KEEPING A LID ON DAMAGES -- HOW MUCH IS TOO MUCH?**

Many patents are directed to a single feature that may be included in a much larger, complex system. In recent years, some juries have awarded royalties on the entire system, resulting in a very high royalty for the patented feature. Indeed, sometimes the royalties have exceeded the cost of the patented feature.

A number of recent decisions have addressed this issue and held that royalties should be based on the value of the patented component of a system, not on the value of the entire system. This is significant to the video game industry because many of the patents that have been asserted are directed to limited aspects of video game systems. In those cases, the potential reward for asserting a patent -- and the potential risk if a patent is found to infringe -- may have decreased.

An example of courts imposing limits on such jury awards is Lucent Technologies v. Gateway, in which Lucent accused the date-picker feature in Microsoft Outlook of infringing Lucent’s patent. The jury awarded $357 million in royalties, but the appeals court rejected that award because the infringing use of Outlook’s date-picker feature was a minor aspect of the much larger Outlook program, and the portion of the profit attributable to the date-picker was small.

Indeed, there was no evidence that anyone bought Outlook because of the date-picker feature. Thus, the appeals court sent the case back for a new trial on the issue of damages to determine the value of the patented feature, which was but one feature among many in Outlook, and to determine what royalty the parties would have negotiated for that feature.

This refocus is important to video game developers because video game patents are often directed to a limited aspect of a complete game system. If the patented feature is a substantial driver of the demand for the system, it is still possible to obtain a substantial royalty. However, if the patented feature is just one of many relatively insignificant features, the royalty would likely be much lower because it would be based only on the value attributable to that patented feature.

**CAN’T STOP THIS -- WHEN IS INJUNCTIVE RELIEF AVAILABLE?**

Until recently, prevailing patent owners were almost certain to obtain an injunction, forbidding any further use of the patented invention. An injunction could force the infringer out of business, force the infringer to modify its products, or force the infringer to take a license from the patent owner -- typically with a high royalty because the patent owner had all the leverage in the post-injunction license negotiation.

Since the Supreme Court’s 2006 ruling in eBay v MercExchange, the issuance of injunctions has become less certain, particularly where the patent owner is not a competitor of the infringer. But that does not mean that infringers are free and clear to continue using the patented invention.
Even if a court does not award an injunction, the patent owner is still entitled to a “compulsory royalty.” That royalty may be so substantial that the infringer may be forced to modify or discontinue selling its product because it cannot afford to pay.

An example of a court awarding a relatively high compulsory royalty is Paice v. Toyota, which involved hybrid vehicle technology. The jury awarded a “reasonable royalty” of $25 per vehicle. The trial court concluded that an injunction should not issue, and set an ongoing royalty of $25 per vehicle for the remainder of the life of the infringed patent -- the same royalty that the jury had awarded as damages.

The appeals court sent the case back for further review because the trial court had not explained how it arrived at the $25 compulsory royalty. In reconsidering the compulsory royalty rate, the trial court looked at changed factual and legal circumstances, and concluded that, unlike at trial, Toyota was an adjudged infringer and chose to continue infringing Paice’s patent. The court determined that the appropriate royalty was $98 per vehicle -- nearly four times the royalty the jury had found to be the “reasonable” measure of damages for Toyota’s infringing sales.

The good news for video game developers facing claims of patent infringement is injunctions do not automatically follow from a finding of infringement -- although injunctions are more likely to be awarded if the patent owner is a competitor. The bad news is a compulsory license is likely to be awarded if there is no injunction, and that compulsory license may have the same practical effect as an injunction.

In the case of an injunction, the infringer is forced to modify or to remove its product by the court’s order; in the case of a high cost compulsory license, the infringer may likewise be forced to modify or to remove its product, this time because of the unfavorable economics of the compulsory license. Thus, the need for early consideration of potential alternative strategies to avoid any business interruption in the event of an unfavorable jury verdict has not changed, regardless of the likelihood an injunction may issue.

**GAME OVER -- ARE METHOD CLAIMS STILL PATENTABLE?**

One of the hottest topics in patent law during the last year was whether so-called “business methods” can ever be patented. The Supreme Court decided this issue in the Bilski case, and said “yes.”

That case is important to the video game industry because many patents relating to video games include claims directed to methods. The Supreme Court held that methods (including business methods) can be patented so long as certain conditions are met, and left it to the lower courts to apply those conditions to specific method claims. The Bilski decision is significant to the video game industry because many method patents relating to video games issued before the Bilski decision.

Those patents may not satisfy the Bilski test, and therefore may not be valid. Perhaps more significantly, inventors who are currently seeking patents covering methods should understand these standards to maximize their chances of obtaining valid patents.

The Bilski decision was recently applied to online networks by a California trial court in Ultracmercial v. Hulu. Ultracmercial’s patent claimed a method for viewing copyrighted material online for free in exchange for requiring the viewer to watch advertisements.

The court found Ultracmercial’s patent to be invalid because it was directed to the “abstract idea” of exchanging advertisements for free copyrighted media.

As part of that analysis, the court considered whether the method involved a “machine or transformation” (which the Supreme Court said was an informative but non-exclusive test for patentability in its Bilski decision) and determined that it did not satisfy that test.

The patent claimed a method for distribution of products over the internet via a “facilitator.” There was no “machine” because the claimed facilitator was not limited to any machine. The court further found that the internet could not be considered to be a machine because it was not like a computer or network cable that can be physically touched. There was no “transformation” because the mere transfer of copyrighted information from one computer to another did not change the nature of what is stored in memory. The court ultimately found that the patent claimed an abstract idea.

That does not mean it is impossible to obtain method patents for software inventions, like those used in the video game industry. For example, in Research Corporation Technologies v. Microsoft, the appeals court held that patents relating to digital half-toning technology were patentable. The court reasoned that the process for rendering a half-tone image of a digital image was not abstract because it allows for functional applications in computer technology.

Since the Supreme Court decided Bilski, the U.S. Patent and Trademark Office has considered,
numerous times, whether pending applications relating to software technology are patentable. Some claims, including examples relating to authenticating web sessions, communication through messaging systems, and communicating with digital signatures, have been rejected because they cover abstract ideas. As part of its “abstract idea” analysis, the Patent Office typically considers whether the claimed method involves a “machine or transformation.”

To increase the odds of obtaining a patent, video game developers seeking to patent methods used in their software may wish to consider drafting claims directed to (1) a particular machine that implements and meaningfully limits the claimed method, (2) transformation of data (transferring data between servers may not be sufficient, as in the Ultramercial case), and (3) a tangible concept that solves a specific problem (not just an abstract idea).

DIVIDED WE STAND -- WHAT HAPPENS IF MULTIPLE ACTORS EACH USE ONLY PART OF A PATENTED INVENTION?

Video games and systems are increasingly used by multiple actors, each of whom acts independently of the others. As a result of this division of activity, there may be no single person or entity that does everything that is claimed in a patent, even if a combination of people and entities together does everything.

When such “divided infringement” occurs, it may not be possible to hold anyone responsible for infringement, in which case it is not possible to stop the combined activity or to collect a royalty for use of the patented invention. This multiple-actor environment thus creates challenges for patent owners to anticipate how their inventions may be used -- now and in the future -- and to claim their inventions in a way that provides adequate protection.

An example of a divided infringement case is BMC Resources v. Paymentech, in which the invention was an interface between a touch-tone telephone and a debit card network. This invention enabled a person to make payment transactions with only a telephone keypad.

Unfortunately for BMC, the claims of its patent required different people to perform different claimed functions: (1) a person would input information using a keypad, (2) a telecommunications company would transmit that information to a bank, and (3) a bank would process the information.

The alleged infringer, Paymentech, operated a system that forwarded payment requests from telephone users to financial institutions, but did not perform the other steps. The court held that there can be no infringement unless someone controls or directs each step of a patented method.
The court allowed that infringement cannot be avoided simply by “contracting out” part of a process, but that did not happen in BMC’s case. Thus, even though the system as a whole infringed, Paymentech escaped BMC’s infringement claims because it did not direct or control what users did with the keypad.

Likewise, there was no infringement in MuniAuction v. Thomson, which involved a system for performing bond auctions using an internet browser. Although Thomson operated a bond auction system, some of the claimed steps (such as entering bids) were performed by bidders. The court held that providing users with access to the system and instructing them how to use the system was not enough to prove direction and control. Again, there was no infringement -- even though all of the steps were performed -- because all steps were not performed by a single entity.

More recently, in Akamai Technologies v. Limelight Networks, the court found that Limelight did not infringe Akamai’s patents involving the storage and delivery of website content. Limelight performed all of the steps of the claimed method except for the “tagging” step, which was performed by Limelight’s customers in accordance with instructions provided by Limelight. The court held that the customers’ actions could not be attributed to Limelight because the customers were not obligated to perform that step, either by contract or as “agents” controlled by Limelight.

This “divided infringement” problem can be significant for video game inventions that, as claimed in a patent, involve the actions of two or more people. If claims are not carefully drafted to be directed to the actions of a single entity, they may be of little practical value because they may not be infringed, even if a combination of entities uses the invention through their combined action.

**CONCLUSION**

While the debate may continue about the proper place of patents in the video game marketplace, recent court decisions have once again highlighted the real-world importance of patents to the industry. It is important to understand these developments to secure the potential benefits provided by patents, and to navigate around the potential pitfalls patents can present.

Note: Mark Bloomberg and Steven Baughman are members of Ropes & Gray LLP. Daniel Lee and Scott Ollivierre, who are associates at Ropes & Gray LLP, assisted them in preparing this article. The information in this article should not be construed as legal advice or a legal opinion on any specific facts or circumstances.