Eye on IP

Developing a legal game plan to protect innovation in the video game industry

F. Jason Far-hadian Esq., Principal of Century IP Group, maintains that protecting intellectual property in today's video game market is necessary to establishing a distinct competitive advantage. The author explains why.

During my recent stay in Seoul Korea, I visited the largest underground entertainment and shopping center in Asia (the COEX Mall), where the Microsoft and Sony corporations have built spacious *game zones*, providing public access to hundreds of game stations and video games for *free*. Each year the center hosts international competitions where teams of players collectively compete with others online, and before the eyes of large audiences, to win multi-thousand dollar prizes.[1]

Here are a few interesting facts: total sales in the video game industry reached $7.3 billion last year;[2] sales from the online multiplayer games sector by itself is expected to grow to $763 million by 2007;[3] big business in the video game industry is coming from *adults*, where the average age of a game player is 30;[4] and video games have outsold movie tickets in the United States 10 to 9.[5] Not bad for a business that began as an incidental offspring of the computer software industry.

The video game industry, even though still dependent on advancements in the computer software and hardware sectors, has evolved beyond recognition in relation to its humble origins in games such as *Pong* and *Pacman*, developed 50 years ago on refrigerator size computers by timid software engineers. Modern video games have intricate storylines, bold colors and a plethora of characters and backdrops. As such, many video games today are written, designed and choreographed by writers, producers, directors and talent with experience in the arts and movie industry before a single line of code is written.

For the above reasons, the legal issues related to the protection and enforcement of rights in video game products have become more sophisticated and complex. Luckily, however, various legal means are available to help protect different aspects of a video game product, especially the functional and operational aspects, which may be protected by a patent. Alternatively, certain features may be maintained as trade secrets. Additionally, most characters, scenes, music, dialogues, story lines and source code may be protected under copyright laws as long as each contains original works of authorship.

Despite the availability of the above legal means, there is a surprising and somewhat inexplicable lack of intellectual property protection in the video game industry. This imbalance within the video game industry is cultivating a new and relatively unexploited legal battlefield that is resulting in large judgments against infringers and licensing opportunities for those who have diligently pursued their legal right to obtain and register the respective patents and copyrights.

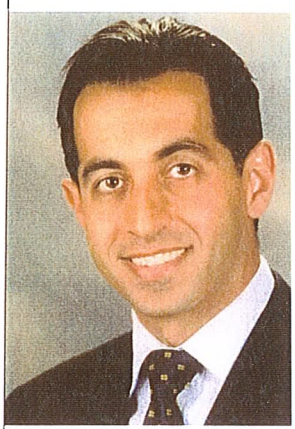
The 1997 case of Alpex Computer Corp. v. Nintendo Co.[6] is among the first cases involving video game patent infringement. In that case, Nintendo was ordered to pay $253 million to Alpex for infringing its patent for a machine configured to play multiple games, in contrast to the older arcade systems that could only play a single game. More recently, in March 2005, the United States Federal court in the Northern District of California found Sony guilty of patent infringement and entered a judgment ordering Sony to pay $84 million to Immersion Corp., which had a patent covering the vibration feature incorporated in the PlayStation's game controller.[7]

Accordingly, even simple operational features incorporated in a game may be worthy of patent protection. Such innovations, if properly protected, can potentially provide a distinct advantage to a game developer by way of excluding competitors from using the particular feature in their products.

In the realm of copyright protection, certain non-operational but graphical attributes or themes of a video game may be protected by preventing others from altering or modifying such attributes. For example, modding and morphing software are available that allows a player to change the look and feel of a game by adding new levels and characters or otherwise customizing the game based on the player's preference.

The judicial consensus on whether such acts constitute copyright infringement remains unclear.[8] For example, in Microstar, Inc. v. FormGen, Inc.[9], the Court of Appeals for the 9th Circuit held that Micorstar's act of selling a collection of additional game levels developed for the video game *Duke Nukem 3D* constituted "derivative work" and infringed the copyrights of the game developer FormGen. Microstar had to enjoin further sales of the product and pay $250,000 in damages. Prior to the Microstar decision, the rights to derivative work had been recognized only in literary works such as novels and films.

More recently, in January 2005 Tecmo, Inc., maker of an Xbox game (*Dead or Alive Xtreme Beach Volleyball*), sued the operators and users of an online bulletin board service www.ninjahacker.net for posting lines of code that made the characters appear nude. The suit was dismissed in May 2005 due to a settlement between the parties.



F. Jason Far-hadian

But it left unanswered the question of whether a rightful owner of a video game can legally modify the game in the same manner that a purchaser of a book can underline its text.

Due partially to the ambiguities in copyright law, some video game manufacturers have relied on provisions of the Digital Millennium Copyright Act (DMCA) to target companies that distribute modding technologies. In the past, Sony, Microsoft and other companies have successfully gone after distributors of modding chips for violating the provisions of the DMCA that make it unlawful to distribute circumventing technologies such as modding software.

It is noteworthy, however, that according to a recent decision of the United States Court of Appeals for the Federal Circuit, the DMCA cannot create new copyright rights, but can only be used to enforce existing rights.[10] So it is no longer clear whether the DMCA will continue to empower video game manufacturers as it did prior to this decision.

Regardless of the above uncertainties, the noted progeny of cases confirm that courts recognize the value of intellectual property in video games and will reward the game developers that protect their rights by taking the legal steps to properly register and enforce those rights. In response to the pressing need for legal representation and specialization in the video game industry, certain intellectual property law firms such as the Century IP Group and Morrison & Foerster are further developing their resources to help their clients deal with the legal ramifications of changes in intellectual property law.[11]

In today's competitive video game market, protection of intellectual property is not a luxury, but a necessity for success. A properly registered innovation provides a competitive advantage and further protects the owner from attack by competitors. Therefore, it would be wise for game developers and video game distributors to consult competent legal counsel about how to protect their rights and ideas so that they will have opportunities to both offensively and defensively limit competitor options. ■

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