

# WORLDS.COM SABER RATTLING PORTENDS A TREND IN VIRTUAL WORLD AND VIDEOGAME PATENTS

**By James G. Gatto, Bradford C. Blaise, and D. Benjamin Esplin**

The recent announcement of the impending enforcement of Worlds.com's virtual world patents further evidences the growing trend of increased patent activities affecting virtual world and videogame companies. This announcement, coupled with other recent patent infringement lawsuits, further highlights the need for an effective IP strategy, including defensive measures that can help prevent or deter patent infringement suits.

## FACTS

General Patent Corporation, a patent licensing and enforcement entity, recently announced that it has retained IP counsel to enforce patents developed by Worlds.com, Inc. The patents are US Patent No. 6,219,045, "Scalable Virtual World Chat Client-Server System" (the '045 Patent), and US Patent No. 7,181,690, "System and Method for Enabling Users to Interact in a Virtual Space" (the '690 Patent). A third patent application,<sup>1</sup> which claims priority to the '690 Patent, has recently been allowed by the US Patent and Trademark Office and likely will issue as a patent in the near future.

Worlds.com describes its technology generally as "an easy-to-use integrated client/server technology suite

that provides a development platform to create, distribute, maintain and use multi-user virtual environments . . . over the Internet or private TCP/IP networks."<sup>2</sup>

In the press release, Worlds.com's CEO, Thom Kidrin, said: "[a]s the number of virtual worlds and MMORG' [Massive Multi-Player Online Role-playing Games] continues to grow, Worlds has seen the space we pioneered in 1995 validated in techniques and methodologies we believe are defined in our patents."<sup>3</sup>

These are bold claims. Yet, it is not uncommon for patent owners to overstate the scope of their patent rights. Of course, the legal scope of protection of a US

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### **Worlds.com Saber Rattling** **Continued from page 1**

patent is governed by the patent claims, which are the numbered paragraphs at the end of the patent. We have previously analyzed these patents and their prosecution histories. Should Worlds.com enforce its patents, it is clear that the usual issues of claim scope, non-infringement, and invalidity will be points of contention. To fully understand the scope of a patent, it is essential to work with a patent attorney who understands the technology of virtual worlds and MMORGs and can advise you on the relevant legal claim interpretation principles.

By way of example, claim 1 of the '045 Patent recites:

In a system for interaction between a plurality of users in a three-dimensional, computer-generated graphical space where the system includes at least one server coupling a plurality of clients where each client addresses a client display, a method of representing interactions among the plurality of clients on a display of a target client comprising the steps of:

- identifying a position of a local avatar of a user of the target client, the position being a position relative to the graphical space;
- determining a maximum displayable avatar count for the target client;
- determining a total avatar count for the server, wherein the total avatar count indicates the number of clients connected to the server;
- when the total avatar count is greater than the maximum displayable avatar count for the target client, limiting the number of avatars processed by the target client to the maximum displayable avatar count, wherein the step of limiting is performed at the target client; and
- displaying, on the client display, the avatars processed by the target client.”

Claim 1 of the '690 Patent, for example, recites:

A method for enabling a first user to interact with other users in a virtual space, wherein the first user and the other users each have an avatar and a client process associated therewith, and wherein each client process is in communication with a server process, wherein the method comprises:

- (a) receiving a position of less than all of the other users' avatars from the server process; and

- (b) determining, from the received positions, a set of the other users' avatars that are to be displayed to the first user, wherein steps (a) and (b) are performed by the client process associated with the first user.

Based on our review of the patents, there are limitations on the scope of these claims and potential ways to avoid infringing these patents. As is typically the case, the prior art will also play a role with respect to the validity of these patent claims. If you have specific questions about the scope of these patents or defenses that you may have if they are asserted against you, you should contact a patent attorney who is familiar with these patents and the relevant issues.

### **THE NEED FOR A COMPREHENSIVE IP STRATEGY**

The Worlds.com announcement comes on the heels of another patent lawsuit in this space. In November 2008, Balthaser Online, Inc., sued a slew of virtual world, videogame, and social networking companies for patent infringement. This recent activity further evidences the growing number of patent issues confronting these industries. If history is any guide, the situation will get worse before it gets better.

In view of this trend, it is critical to develop and implement a comprehensive IP strategy. Even if a company is philosophically opposed to patents, it is prudent to adopt at least a defensive patent strategy. Unfortunately, it is often the case that companies do not deal with patent issues unless they have to (*i.e.*, when a patent is asserted against them). At that point, it is too late (at least for that patent).

Each company faces unique issues that dictate the right IP strategy for it. However, we have set forth examples of some common, proactive steps that a company can take to minimize exposure to third-party patents before the threat of a lawsuit even surfaces. While many of these steps may be categorized as defensive in nature, some also provide offensive value. It is important to understand that many of these steps take time. Some will not help if you wait until a competitor seeks to enforce a patent against you.

### **FILE DEFENSIVE PATENT APPLICATIONS ON CURRENT TECHNOLOGY**

One of the best defensive steps that a company can take is to file patent applications on the technology that it is currently developing. While this will not impact what has been previously patented, it can serve to significantly limit what others can patent going forward.

Theoretically, the commercialization or publication of your virtual world/game can serve as prior art to a third party's later-filed patent applications. However, the reality is that the primary tool that patent examiners use to assess patentability is prior patents and published patent applications. If features are implemented in your product but not disclosed in a patent or published application, a patent examiner might not find this prior art. While a resulting patent would likely be invalid, you still have to deal with the cost and burden of invalidating it.

It is more cost effective to prevent others from getting patents (by filing your own) than to face a lawsuit and try to invalidate the patent. To give a sense of the costs, filing patent applications might cost on the order of \$10,000-\$20,000. Defending a patent litigation, by contrast, often runs in the \$2 million-\$4 million range.

## **BUILD A PATENT PORTFOLIO**

Filing a single patent application is good. Building a patent portfolio is better. Numerous advantages result from having a patent portfolio, including significant defensive value. One of the defensive values of a patent portfolio is that it often can minimize the risk that you will have a patent infringement lawsuit filed against you. Specifically, it can change the analysis for a competitor that may be considering litigation against you. The reason for this is that most lawyers asked to consider filing suit on behalf of their clients will analyze possible counterclaims before filing suit. If you are a target of a potential suit and you have no patents that pose a threat to the would-be plaintiff, you will be more likely to get sued. On the other hand, if you have relevant patents, the prospect of a countersuit may be enough to prevent the putative plaintiff from asserting its patents against you. This alone can save millions of dollars in legal fees. Ironically, this is often more valuable to a smaller company (in terms of revenue) than a larger one. The reason is that, if a larger company is considering suit against a company with relatively low revenue, a potential counterclaim against the larger company could be worth much more due to the larger revenue stream.

Even if a competitor threatens to sue or sues you, another advantage to having a patent portfolio is that you at least have some leverage. For example, if threatened with a suit you have the ability to cross-license your patents with the competitor as a possible way to avoid litigation or to create leverage for a quick settlement if you are sued. Without patents these options are not available.

Even if a competitor refuses to cross-license or settle and proceeds with the suit, you still derive benefit because you can file a countersuit. While this may not be your preferred course, we can tell you from experience that,

if you are sued and have no counterclaims, the litigation dynamics are very different than if you do. A plaintiff facing no counterclaims sees little downside to the litigation and often will hold out for a large settlement or roll the dice with a jury at trial. The primary potential downside if they lose is the cost of the litigation. While this is not insignificant, more frequently patent owners are using contingency fee lawyers or patent enforcement companies (as Worlds.com appears to be doing) to mitigate the upfront costs of litigation. In these cases, there is little financial downside to the patent owner.

In stark contrast, if you are able to counterclaim with your patents, then the plaintiff potentially has significant financial exposure. This can be a real game-changer and often creates enough leverage to facilitate a settlement. Even if the lawsuit goes to trial, you still have an advantage. A jury will often take a more balanced approach if both sides are claiming infringement as opposed to a one-sided claim.

In short, one of the most significant defensive tools that you can develop is a good patent portfolio. We have seen numerous situations in which a potential lawsuit was not brought due to the potential patent counterclaims or a case was settled relatively quickly via cross-license. More patent infringement lawsuits are inevitable in the virtual world space. Wouldn't you rather have leverage whether or not you get sued?

## **CONSIDER PURCHASING PATENTS**

It takes time to build a patent portfolio. One other strategy that we have helped clients implement is buying patents. There is a rapidly growing marketplace for patents and more patents are being sold. Purchasing patents provides at least two types of defensive value. By buying the patent, you help build your patent portfolio. Additionally, it is often the case that when industry-relevant patents are sold, one of the potential types of buyers is patent enforcement companies (sometimes referred to as patent trolls). Such companies often look for patents that they can buy and assert against an industry. If you are part of that industry, that patent may get asserted against you if it ends up in the hands of a troll. By purchasing the patent, you eliminate the possibility of its ending up with a patent enforcement company and the suit against you that may result.

## **MONITOR THIRD-PARTY PATENTS AND PENDING APPLICATIONS**

Another way to avoid issues is to monitor issued patents and published applications to see what competitors

are seeking to patent, *before the patent issues*. Being aware of potentially relevant patents *early* in the development lifecycle of your technology provides you an opportunity to design around the patent, if necessary, before significant time and money are invested. If you can successfully design around a patent before you release a product, you can avoid liability or having to modify your product after it is released. A competent patent attorney can help you determine whether a design-around is needed and whether one is feasible given the scope of the relevant patent. This monitoring comes with some cost, but again the order of magnitude is much less than that of dealing with patent infringement litigation and potential damages if you lose. This technique is an ounce of prevention that is worth a pound of cure.

Another advantage of this monitoring is that it will greatly facilitate IP due diligence if you are seeking funding. Some investors care more about IP issues than others. Some care more about whether you have patents that protect your technology. Others care more about whether you are likely to get sued. They do not want the proceeds of their investments going to fund the defense of a lawsuit. For these investors, they often want to know that you are aware of your competitors' patents and have defensible positions. We have worked with many VCs and other investors, and it is common for them to have IP counsel conduct a search of competitors' patents. If they find a patent of concern and you were not aware of it, it can create issues. In the best case, it slows the diligence process. In the worst case, it has been known to kill deals completely.

If an investor's patent search turns up a patent of potential concern and you can state that you are aware of the patent and worked with a patent attorney to design around it, you will give the investor a much greater level of comfort that you are on top of the patent issues.

### **CONSIDER PATENT INFRINGEMENT INSURANCE**

Patent infringement is one of many business risks. Most companies obtain comprehensive general liability (CGL) insurance policies to mitigate business risks. Yet, most companies do not consider (or even know about) patent infringement insurance. Most CGL policies specifically exclude patent infringement from coverage. In some cases, you can obtain a rider to a CGL policy for patent infringement. Separate patent infringement insurance policies also are available. Either way, such insurance may help if you are sued for patent infringement. Most policies, subject to a co-pay percentage, will cover part of the legal fees to defend the suit and the potential damages, up

to the policy limits (typically after some deductible). We have worked with a number of the companies that handle patent infringement insurance.

One of the most important things to understand is that most of these policies do not cover, among other things, claims based on patents that have already been asserted against you (or of which you are aware). Again, the time to consider such insurance is now. If you wait until you are threatened with a suit or actually sued, insurance will not help you.

### **CONSIDER REQUESTING REEXAMINATION OF INVALID PATENTS**

Unfortunately, patent offices around the world sometimes issue patents that they should not have. Most often this is because not all of the relevant prior art is found during prosecution. Often, patents filed early in the life of a technology issue from the patent office with seemingly broad claims. This makes it hard to design around these patents. However, the broader the patent claims, the more likely they are invalid.

If you become aware of a competitor's patent and it appears to cover your product and you cannot effectively design around it, you can seek to invalidate the patent before it is asserted against you. The process, referred to as a reexamination, involves filing a request with the US Patent Office. There are two types of reexaminations—one where all you do is file and have no further involvement or obligation in the process and one where you stay involved throughout the process. There are pros and cons to each. Which one is better should be determined on a case-by-case basis with a competent patent attorney.

### **THE OFFENSIVE VALUE OF PATENTS**

A strong patent portfolio creates offensive value as well. Patents, for example, can provide greater bargaining power and create more value in deals (*e.g.*, financing, joint ventures, divestitures, *etc.*). Knowing that your technology is protected can provide greater assurance to venture capitalists, investors, lenders, and other potential business partners.

Patents also provide potential revenue through licensing or sale. A patent licensing program can provide a source of revenue for a company, particularly when the patents cover technology that has broader applicability. Patents can also be sold if you cease using the technology covered by them. We recently assisted a client (which has a few million dollars a year in revenue) with selling a couple of its patents (with a license back) for millions

of dollars. These and other potential offensive values of patents are often overlooked.

## CONCLUSION

Of course patents also can be used, if necessary, to sue infringing competitors. But we address this last because for most companies this is the *last* thing they want to do with their patents. Unfortunately, however, some companies erroneously believe that this is the *only* thing that patents can be used for. As a result, such companies often conclude that, because they do not want to use patents offensively by filing lawsuits, it is not worth filing patents. Hopefully, the points above

demonstrate a variety of ways in which patents can provide tremendous value, including defensive value, without filing suit.

At a minimum, you should work with a patent attorney who understands the patent threats in your industry and the variety of ways in which patents can create business value for you to make a reasoned and informed business decision regarding patents.

## NOTES

1. See US Patent Application Serial No. 11/591,878, which published as US Patent Application Publication No. 2007/0050716 on March 1, 2007.
2. See <http://worlds.com/patents.html>.
3. See <http://www.emediawire.com/releases/2008/12/prweb1737084.htm>.



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