



# ideas on intellectual property law

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# The games people play

## *The Digital Millennium Copyright Act hits the computer game industry*

In a case with implications for software add-ons developed through reverse engineering, the Eighth Circuit Court of Appeals has ruled the creators of software that allowed interoperability with and circumvention of the plaintiff's online video games violated the game's end user license agreement (EULA) and the Digital Millennium Copyright Act (DMCA). With the popularity — and profit margins — of computer video games, many nonparties submitted briefs on both sides, including Consumers Union, the Entertainment Software Association, the Motion Picture Association of America and the Recording Industry Association of America.

### THE BLIZZARD

Blizzard Entertainment creates and sells computer games. The company launched a 24-hour online gaming service called “Battle.net” exclusively for the purchasers of its games, allowing players to compete with each other over the Internet. The service has attracted 12 million active users who spend more than 2.1 million hours online each day.

To prevent piracy, Blizzard took steps during its design process to restrict the access and use of Battle.net. For example, the company's games come with a “CD key” that the user loads onto his or her computer when installing a game. The player then uses this CD key to log on to and access Battle.net. Importantly, the games' EULA and terms of use (TOU) both prohibit reverse engineering of Blizzard's software.

### EVADING BATTLE

The defendants were Battle.net users who wanted to allow gamers who were unable or unwilling to connect to Battle.net to be able to play Blizzard games on the Internet. They developed a program that emulated the Battle.net service and let users play free Blizzard games online without going through Battle.net. While the program mirrored

Battle.net in many aspects, it differed by permitting users to play the games regardless of whether their CD keys were valid or already in use by another player. In short, the program allowed users to play pirated versions of Blizzard's games.

To make the program interoperable with the Blizzard games, the defendants' program needed to use the same “protocol language.” So the defendants resorted to reverse engineering to learn Blizzard's protocol language.

All of the defendants had installed Blizzard games on their computers and agreed to the games' EULA, and two of them had logged on to Battle.net and agreed to its TOU. They used reverse engineering to develop their own server and made an unauthorized copy of a Blizzard game to test interoperability.

### GAME RELINQUISHED

The trial court entered summary judgment against the defendants. On appeal, the defendants argued that the federal Copyright Act preempted the state law breach of contract claims related to the games' EULA and TOU violations.



## Game on!

In addition to the interoperability exception, the Digital Millennium Copyright Act (DMCA) outlines several other exceptions to its anticircumvention provisions. Circumvention is permitted as part of law enforcement, intelligence and other government activities, in the following specific circumstances:

**Nonprofit libraries, archives and educational institutions.** Such institutions may circumvent access control measures solely for the purpose of making a good faith determination of whether to acquire a copy of that work.

**Encryption research.** Circumvention of access control measures is permitted to identify and analyze flaws and vulnerabilities of encryption technologies applied to copyrighted works.

**Protection of minors.** A court applying the anticircumvention provisions to a component or part in a technology may consider the necessity of its incorporation to prevent access to material by minors.

**Personal privacy.** Circumvention is allowed if the technological measure, or the work it protects, is capable of collecting or disseminating personally identifying information reflecting a person's online activities.

**Security testing.** The DMCA permits circumvention of access control measures for good faith testing, investigating or correcting of a security flaw or vulnerability. The owner or operator of the computer, computer system or computer network must authorize the circumvention.

The court, however, disagreed. By signing the TOUs and EULAs, the defendants had expressly relinquished their rights to reverse engineer.

### ACCESS DENIED

The court went on to address the alleged DMCA violations. The statute contains three provisions targeting the circumvention of technological protections. The anticircumvention provision prohibits the circumvention of technological measures that control access to a copyrighted work. This section differs from the second and third provisions in that it targets the *use* of a circumvention technology, not the trafficking in such a technology.

The other two provisions are known as the anti-trafficking provisions. One provision focuses on the circumvention of technologies designed to *prevent* access to a work. The other focuses on circumvention of technologies designed to *permit* access to a work but prevent copying of the work or some other act of copyright infringement.

The court found that the defendants had violated the anticircumvention provision because Blizzard's CD key was intended to control access to its copyrighted games. The defendants' program allowed access to Battle.net without a valid or unique CD key. As a result, unauthorized copies of the Blizzard games were used on the defendants' servers. The court noted that the CD key wasn't freely available — the defendants had to engage in reverse engineering, which in turn facilitated circumvention.

The defendants also violated the first anti-trafficking provision because the program's sole purpose was to avoid the limitations of Battle.net. The program served no other commercially significant purpose.

### PLAY AROUND

The DMCA does incorporate several exceptions to its circumvention provisions. (See "Game on!" above.) The court briefly considered the exception for individuals who use circumvention

technology for the sole purpose of attempting to achieve interoperability of computer programs through reverse engineering.

But the exception doesn't apply where the alleged circumvention constitutes infringement. Because the defendants' program ignored the CD key,

unauthorized copies of Blizzard games were freely played, making the exception inapplicable.

### GAME OVER?

The court of appeals affirmed the summary judgment against the defendants, finding that they had violated DMCA anticircumvention provisions. There is no such thing as a truly free game. 💡

## On sale now

### *Manufacturer's sales derail patents*

Patent law requires that applications be made less than one year after the invention is made available for commercial sale. But if the sale was part of the invention's experimentation, the one-year rule may not apply. Recently, the Federal Circuit found that General Motors' sales of train bearings that were later patented didn't qualify as experimental because the buyers weren't aware of any experimental purpose and GM couldn't control the buyers' use of the bearings. As a result, the sales triggered the on-sale bar, in turn rendering the patents invalid.

### TRAINS IN VAIN

GM held patents for two types of bearings — compressor bearings and planetary bearings. Before applying for the patents, the company had completed in-house testing. It then turned to a "field program," substituting the new bearings into locomotive orders previously placed by several railroads.

The railroads agreed to the substitution, but none signed confidentiality agreements or other contracts consenting to participation in the field program. The railroads received no design details or documentation about the bearings, and GM didn't monitor the locomotives with the new bearings. Purchasers of the bearings assumed no responsibility for collecting data or even for actually using these locomotives.

GM shipped locomotives with compressor bearings to multiple railroads between January 1989 and November 1989. On Nov. 27, 1989, GM filed a patent application for the compressor bearings but didn't market or promote them until August 1991.

GM shipped the locomotives with planetary bearings to Union Pacific on Aug. 6, 1993. GM released the bearings for production on Sept. 7, 1994, and filed a patent application on Sept. 29, 1994.



In March 2003, GM filed a patent infringement action against General Electric. GE moved for summary judgment, asserting that GM's patents were invalid under the on-sale bar. GM contended that the earlier sales of the bearings were for experimentation.

## THE TRAIN LEAVES THE STATION

Under the on-sale bar, a patent infringement claim is invalid if the invention was on sale in the United States before the "critical date" — which is one year before the patent application. To trigger the bar, the invention must have been the subject of a commercial sale and ready for patenting. GM conceded its bearings were ready for patenting, so the initial issue for the court was whether a "commercial sale" had occurred.

In July 1989, GM agreed to sell spare compressor bearings that were not part of the original deal to one of the railroads. The court held that this transaction constituted a commercial sale before the critical date.

On July 6, 1993, GM purchased 105 additional planetary bearings from its suppliers. Those bearings were installed in two locomotives on Aug. 6, the same day the locomotives were shipped to Union Pacific. The court found that the supplier's sale of planetary bearings to GM also was clearly a pre-critical-date commercial sale.

## JUST A TRAINING RUN?

But the inquiry wasn't over. An exception to the on-sale bar is granted for sales made primarily for experimental use related to the claimed invention. So the question was whether GM's primary purpose at the time of the sale was to conduct experimentation.

The court held that the sale of the spare compressor bearings wasn't experimental. It found no evidence of how the railroad customer intended to use the spare bearings or that the spares replaced compressor bearings installed in locomotives that GM considered part of its field program.

## WORKING ON THE RAILROAD

The sale of the planetary bearings was more complicated. The court pointed out that it had

previously limited the experimentation exception to cases where the testing was conducted to perfect claimed features or, in even rarer cases, to perfect features inherent to the claimed invention. In this case, GM's field program was designed to test the planetary bearings' durability.

The court noted that the inventor's subjective intent isn't enough to establish his or her activities as experimental. The law requires objective evidence to support the contention, and, at a minimum, the inventor must make the customer aware of the experimentation.


The court listed 13 objective factors that should be considered in determining whether a pre-critical-date sale was experimental. Among these were:

- ① The necessity for public testing,
- ① The amount of control the inventor retains over the experiment,
- ① The test period's length,
- ① Whether payment was made,
- ① The existence of a secrecy obligation, and
- ① Who conducted the experiment and if that person kept records.

The court acknowledged that the list isn't exhaustive and all of the factors might not apply in every case. But certain factors prove critical to establishing an experimental purpose: The plaintiff must prove control and customer awareness for the court to find experimentation.

GM's sale of the planetary bearings failed on both counts. The company neither supervised nor restricted the use of the bearings. It didn't monitor the conditions under which they were used, and it didn't receive or request any information on durability results.

## BEARING IN MIND ...

In light of the court's finding that, at a minimum, a patentee must show both control over its experiment *and* customer awareness of the experiment, inventors should plan their testing accordingly. As this case demonstrates, failing to do so can ultimately result in the loss of valuable patent protection. 



# You don't know what you've got till it's gone

*When trademarks can become generic*



In an opinion citing such authorities as Joni Mitchell and Chuck Berry, the Ninth Circuit Court of Appeals recently summarized existing case law on the validity and protectability of certain types of trade-

marks. In *Yellow Cab of Sacramento v. Yellow Cab of Elk Grove*, the court focused on generic and descriptive marks — neither of which are automatically entitled to trademark protection.

## FARE PLAY

In its description of the case facts, the court managed to cite the songs “Big Yellow Taxi” and “Nadine.” It explained that Yellow Cab of Sacramento (YCS) had operated in the Sacramento area — including the suburb of Elk Grove — since 1922. YCS ran about 90 cabs, with 700 business accounts.

In the fall of 2001, the single-cab Yellow Cab of Elk Grove began service. YCS sued the smaller operation for trademark infringement, although “Yellow Cab” isn’t a federally registered mark.

## TRADEMARK RULES OF THE ROAD

Descriptive marks “define a particular characteristic of the product in a way that does not require any exercise of the imagination.” Examples include Vision Center and General Electric. Such marks can obtain trademark protection only if they acquire distinctiveness by establishing a secondary meaning.

Generic marks “give the general name of the product; they embrace an entire class of products.” An example would be calling a new car “automobile.” Generic marks aren’t protected by trademark

law because they identify the product rather than the product’s source. A trademarked term can become generic over time, allowing competitors to use it freely. “Zipper” and “linoleum” made this transition to generic marks.

The appellate court agreed with the district court on the proper burden of proof regarding a mark’s genericness. If a trademark is properly registered, the courts held, the defendant has the burden of proving it nonetheless was generic. If the mark isn’t federally registered — as in *Yellow Cab* — the burden shifts to the plaintiff to prove the mark is nongeneric. Thus, the burden here was placed on YCS.

## POTHoles IN THE LOWER COURT DECISION

The Ninth Circuit determines whether a mark is generic by applying the “who-are-you/what-are-you” test. Under the test, a trademark answers the question “who are you?” while a generic name answers “what are you?” Referring to an earlier case, the court illustrated the test with the term “Filipino yellow pages,” which it said answered “what are you?” Resisting the urge to quote a Who song, the court found that “Yellow Cab” appears to answer the “who are you?” question because it connotes a business operating under the name “yellow cab.” It ruled that summary judgment on the issue was therefore inappropriate because YCS had presented evidence about whether the term was in fact generic.

The district court had held that, even if “Yellow Cab” wasn’t merely a generic term, YCS failed to meet its burden to show a secondary meaning that would give it protection as a descriptive mark. When determining whether a mark has attained secondary meaning, courts consider:

1. Whether actual purchasers of the product associate the mark with the producer,
2. The degree and manner of advertising under the mark,
3. The length and manner of the mark's use, and
4. Whether the mark's use has been exclusive.

Here, YCS presented declarations on the company's history, customer confusion, advertising data, and other evidence affecting the factors. The Ninth

Circuit held that this evidence created a genuine issue of material fact over whether secondary meaning had been established. Thus, it reversed the district court's ruling and sent the case back to the lower court for further proceedings.

### **AVOIDING DETOURS**

The *Yellow Cab* case demonstrates the importance of managing trademarks. Failing to restrict the use of a mark, especially one that isn't federally registered, can weaken the trademark and erode available protection. 💡

## **These aren't your father's assets: Valuing and managing IP**

Valuations of intellectual property arise in many legal contexts — divorce, business acquisition, infringement litigation, and sales and tax reporting, among others. The valuation of such IP is more complex and uncertain than other types of assets. With the increasingly important role IP plays in the overall economy and for individual companies, business owners have even more reason to pay attention to these assets.

Research firm IDC estimates that IP assets will account for 40% of corporate revenues by 2010. Knowing their value isn't enough anymore — businesses must manage their IP as they do other assets. Pay attention to IP assets' cash flow, profitability, return on investment and similar measures associated with revenue-producing assets. Company, industry, domestic and global factors also require close consideration. Evaluate each IP asset in light of these factors and identify those worth protecting based on the value they provide.

If you decide a particular IP asset merits protection, federal registration alone isn't enough. For example, unlike copyright, a trademark owner must actually use and protect its trademark to identify goods and services to retain federal protection. Registrants must file statements of continued use and renewal applications, and, if a business misses its deadline, the Patent and Trademark Office can cancel its registration.

And federal registration isn't even available for trade secrets. Instead, the owner of a trade secret obtains protection by keeping the information confidential. In addition to confidentiality agreements, IP owners can protect (and exploit) their assets through carefully drafted agreements for licensing, franchising and joint ventures.

Businesses' executives and directors' fiduciary duties likely encompass a duty to protect and manage assets. Counsel can help protect executives and officers from liability for breaches of these duties.

Knowing the value of IP assets serves as a starting point for developing an aggressive management strategy that includes regular monitoring of assets. Scrutinize IP databases to track rapid technological advances that can dramatically affect an IP asset's value. You and your attorney can use this information to identify new markets and competitors, detect potential infringers and preclude infringement of others' protected IP.