

The new patent battleground

Saul Ewing Arnstein & Lehr's **Darius Gambino** and **Zachary Kizitaff** discuss the increasingly litigious video games industry and its potential to thwart creativity and innovation

It is no secret that video games and esports have exploded in recent years. As this growing industry continues to evolve, games, peripheral devices and hardware have become more diverse. The fast pace of progress, however, creates a trap for the unwary when it comes to patent rights. Companies often spend hundreds of millions developing the next big game, controller or game system. But what if that product infringes upon the patent rights of another? Now that you have sunk millions into development and marketing, are you willing to pay a hefty royalty on sales (cutting deeply into your already slim profit margin), or abandon the product entirely? Carefully vetting third party patent rights in advance seems the only sensible alternative given the current environment.

Consider the eye-popping numbers from a recent patent litigation between Japanese media company Gree and Finnish mobile game developer Supercell (who is owned mostly by Chinese conglomerate Tencent). The main issue in the litigation was whether Supercell's hit mobile game *Clash Of Clans* infringed upon certain Gree patents covering certain aspects of 'battle' and 'city-building' games.

For the uninitiated, *Clash Of Clans* is a multiplayer game in which players build a village, train troops and attack other players to earn resources. Individual players can band together to form 'clans' within the game, and thus provide protection to each other from attacks. Gree asserted six patents in the case, and all of them related to computerised methods for building virtual cities (ie, the villages in *Clash Of Clans*).

In May 2021, following roughly two years of litigation and a trial in Federal District Court in Texas, a jury found that Supercell infringed upon all of the patents asserted by Gree, and awarded \$92.2m in damages. Importantly, the jury also found that Supercell "willfully infringed" upon Gree's patents. Wilful

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infringement permits the additional award of treble damages, meaning that the ultimate judgment in favour of Gree threatened to be as large as \$276.6m. Then again, context is important: Gree's damages expert in the case asserted that *Clash Of Clans* made \$3bn during the time period of alleged infringement. If Gree's expert is to be believed, the jury's award equates to about a 9% royalty. While this award might seem small on a relative scale compared to the sales, some games and devices operate at only a 10-15% profit margin; to give 9-10% of that profit away to cover patent fees will make development a losing proposition for many.

In addition to the damages award, another interesting aspect of Gree-Supercell case was the possibility of permanent injunction. When a patent is infringed, the patent owner has the right to demand an injunction against future infringement. If Gree had pursued a post-trial injunction and prevailed, it would have likely meant a complete shutdown of *Clash Of Clans*, as the 'city building' aspect described in the patents is a central theme of the game. Had this happened, it would have been a first in the video game space. Cooler heads prevailed, however, and Supercell purportedly settled with Gree for an undisclosed sum in July 2021.

Notably, this was not the only patent dispute between Gree and Supercell. Supercell had lost an earlier patent case against Gree on a different set of patents (also related to *Clash Of Clans*), but the jury award there was only about \$8.5m. The parties were also set to start another patent trial in August 2021, but the settlement apparently disposed of that, and all other disputes between Gree and Supercell. In total, there were nine pending federal district court cases between the two parties at the time of settlement. In addition to those, there were various actions pending before the Patent Trial and Appeal Board (PTAB) relating to the validity of Gree's patents. It is very likely that, pursuant to the settlement, Supercell will sign a patent licence agreement with Gree that will allow Supercell to continue operating *Clash Of Clans* going forward. Whether the patent royalty in that licence agreement will be higher or lower than the 9% awarded by the jury in May is a fact that will likely never be made public.

The Gree-Supercell settlement could have a ripple effect throughout the video game industry. It is not often that these types of patent cases 'go the distance' and result in a sizeable jury verdict. Added to that, *Clash Of Clans* is not the only 'city building' game out there; Gree's win could result in further cases being brought against other game developers. The settlement with Supercell could give Gree significant leverage in any future assertion. Specifically, if you are a game developer and faced with a patent infringement suit, will you choose to spend two years or more litigating only to be forced to pay a substantial royalty? Or, will you choose to settle early in the process?

Another aspect to consider in the grand scheme is whether patents on video games are a good thing. I've spoken to several people in the industry who do not believe that video game patents actually "promote the progress

of science and useful arts”, as provided for in Article I, Section 8 of the Constitution. In this way, the video game industry is much like the music and movie industries, stories are told that build upon creative works of the past. Would movies be as good if *Star Wars* was not able to appropriate the now famous opening credits ‘crawl’ from earlier Flash Gordon serials of the 1930s? Would music be as good without the ability to build guitar songs based on chord progressions used by others in the past? In a 1994 interview, Quentin Tarantino famously said, “I steal from every single movie ever made”. With patents being issued today on almost every aspect of video games, that type of ‘creative theft’ will likely not be possible going forward.

Consider US Patent No 10,926,179, which was granted to Warner Brothers (WB) Gaming in February 2021 for their Nemesis game mechanic, which essentially makes enemies that escape from you, or kill you, harder to kill later (they become your nemesis). The mechanic is used by WB Gaming in the *Lord Of The Rings*-inspired games *Middle Earth: Shadow of Mordor* and *Middle Earth: Shadow of War*. After the issuance of this patent, many in the video game industry spoke out about its broad scope, and how it would tend to ‘stifle innovation’ by discouraging other developers from adopting features similar to, or inspired by, the Nemesis system. Whether that will actually happen remains to be seen.

Turning back to Gree-Supercell, the jury found there that Supercell “willfully infringed” upon certain Gree patents. It is important to note, though, that gaming and hardware developers must also actively guard against unknowingly infringing on another entity’s patents. Recent litigation between video game developer Valve Corporation and SCUF Gaming is instructive on this point.

Valve is a video game developer and the originator of the Steam video game distribution platform. The Steam platform provides an online marketplace to buy and download video games for PC users, that is similar in concept to the PlayStation and Xbox online stores. In 2015, Valve launched its own Steam Controller which was meant to compete with controllers from Sony, Microsoft and others. The Steam Controller included buttons on its reverse side, and a company called Ironburg Inventions (d/b/a SCUF Gaming) brought suit for patent infringement in 2017.

The *Valve* case is famous for being the first patent trial to be held via Zoom. In February 2021, a virtual jury awarded Ironburg about \$4m in damages, or about \$2.50 per Steam Controller. When first introduced, Steam Controllers were going for about \$50 per unit, so that equates to about a 5% patent



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royalty. Following the jury verdict, Ironburg filed a post-trial motion requesting a finding of wilful infringement, but that motion was denied. The denial appears to have hinged upon testimony by the lead designer of the Steam Controller that he had not seen the Ironburg patent until well after he began the design process, and did not become aware of the patent until after the commercial version of the Steam Controller was fully developed (but not released).

While Valve was fortunate to dodge a finding of wilful infringement, the facts of that case are not a model for how to avoid such a finding. The Steam Controller was released in November 2015, about 21 months after the Ironburg patent issued (in February 2014). Although the court found Valve’s testimony regarding the design process and discovery of the Ironburg patent compelling, other courts might not be as forgiving.

Unlike the Gree-Supercell litigation, the Steam Controller litigation may have less far-reaching implications within the video game industry. The major players in the controller field like Sony and Microsoft do not appear to be reasonable targets for Ironburg. In fact, Microsoft already holds a licence from Ironburg

for their Xbox Elite controller. That said, smaller start-ups trying to break into the controller market may inadvertently or unknowingly run afoul of Ironburg’s patents.

The Gree-Supercell and Valve-Ironburg patent litigations provide some useful lessons for the video game industry. First, do your homework – know your competitors and keep an eye on what they are doing in terms of obtaining patents and engaging in patent enforcement. Secondly, do a thorough patent search before investing substantially into any new game, controller or system. There may be more issued patents in a specific area than you realise, as not all patented products have corresponding commercial releases. Third and finally, seriously consider a written Freedom To Operate legal opinion in which patent counsel compares your proposed product to the closest patents in the field, and provides a risk assessment. Such early assessments can make a huge difference in your design process, and may ultimately keep you out of the courtroom.

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