FENWICK & WEST LLP

Intellectual Property

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International Patent Strategy

BY RAJIV P. PATEL AND NEIL F. MALONEY

In today's global marketplace, patent protection continues to be an important part of a company's overall business and intellectual property strategy. However, protection provided by any one patent is limited to within the country in which it was granted. The question for many U.S. companies, therefore, is whether and where to file for international patent protection. This article provides a basic overview of applying for patent protection outside the United States and strategies for determining which countries provide the most value for a particular business.

Current Trends

Before discussing various foreign filing options, it may be helpful to review some statistics, released on Feb 9, 2006, by the World Intellectual Property Organization. As reported, the top users of the international patent system once again include the United States, Japan, Germany, France and the United Kingdom, respectively representing about 34%, 19%, 12%, 4% and 4% of international filings. Changes in the global marketplace are reflected in the significant growth in international filings for China and South Korea, with an increase of about 43% for China and about 34% for South Korea (relative to 2004 filings). Canada, Australia and Finland also had impressive growth relative to 2004, with international applications increasing about 10% for Canada and Australia, and about 12% for Finland. Among other things, these statistics show that the number of industrial countries that value the power of patent rights is growing. Thus, as markets continue to shift and blend across international borders, the prospect of a seamless international patent portfolio becomes more attractive and attainable.

In reviewing the foreign filing options below, keep in mind that an application filed in the United States may be filed outside the United States only under certain conditions. For example, the subject matter of the patent application cannot have been publicly disclosed (*e.g.*, published articles, website postings, proposals to a standards body, tradeshow demonstrations and commercially available products/services) prior to the effective U.S. filing date. Also, a foreign filing license must be granted by the U.S. government prior to foreign filing the application. Other requirements exist as well, depending on the applicable laws and treaties associated with the countries of interest.

Evaluating Whether to Pursue Protection Outside the United States

As a preliminary matter, it is important to understand that most foreign filed applications will eventually be published (even if no patent is granted). As such,

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a company will forfeit trade secret protection for the subject matter disclosed in a foreign filed application. If, however, the company affirmatively elects to file only in the United States, it has the option of maintaining the secrecy of that subject matter until the application issues as a patent. Thus, a company should first decide if publication of the invention before any patent grant is an acceptable consequence of filing the foreign application.

Next, the company must evaluate in which countries patent protection would likely provide value. Example inquiries for this evaluation include: (1) what countries will products embodying the invention likely be manufactured or sold? (2) in what countries will other companies likely manufacture or sell competing products? (3) in what countries will enforcement of patent rights be cost effective and practical? As a rule of thumb, foreign patent protection is typically sought in one or more of the following countries: Australia, Canada, China, India, Israel, Japan, Korea, Taiwan and various countries in Europe.

Once particular countries are considered for patent protection, the company must evaluate the costs of filing for protection in each country. These costs can be significant depending on factors such as filing fees and translations necessary in countries that do not conduct business in English. Thus, the company must perform a cost-benefit analysis to determine what and where patent filings are justified. The cost estimates provided herein assume that the filing is based on an earlier filed U.S. application.

Pursuing Patent Protection Outside the United States
Once it is determined that patent protection outside the United States is desirable, there are a number of available options.

One option is to timely file a patent application directly in the patent office of each country where patent protection is desired. In determining whether to use this option, a company should consider three factors: (1) certainty with respect to which countries patent protection is desired in; (2) a willingness to forgo the option to seek protection in other countries at a later date; and (3) a willingness to pay the associated filing fees and translation costs, where necessary. Average costs for directly filing an application in a national patent office range from about $2,000 to $12,000 per country. The wide range is due to filing fees, attorney fees and translation costs. It is important to note that these estimates do not include periodic costs to maintain the application and subsequent patent. These additional fees can range from a few hundred to several thousand dollars. For example, maintenance fees in Japan typically range from several hundred dollars in the first year of a patent term to several thousand dollars in the last year of the patent term.

A second option is to timely file a patent application in a regional patent office. The most commonly used regional patent office is the European Patent Office (EPO), and its members include Finland, France, Germany, Great Britain, Italy and Sweden. For companies seeking protection in France, the EPO is particularly important because France does not allow noncitizens to file an application directly in France. Hence, the EPO provides the mechanism in which to apply for and pursue patent protection in France.

Filing in the EPO allows the company to submit one application designating any of the member countries instead of filing a separate application in each of the desired national patent offices. The EPO conducts an examination of the application, which can take several years, and "grants" the patent. Thereafter, the company must "perfect" that grant in the specific member countries in which it seeks protection. Perfecting the patent grant usually entails paying administrative fees and translating the patent into the appropriate national language. Some countries only require translation of the claims, while others require translation of the entire patent.

From a strategy perspective, if the company is: (1) only interested in European countries; and (2) intends to file in three or more of those countries, then the company should generally file an EPO application designating those countries, rather than filing individual national applications. This enables the company to avoid multiple examination fees and to defer payment of translation costs until the patent is granted. The cost of pursuing and obtaining an EPO patent grant and perfecting it in three countries typically runs about $10,000 – $30,000, depending upon the selected countries, the application length and the duration and extent of the prosecution. Again, these costs are exclusive of fees necessary for maintaining the patent application and patent on a periodic basis.

A third foreign filing option, and probably the most commonly used (and the basis for the above statistics), is timely filing of an application under the

Patent Cooperation Treaty (PCT). Generally, all major industrialized countries are members of the PCT. However, a notable exception to PCT membership is Taiwan, where patent protection can be pursued only through a direct national filing. The primary advantages of a PCT application include delaying having to decide where to foreign file, and defering payment of regional and national filing and translation fees. Generally, a company should consider filing a PCT application when: (1) the company wants to preserve its patent rights in the various member countries or regions, while assessing commercial viability of the invention and deferring national or regional filings costs; and/or (2) the company is uncertain of the countries in which patent protection is desired.

The PCT process includes "international" and "national" phases. The international phase includes two sub-phases, referred to as Chapter I and Chapter II. Chapter I is required and includes an international preliminary search for prior art. Prior art typically includes documents publicly available prior to the priority date of the subject application, that appear to disclose all or part of the described invention. The search is carried out by an international search authority (ISA), which is usually the United States Patent & Trademark Office (USPTO) or the EPO. The search is typically performed within three to nine months of filing the PCT application, and a resulting search report is provided to the company.

The ISA establishes a written opinion based on the search report. The opinion is a preliminary nonbinding opinion as to the patentability of the claimed invention. If no Chapter II "demand" is filed, the written opinion is converted into an "international preliminary report on patentability" (IPRP Ch. 1), which is nonbinding and has the same content as the ISA's written opinion. A company may respond to the written opinion, but without a filed demand, the company can only informally comment on the opinion. If, on the other hand, a demand is filed, then Chapter II commences, where the "International Patent Examination Authority" (IPEA) generally uses the ISA's written opinion as its initial opinion. Unlike Chapter I, the company can amend the application and formally argue against the written opinion. The IPEA may respond with further written opinions, at its discretion. The IPEA then issues a final "International Preliminary Report on Patentability" (IPRP Ch. 2). This report is also a nonbinding opinion as to the patentability of the claimed invention.

Filing a Chapter II demand allows the company to formally argue the merits of the PCT application before the IPEA. This may be desirable in order to obtain a favorable IPRP, which may facilitate smooth prosecution at various national patent offices that show deference to the IPRP.

The national phase commences 20 or 30 months from the earliest priority date for most countries. At this time, the company must file the application in each region or country where protection is desired, as previously described in the first and second options. Each national patent office may use the PCT search results and/or conduct further searching. A binding examination is then conducted by that patent office, which may or may not provide results similar to the nonbinding IPRP, depending on the various patentability requirements of that country and additional prior art that is found.

One strategy that a company can employ is to simultaneously file a U.S. patent application and a corresponding PCT application, for which the USPTO is designated as the ISA. Often, the examiner that is assigned to carry out the PCT search is also assigned to examine the U.S. application. Thus, if the PCT search report is favorable, then the examiner may be inclined to grant an early allowance of the U.S. application. Note, however, that this strategy is by no means a sure bet, and an unfavorable PCT search report can just as likely result in an early rejection of all claims. In any event, such strategy may jump start an early prosecution of the corresponding U.S. application, which would otherwise not be examined for two to five years.

The cost of filing a PCT application usually ranges from about $2,000 to $6,000, depending upon the chosen ISA, the number of countries designated and the number of pages in the application. In addition, the cost for filing a demand runs about $1,000 – $3,000, depending upon the chosen IPEA.

Conclusion

In an increasingly global marketplace, companies with long-term vision must seriously evaluate whether patent protection outside the United States is a necessary element of their overall intellectual property strategy. With the aide of patent counsel, a company can determine whether such protection is of value, based on business goals.

Deal Points for Gaming Negotiations

BY JENNIFER STANLEY

Recent regulatory and technological changes in the video gaming world have accelerated the pace of licensing activity in this area and raise new concerns about intellectual property and other legal aspects of agreements between creators of games and other stakeholders in the industry. Thus, it is an ideal time to review issues that can arise in negotiating video game development and publishing deals.

In negotiating deals, monetary advances and royalties are generally the driving force. If a game is not popular, the publisher's advance may be the only money a development studio receives. Therefore, developers should be wary when publishers seek to dictate the terms under which advances can be used, particularly when the contract specifies that the advance is to be used strictly for costs related to the production of their particular game and for no other purpose. Although not considered an unreasonable term, such a restriction can seriously thwart the developer's ability to cover general studio overhead.

Advances are inextricably bound to royalties, and vice versa. Royalty amounts vary greatly based on a number of factors, including the developer's reputation, the advance amount (a greater advance can mean a smaller royalty), the game's genre and whether the royalties are calculated using the wholesale or retail price of a game. If royalties are based on publisher profits, the royalty amount may factor in deductions for various expenses such as marketing, advertising, promotional giveaways and inventory. Acceptable expenses will vary between agreements and should be negotiated up front.

For example, if a developer refuses to consider marketing and distribution expenses, the publisher may want to turn to the idea of escalating royalties. As a potential compromise strategy, this could create an incentive for the developer during the production of the game as well as comfort the publisher when it assumes the risk of marketing the game.

Milestones or timelines built into a contract also contribute to the negotiation's complexity. Typically, when a developer meets a milestone and produces some agreed-upon output, the publisher verifies that the deliverable has been completed in accordance with a certain standard before paying a portion of the advance money. This approach gives the publisher the chance to exercise its own quality control on the game deliverables.

The process of getting a video game into the hands of consumers is a joint effort between developers, who are the creative and technical force behind the game, and publishers, who have the resources to distribute a game en masse. Therefore, it is most advantageous for the developers to retain intellectual property ownership of the code, tools and technology used in the creation of the game, because it provides an efficient way for the reuse of codes and tools for other development projects and helps reduce overall development costs. Conversely, rights to elements such as a game's name, characters, storyline and logos generally become the property of the publisher. Certain attendant rights such as merchandising may also make sense to concede to the publisher because it is in the best position to distribute the game.

Other sticky deal points are the ownership issues for prequel and sequel rights, and the rights to create ports or expansion packs for games. Ideally, negotiations can yield an agreement that would enable either party to call for the creation of a prequel, sequel, port or expansion pack and give the other party the opportunity to participate financially. Generally, however, publishers retain the right to pursue prequel, sequel and porting and expansion pack opportunities because they retain intellectual property ownership in the completed game. Often the best strategy for developers is to try to reach a compromise with the publisher to get "first right of refusal" in choosing whether to participate in future development projects involving the original game.

It is important that the developer and publisher clearly agree on the rights to any prequels, sequels, ports or expansion packs. These can constitute a "derivative work" under copyright law. One of the exclusive rights of copyright owners is the right to prepare derivative works. If such rights are not delineated clearly, distribution of the derivative work could result in unlawful distribution without permission.

Because of these derivative rights issues, video game development contracts must also be clear on the ownership rights of any third parties who contribute to the game, such as writers, animators, cartoonists or any other motion capture services provided to the developer. Whether the developer or publisher negotiates with the third-party contributors, it is important for those contributors to be aware of how their work product fits into the game process.

A developer may be required to negotiate a process in which the publisher must also approve the work product deliverables of a contributor, because the developer is subject to the same approval process from the publisher. If a third party resists, the developer runs the risk of taking liability for a deliverable that may not be usable. Also, if the contributor does not effectively assign the intellectual property in the work product to the developer or publisher, there could be a gap in the ownership of the intellectual property in the game by the publisher. In certain cases, the contributor may be able to negotiate rights of first refusal similar to those that a publisher and developer may negotiate for sequels, although this should only be considered on a case-by-case basis.

Contracts may be terminated for cause or convenience. Terminations for cause seek to return the nonbreaching party to the same position it would have been in had the contract not been breached. In contrast, terminations for convenience seek to put the nonterminating party in the position it would have been in had the contract not been terminated. A party may terminate a contract for cause when the other party fails to meet the obligations it agreed to under the contract. One area that is ripe for termination for cause is the developer's failure to meet a milestone. At a minimum, a gaming contract should include a cure period for termination for cause.

In the event of termination for cause by a publisher, a developer could negotiate to receive a *pro rata* portion of royalties based upon the percentage of the game completed before the contract was terminated. Because a publisher's termination for convenience imposes financial hardship on a developer by immediately cutting off the developer's source of revenue, publishers often agree to contract terms that help lessen this economic impact. When negotiating over a publisher's right to terminate for convenience, developers should ensure that they are provided with payment in full for all the milestones met thus far, as well as a cushion of the payment they would have received for the next milestone or two. Furthermore, all intellectual property rights could revert back to the developer if they had been conveyed to the publisher, so that the developer will retain all control over the game and its status at the date that the publisher terminated for convenience. This may allow the developer to shop the game to another publisher to complete the game.

In considering some of the points raised above, developers and publishers should be better armed to consummate an agreement that is fair and advantageous to both parties.

Quick Updates

Guess What? DMCA Liability and Semisecret Passwords
A recent decision addressing the Digital Millennium Copyright Act, in the context of valid but unauthorized passwords, creates as many questions as answers and is an indication that courts may continue to struggle with this issue in the near future. *Egilman v. Keller & Heckman*, 401 F.Supp.2d 105 (D.D.C. 2005).

In *Egilman*, the plaintiff operated a personal web site accessible to his students and others, using a valid user name and password. When the defendant allegedly misappropriated information by employing a correct password not properly issued to him, the plaintiff asserted a cause of action under the DMCA, 17 U.S.C. § 1201(a)(1)(A), claiming the defendant had circumvented a technological security measure that effectively controlled access to a copyrighted work.

In reaching its decision, the court relied on *I.M.S. Inquiry Management Sys. Ltd. v. Berkshire Info. Sys. Inc.*, F.Supp.2d 521, 532-33 (S.D.N.Y. 2004), which was the first decision of its kind to address the DMCA in the context of misappropriated web site passwords. In so doing, the Egilman court reached the same outcome as its predecessor. Specifically, the court found that improper use of a password to enter an otherwise-secure website fell short of a DMCA violation because passwords merely allowed access in the manner intended without any circumvention of technological measures. Circumvention, as defined in Section 1201(a)(3) of the DMCA, meant "descrambling, decrypting, avoiding, by passing, removing, deactivating or impairing a technological measure." Under this definition, circumvention would appear to require either resistance to or avoidance of—rather than unauthorized acquiescence to — an effective security system. In the face of some technology, however, such a distinction might prove limited at best.

Egilman stands apart from *I.M.S.* in that the at-issue password was allegedly guessed by defendants and not provided by a third-party password holder. This guessing—possibly even trying various possibilities before stumbling on the right one—moves the defendant's conduct closer to password-cracking software programs designed to "guess" or systematically propose and reject passwords through the rapid generation of alphanumerical combinations. It remains unclear whether the *Egilman* decision was intended to have such a broad reach, risking the perception that the decision ran contrary to the DMCA's purpose of targeting "the circumvention of digital walls guarding copyrighted material." As it stands, however, *Egilman* presents an analysis that may well be susceptible to refinement in light of the many possible ways a password might be misappropriated. Until then, it would appear that password-guessing circumvention could become an emergent loophole in the DMCA's regime.

Trademark Infringement—Determining Nominative Fair Use

Recently, a divided panel of the Third Circuit adopted a two-step approach to analyzing cases in which a defendant asserts a nominative fair use defense to alleged trademark infringement, in *Century 21 Real Estate Corp. v. LendingTree, Inc.*, 425 F.3d 211 (3rd Cir. 2005). In doing so, the court rejected the Ninth Circuit's single-step approach first announced in *New Kids on the Block v. News America Pub., Inc.*, 971 F.2d 302 (9th Cir. 1992).

The nominative fair use defense protects a defendant's use of a plaintiff's trademark to describe the plaintiff's product for purposes of comparison or identification. One example is the use of the term *Volkswagen* by a mechanic in an ad describing the types of cars that he or she repairs. Such cases do not lend themselves to "likelihood of confusion" analysis, because usually the defendant has used the plaintiff's entire mark in connection with related goods or services—leading to the incorrect conclusion that most nominative uses are confusing. The Ninth Circuit's solution to this problem was to eliminate traditional confusion analysis altogether in nominative use cases, instead adopting a fairness test that placed the burden of proof on the defendant.

The Third Circuit, buoyed by the Supreme Court's decision in *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111 (2004), found this approach improper because it relieved plaintiffs of their statutory obligation to demonstrate a likelihood of confusion. Accordingly, it reinstated confusion analysis, holding that a court should focus on a subset of the "likelihood of confusion" factors that best "analyze the likelihood that a consumer will be confused as to the relationship or affiliation between [plaintiff and defendant]." Only after a plaintiff has established a likelihood of confusion should a court proceed to the second step—a "fairness test" derived from the *New Kids*.

The dissent agreed with the majority that likelihood of confusion analysis was appropriate in the nominative use context, but disagreed that the fairness test was necessary given its relatedness to the likelihood of confusion analysis. In its view, the better approach would be to rely solely on likelihood of confusion analysis, as modified to account for the special issues related to nominative uses.

Patentee Controls Right to Jury Trial on Declaratory Judgment Claims of Patent Invalidity

The Federal Circuit has held that a patentee in a declaratory judgment action that forfeited its damages claims waived the Seventh Amendment right to a trial by jury on the accused infringer's claims of patent invalidity, in *In re Technology Licensing Corp.*, 423 F.3d 1286 (Fed. Cir. 2005). Even where damages are available as a remedy to infringement, a patentee that chooses to seek only equitable relief decides the matter for both parties: the entire case is triable to the bench, not to a jury.

The patentee, Technology Licensing Corporation (TLC), faced a declaratory judgment action by Gennum Corporation alleging invalidity, unenforceability and noninfringement of its patents. TLC raised infringement counterclaims and sought damages, but after receiving an adverse pretrial order, TLC withdrew the damages claims and sought only injunctive relief. When Gennum subsequently withdrew its request for a jury trial, TLC argued that the right to trial by jury attaches to a declaratory judgment action to invalidate a patent regardless of the type of relief sought by a patentee.

In rejecting TLC's argument, the Federal Circuit confirmed that the patentee's choice of remedy — legal or equitable — is the linchpin of the Seventh Amendment analysis for invalidity claims. The court followed the reasoning of earlier Federal Circuit decisions in finding that a declaratory judgment action is most closely analogous to a patent infringement suit with an invalidity defense.

The deciding factor in the analysis, then, is whether the patentee has "forfeited his right to a jury trial by taking any steps that would have required him, historically, to file his case in equity." Here, TLC waived that right by voluntarily abandoning its claim for damages.

On the other hand, an accused infringer has no right to elect a jury — regardless of whether the infringer raises invalidity as an affirmative defense, a counterclaim or in a separate declaratory judgment action. A right to jury trial attaches "only if the infringement claim, as asserted by the patentee, would give rise to a jury trial." Thus, it matters not whether the patentee *could* have brought (or did bring) a damages claim. The patentee can elect a bench trial by dismissing the damages claims at any time before trial. Strategically, then, patentees who wish to have a jury decide validity should maintain their damages claims even in the face of an adverse pretrial ruling.

Trade Secrets vs. State Secrets: Which Should Prevail?

While trade secret misappropriation cases commonly involve disputes over whether a party's trade secrets have been divulged, these misappropriation cases typically do not include a second type of secret: a state secret. However, in *Crater Corporation v. Lucent Technologies, Inc.*, 423 F.3d 1260 (Fed. Cir. 2005), state secrets became a pivotal issue, ultimately hindering trade secret protection in that case.

Crater Corporation had invented a novel underwater coupler for fiber optics. Crater alleged that Lucent contacted Crater asking for various trade secrets relating to the Crater coupler, which Lucent expressly agreed not to reveal. Nonetheless, Lucent violated this agreement by producing an infringing coupler and disseminating Crater's trade secrets to the U.S. government.

Crater sued Lucent alleging patent infringement and state law claims of trade secret misappropriation and breach of contract. However, the government moved to intervene to assert the military and state secrets privilege prohibiting Crater from conducting discovery involving the United States and information relating to the Crater coupler, claiming that disclosure of such information would gravely damage national security. Accordingly, the court prohibited this discovery and dismissed Crater's complaint. The Federal Circuit had, in a previous appeal, affirmed dismissal of the patent infringement claims, so only dismissal of the state law claims remained at issue in this appeal.

Crater argued that the government did not properly invoke the state secrets privilege because the government official asserting the privilege never reviewed the documents sought during discovery, nor made any attempt to disentangle the secret documents from the nonsecret. The Federal Circuit, however, found that the government official was not required to personally review all documents as long as he was generally informed of the nature of the documents and determined that a state secret was present.

The Federal Circuit also found that Crater had not yet had a chance to establish what, if any, trade secrets existed and what were the terms of Crater's contract with Lucent. The district court put "the cart before the horse" by deciding the impact of the government's assertion of the state secrets privilege on Crater's state law claims without first determining what trade secrets exist and whether a contract existed. Thus, the Federal Circuit reversed and remanded for further proceedings.

Judge Newman, in her dissent, agreed that further proceedings were warranted, but stated that the court "placed obstacles to those proceedings that may be insurmountable," because the court endorsed the "full scope of the claim of state secrecy" without review. Judge Newman noted that it is the judicial obligation of the court to enable resolution, and so the court should have remanded the case for *in camera* proceedings allowing confidential review of the documents. While protection of state secrets may sometimes override protection of trade secrets, every effort should be made to ensure fairness so that persons who do business with the government are not regularly barred from access to judicial remedy, "lest the government lose access to the talents of the private sector."

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