

Lasers And Licenses

THE ABILITY TO LICENSE YOUR rights is one of the principal benefits of owning intellectual property. But, as with many good things, there is often some cost. This month we'll explore why a business decision to grant a license may have undesired consequences later in litigation.

Innovation Toys experienced this issue earlier this year in a patent infringement suit over its very popular Khet laser game. Previously, a district court had ruled that by selling its own version of a laser game, MGA Entertainment infringed Innovation's patent. This led Innovation to request that the Court issue a permanent injunction preventing MGA from selling its Laser Battle game.

But obtaining a permanent injunction is not as easy as it used to be. Even though the right to exclude competitors is considered a fundamental aspect of intellectual property, the Supreme Court has clarified that a patent owner must still establish that it will suffer "irreparable harm" in order to obtain an injunction.

Innovation argued that it would be irreparably harmed—meaning that monetary damages would not be sufficient to compensate for infringement—for several reasons:

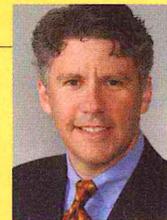
1. because Innovation is a small company whose core business is selling its patented Khet laser game;
2. because MGA is significantly larger than Innovation and a direct competitor;
3. because two of the nation's largest toy retailers had decided to stock only MGA's laser board game.

In response MGA argued that Innovation had previously licensed its patent to another company. According to MGA, this reflected that Innovation was willing to exchange its exclusive patent rights for a royalty, which is evidence showing that monetary damages would be adequate compensation in the lawsuit and an injunction should not be issued.

The district court noted that Innovation's prior license was a factor that tended to show that it would not be irreparably harmed if MGA were to continue to sell its infringing product and pay a royalty. However, when weighed against the other market factors described above, the Court concluded that Innovation's decision to grant the prior license (which was not with a direct competitor like MGA) was not sufficient to prevent an injunction.

Innovation escaped this potential consequence of licensing its IP. Make sure you keep this downside in mind when you consider licensing, so you don't give the "bad guys" too much ammunition to fire back at you in litigation.

Marc S. Cooperman is a partner with Chicago's Banner & Witcoff. He specializes in IP litigation. He can be reached at mcooperman@bannerwitcoff.com.



The Perils of Play

Thoughts on determining 'dangerous' toys

By Richard Gottlieb

The world is and has always been a dangerous place. It is therefore no surprise that parents want to protect their children from that danger. The difference between now and earlier times is that the responsibility to provide safety has shifted, at least in the minds of some, from the caregiver to the government.

Once the government gets involved we find legislators appeasing worried constituents by passing laws or creating bureaucracies that are single minded in their quest for safety without the requisite balancing that asks the question: What is the greater good for all of society? In other words, is the benefit to a few by outlawing a toy balanced against the benefit to the many by not doing so?

Recent regulatory actions in Europe are leading to concerns that any toy that could be considered even

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a potential safety hazard—even though the package carries appropriate age grading and warnings—would carry a legal liability. No retailer wants to carry a product that could result in litigation so such concerns, for all extents and purposes, would lead to a defacto banning of the toy. It's something that bears watching as what happens in Europe can eventually have an impact in the US, particularly in light of the quest for global safety standards.

Most of us, if not all of us, played with danger as children. It was easy to find; whether it meant using the swings on a concrete slab playground, climbing a chain link fence with spikes on the top, setting any number of things on fire with contraband matches or playing games with a pocket knife. We also played with toys that would be today described as dangerous. Here are just a few of my dangerous toys:

- A wood burning kit whose tip was probably somewhere near the temperature of the surface of the sun. I remember singeing the wood, the floor, various pieces of paper and my fingers.
- A chemistry set whose chemicals were probably suitable for poisoning me and my entire family.
- A copper picture set which consisted of taking a hammer and beating soft copper over plastic molds. With that hammer I did damage to a number of my body parts, as well as my mother's coffee table.

Despite the mayhem to me and my surroundings, I actually enjoyed and learned a great deal from these toys. For one thing, I learned that I could burn the hell out of myself with a wood burning kit. I also learned that my mother would kill me for burning her floor. But beyond these painful lessons I learned that my artistic abilities were limited but that, with some care, I could make something art-like, if not artful. I learned

that by mixing chemicals together I could create reactions and that the world was a far more mysterious place than I'd ever imagined. Most importantly, I just plain learned.

In short, childhood, like life, is filled with danger. Navigating that danger in childhood is what somehow prepares us to live the rest of our lives in a world that is pretty scary.

Differentiating harmful vs. helpful

Now before you see me as some philistine who favors dangerous toys let me say emphatically that we absolutely should be careful. We need to make sure that lead and dangerous chemicals are kept out of the toy supply and that products are age graded appropriately. We should be careful, however, that in outlawing danger we don't inadvertently outlaw important developmental lessons, and just plain fun.

So, let's try to differentiate between toys that are innately dangerous and those that can be abused in a dangerous way. In the case of the former, I think that is the toy industry's job. In the case of the latter, that calls for parental policing.

I had an opportunity to hear Will Wright, the developer of *The Sims* and president of the Stupid Fun Club, speak on the importance of toys. Will noted the significance of playing with everything from blocks to games to (yes) magnets for learning about how the world works. Blocks teach us how to build. Magnets teach us about physics. Monopoly teaches us about economics. Arguing over the rules of any game teaches us about law. As I listened to him speak I wondered how many children are going to miss out on important lessons because, out of fear, we deprive them of play experiences with things like magnets.

Bottom line, before we outlaw a toy, a material or a process we need to evaluate the benefit derived from the toy. There is more to life than trying to stamp out every ounce of danger—if we did we would have no cars, planes or trains. Let's ask our law makers to do some balancing when considering what is and is not dangerous. Does society benefit as a whole from a toy? If it does then we may decide that a small amount of danger is outweighed by the benefit to the many. And for those few toys, parents must do their job of making sure they are played with properly.

Richard Gottlieb is president of Richard Gottlieb & Associates, a provider of business development services to the toy industry. His 'Out of the Toy Box' blog can be read daily on Playthings.com. He can be reached at richard@usatoyexpert.com.



Approximately 217,000 toy-related injuries are treated in emergency rooms annually, with ride-ons such as tricycles and non-powered scooters associated with more injuries than any other toy type. —US Consumer Product Safety Commission