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finding against McGee was based on evidence which McGee chose not to contest.

The court awards attorneys' fees due to malicious intent and bad faith

The law also allows reasonable attorneys' fees in "exceptional cases" involving trademark infringement. Because the court determined that McGee acted in bad faith, it awarded reasonable attorneys' fees in the amount of \$59,591.25. The evidence showed that at the very least, McGee did know of the existence of Cardservice International when he obtained a domain name. This by itself would not have been enough. However, McGee's conduct after notification and initiation of litigation demonstrated bad faith and malicious intent. This behavior included posting

derogatory remarks about Cardservice International on his site and referring potential customers to competitors. McGee also engaged in what he termed "guerilla warfare," warning Cardservice International that he would prevent their effective use of the Internet as a forum for business. The court found that these malicious actions were not made during the course of the "reasonable continuation of litigation."

The terms of the Lanham Act do not limit themselves in any way which would prevent application of federal trademark law to the Internet. The court concluded that unauthorized use of a domain name that includes a federally protected trademark directly conflicts with federal trademark law. The court ordered McGee to cease all direct or indirect use of "cardservice," "csi" or "csimall" on the Internet and to pay Cardservice International's reasonable attorneys' fees. •

Federal District Court for California grants a permanent injunction prohibiting copying of Sega video games on electronic bulletin boards

by Bree A. Segel

Sega Enterprises, Ltd. and Sega of America, Inc. ("Sega"), manufacturers and distributors of computer video game programs and systems under a registered trademark, filed suit alleging defendant Chad Sherman ("Sherman") violated federal copyright infringement laws, California trade name infringement laws, California unfair competition laws, and federal unfair competition laws. *See Sega Enterprises Ltd v.*

MAPHIA, 948 F. Supp. 923 (N.D. Cal 1996).

Sherman is the owner and system operator of an electronic bulletin board ("BBS") identified as "MAPHIA." The BBS is made up of computer hard drives connected to personal computers through modems. MAPHIA users (who number approximately 400) retrieve information from the MAPHIA BBS to their computers by "downloading"

stored information. Each MAPHIA user is identified by a handle (a pseudonym used to identify individuals to other system users) and a secret password. The MAPHIA BBS is open to the public at large.

Evidence collected from seizure

Sega received an anonymous tip that Sherman's BBS was distributing

unauthorized versions of Sega video games. The district court issued an ex parte Temporary Restraining Order and Seizure Order. As a result, authorities searched Sherman's premises and seized his computers. Later the computers were returned with Sega games deleted from the memory banks.

The seized information revealed that the MAPHIA BBS carried 12 unauthorized copies of Sega games, ten licensed Sega games, six Sega pre-release games and at least two copyrighted Sega games — Jurassic Park and Sonic Spinball. The information further revealed that Sega games were routinely listed on the MAPHIA BBS in a file called "<!MAPHIA!> SEGA CONSOLES<." By using copying machines sold by Sherman, MAPHIA users could download Sega games through their computers onto a floppy disk and then make copies.

Data printouts revealed the unauthorized downloading and uploading of Sega games by MAPHIA users. Sherman admitted MAPHIA users uploaded and downloaded the games with their authorized passwords. Sherman could track user uploads and downloads by way of screen printouts. Sega deposed Sherman on March 1, 1994. However, Sherman refused to respond to questions asked, invoking the Fifth Amendment.

Sega discovered that Sherman sold video game copiers called "Super Magic Drives" on the

MAPHIA BBS. To play downloaded Sega games from the BBS, users needed to operate the copier. The copier included a connector attached to the video game console, a receptacle, a main unit with random access memory to store games, and a floppy disk drive.

Sherman's evidentiary objections

The Electronic Communications and Transactional Records Act makes it illegal to "intentionally access without authorization a facility through which an electric communication service is provided."

Sherman objected to Sega's access into the MAPHIA BBS, alleging that such access was unauthorized and should prevent summary judgment. The court disagreed, concluding that the access was consistent with other users' anonymous access. The court cited *Reebok International Ltd. v. Jemmet*, 6 U.S.P.Q.2d 1715, 1717, 1988 WL 106933 (S.D. Cal. 1988), where a Reebok employee misrepresented

his name and occupation to retrieve evidence of infringement.

Sherman also alleged that Sega's access to the MAPHIA BBS violated the Stored Wire and Electronic Communications and Transactional Records Act, 18 U.S.C. § 2701(a). Again, the court disagreed. The Electronic Communications and Transactional Records Act makes it illegal to "intentionally access without authorization a

facility through which an electric communication service is provided." 18 U.S.C. § 2701(a). The court concluded that Sega's access was authorized and resulted in no statutory violation because a MAPHIA user authorized its access. Furthermore, the court rejected Sherman's argument that passwords made the BBS "more secure." The court explained that no evidence suggested that passwords were intended to protect the system from use by those other than the original password user. Additionally, Sherman provided no

evidence that MAPHIA passwords were not transferable or that passwords of authorized users were not to be used by third parties.

Sherman further alleged that Sega violated 18 U.S.C. § 2702 by publishing and accessing the private E-mail of MAPHIA users. However, the court found the statute inapplicable to Sega because it never provided a public electronic communication service which the federal

statute required.

No direct copyright infringement

Sega alleged Sherman violated copyright infringement laws under direct, contributory, and vicarious liability theories. Sherman responded by admitting that his users uploaded and downloaded Sega games, and by asserting the fair use defense. In addition, Sherman claimed that any copyright violation was de minimis.

To establish a copyright infringement, a plaintiff must prove: (1) ownership of a valid copyright on the infringed work; and (2) "copying" by the defendant. *See Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp.*, 562 F.2d 1157, 1162 (9th Cir. 1977). In the instant case, the court concluded that Sega owned a valid copyright through certificates of copyright registration for its video games. Additionally, the court cited the Ninth Circuit's definition of "copying" as occurring "when a computer program is transferred from a permanent storage device to a computer's random access memory." *Mai Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 529 (9th Cir. 1993), *cert. dismissed*, 510 U.S. 1033 (1994). Accordingly, the court held that copying occurred when Sega games were uploaded to and downloaded from Sherman's BBS.

After this initial analysis, the court addressed the issue of Sherman's direct liability for copyright infringement. The court found Sherman not liable for direct infringement because Sega did not show that Sherman directly caused

the copying. Instead, Sega merely established that Sherman controlled the BBS, that he was aware that infringing activity occurred, and that he encouraged users to upload and download games. The court concluded that such facts were insufficient to meet the standard for direct infringement liability.

Contributory infringement

Although the Copyright Act imposes liability only on direct infringers, courts have extended the Act to hold persons liable for contributory infringement violations. Contributory infringement occurs when a person "directly contributes to another's infringement." *See Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261 (9th Cir. 1996) (citing *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 435 (1984)). To find Sherman liable for contributory infringement, the court noted that Sega must establish that MAPHIA users directly infringed Sega's copyright. Additionally, Sega must prove that "(1) with knowledge of the users' infringing activity, (2) Sherman induced, caused, or materially contributed to their infringing activity."

Applying this standard, the court held that Sega established direct copyright infringement by MAPHIA'S BBS users because they downloaded and uploaded unauthorized Sega games. Sega proved that Sherman knew of the infringing conduct by MAPHIA BBS users because Sherman admitted that users uploaded and downloaded Sega games. In addition, a screen printout showed that Sherman could track

user activity.

The court found Sherman liable for contributory copyright infringement because he provided the BBS site where the unauthorized copying of Sega games occurred, and he permitted distribution of the games. Because Sega proved Sherman liable under a contributory copyright infringement theory, the court did not address potential liability under a vicarious liability theory.

Fair use defense

Sherman alleged that any copying by MAPHIA BBS users was fair because users were likely to play Sega games only in their homes and did not distribute the games. According to 17 U.S.C. § 107, the fair use defense is an exception to copyright infringement. The defense allows copying despite a copyright holder's exclusive rights if the copier's use is fair. Certain nonexclusive factors are used to determine whether a use is fair, including: (1) the purpose and character of the use; (2) the nature of the copyrighted work; (3) the amount and substantiality of the copyrighted work used; and (4) the effect of the use upon the potential market for the copyrighted work. 17 U.S.C. § 107.

Purpose and character of use

The court, in considering the fair use factor, determined Sherman's assertion of that to be transparent. Sherman purposely encouraged MAPHIA BBS users to upload and download Sega games. This activity moreover required the purchase of copiers sold by Sherman. Sherman

planned to profit from his BBS by encouraging users to download Sega games instead of buying the cartridges directly from Sega, and by selling the copies. Thus, Sherman induced copier sales for a profit.

Nature of the copyrighted work

Courts have held that whether the copyrighted work is informational or creative is an important consideration when invoking the fair use defense. See *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 563 (1985). Because Sega games are used for entertainment, rather than for informational purposes, and because the copyrighted work is creative, the court held that this factor also worked against Sherman's ability to utilize the fair use defense.

Extent of the work copied

To determine the extent of the original work copied, the court looked to the percentage of the original work copied, and whether the copied portion constitutes the "heart" of the copyrighted work. See *Harper & Row*, 471 U.S. at 564-65. In the instant case, the court explained that Sherman's BBS users downloaded entire copyrighted Sega games. Furthermore, Sherman did not provide any public benefit or explanation for the complete copying. Therefore, this factor as well spoiled the application of the fair use defense.

Effect of the use upon the market

This most important factor in

determining if Sherman could invoke the fair use defense considers whether "unrestricted and wide-spread conduct of the sort engaged in by the defendant would result in a substantially adverse impact on the potential market for the copyrighted work." *Sega*, 948 F. Supp. at 921. The court found that MAPHIA users could download and distribute multiple copies of Sega games and receive unauthorized copies of Sega's copyrighted programs. In addition, MAPHIA users could play the downloaded games by using the "Super Magic Drive" copiers sold by Sherman. As a result, the BBS users could play the games without buying Sega cartridges which caused a decrease in the video game sales.

Sherman argued that his copiers, which enabled Sega programs obtained from the BBS to be copied and duplicated, performed other "non-infringing uses." Sherman also contended that since only a small number of MAPHIA users own copiers, their use of the games would be de minimis. The court was not persuaded by either argument and noted that the copiers were used solely to avoid paying for the Sega games. The court cited *Nintendo of America, Inc. v. Computer & Entertainment, Inc.*, 1996 WL 511619 at *4 (W.D. Wash. 1996) where the court found no substantial noninfringing uses for a copying device.

The court held that even if BBS users only played Sega games in their homes, and even if the total number of users was small, "unrestricted and widespread conduct of this sort would result in a substantial adverse impact on the market for the Sega games." *Sega*, 948 F. Supp. at

921.

Thus, every factor weighed against Sherman's application of the fair use defense. Accordingly, the court granted Sega's motion with respect to its copyright claim and concluded that Sherman was liable for contributory copyright infringement.

Willful infringement

Sega argued that because Sherman willfully infringed on its copyrights, it was entitled to greater damages under 17 U.S.C. § 504(c)(2). According to *Peer International Corp. v. Pausa Records, Inc.*, 909 F.2d 1332, 1335 (9th Cir. 1990), cert. denied, 498 U.S. 1109 (1991), willful infringement occurs when the responsible party acts with knowledge that he or she is infringing a copyright. Willful infringement may also occur where defendant's infringing actions coincide with a reckless disregard for the copyright holder's rights. See *Video Views, Inc. v. Studio 21, Ltd.*, 925 F.2d 1010, 1020-21 (7th Cir. 1991), cert. denied, 502 U.S. 861 (1991). Because the evidence established that Sherman knowingly allowed and encouraged BBS users to upload and download Sega games, the court agreed with Sega that Sherman willfully infringed upon its copyright, and ruled accordingly.

Federal trademark infringement

Sega alleged that Sherman violated federal trademark infringement law under the Lanham Act, 15 U.S.C. § 1114 by displaying Sega's mark when games were downloaded

from the MAPHIA BBS. A person is liable for trademark infringement if that person, without consent of the trademark registrant: "use[s] in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising or any goods or services on or in connection with which use is likely to cause confusion, or to cause mistake, or to deceive." 15 U.S.C. § 1114.

To establish a prima facie case for trademark infringement, a plaintiff must establish that (1) the mark is owned by or associated with a particular plaintiff, and (2) the defendant's use of the mark is likely to cause consumer confusion regarding the origin of the goods. See *New West Corp. v. NYM Co., Inc.*, 595 F.2d 1194, 1201-02 (9th Cir. 1979). The second element is divided into two requirements: (1) that the use of the mark is likely to cause confusion; and (2) that the defendant used the mark. See *Alchemy II, Inc. v. Yes! Enter. Corp.*, 844 F. Supp. 560, 569 (C.D. Cal. 1994) (citing *HMH Pub. Co. v. Lambert*, 482 F.2d 595, 598 (9th Cir. 1973)).

The court concluded that evidence of Sega's registered trademark supported its exclusive right to use the trademark in commerce. 15 U.S.C. § 1115. While the Ninth Circuit looks to eight factors when determining whether consumer confusion exists, the court here addressed only those factors relevant to the case. Specifically, the court considered the "proximity of the goods" factor and held that the likelihood of confusion is great

where downloaded MAPHIA games are considerably similar to Sega games.

The court also considered the similarity of Sega's trademark and the mark displayed on unauthorized MAPHIA games. The court held the marks are "substantially similar" and that MAPHIA's mark counterfeited Sega's actual trademark.

Sherman argued that he merely used the Sega logo as a file identifier, and such use was incidental and not a violation of the Lanham Act. However, the court disagreed and concluded that Sega successfully established a prima facie case for trademark infringement under the Lanham Act, 15 U.S.C. § 1114.

After considering the salient factors, the court held that Sherman's use of the Sega name and mark to identify game files on the MAPHIA BBS created consumer confusion. Specifically, when games were downloaded from the MAPHIA BBS the Sega mark appeared, which created the impression that Sega sponsored or endorsed the games. The court explained that Sherman's willful adoption of the Sega mark constituted counterfeiting.

Accordingly, the court granted Sega's motion for summary adjudication of liability on all counts. As a result, Sega received injunctive relief under federal copyright and trademark law. In addition, the court granted Sega injunctive relief under California trade name law. Finally, the court granted Sega a permanent injunction to prohibit future violations of its trademark rights and a permanent injunction to enjoin Sherman from using the Sega trade name on his BBS.

Monetary damages for copyright infringement

Once copyright infringement is established, a copyright holder may opt to pursue actual or statutory damages. 17 U.S.C. § 504. Sega sought statutory damages.

If copyright infringement is committed willfully, as determined in the instant case, the court possesses the discretion to award statutory damages of not more than \$100,000 per each infringed work. 17 U.S.C. § 504(c)(2). Overall, the court maintains broad discretion in awarding statutory damages. See *Nintendo of America, Inc. v. Dragon Pacific Int'l*, 40 F.3d 1007, 1010 (9th Cir. 1994), cert. denied, 115 S. Ct. 2256 (1995). The court awarded \$5000 per infringed work and \$10,000 in statutory damages for Sherman's infringement of two video games: Jurassic Park and Sonic Spinball.

Attorneys' fees and costs

Under the Copyright Act, a court may award the prevailing party reasonable attorneys' fees and costs. 17 U.S.C. § 505. In deciding whether such an award is appropriate, a court is likely to consider several factors, including: (1) the degree of success obtained by the prevailing party; (2) frivolousness; (3) motivation; (4) the objective unreasonableness in both the factual and legal arguments of the case; (5) the need in the particular circumstance to advance considerations of compensation and deterrence; and (6) promotion of the Copyright Act's objectives. See *Jackson v. Axton*, 25

F.3d 884, 890 (9th Cir. 1994).

The court concluded that these factors favored granting costs and attorneys' fees in the instant case. The court reasoned that awarding fees in this case may send a warning to BBS operators like Sherman and may prevent future copyright infringements from occurring. The court admitted that unchecked copyright infringement could become rampant, resulting in a

negative impact on the software market.

Monetary recovery for trademark infringement

Because Sherman's willful infringement constituted counterfeiting, the court held that Sega could receive treble damages or profits and reasonable attorneys' fees. Although Sega provided no evidence regard-

ing damages or profits, the court concluded that if Sega decided to prove actual damages or lost profits, the Chief Magistrate Judge would hear the matter. The court ordered Sega to inform the court and Sherman of its decision within one week after the date of the order; otherwise, the court would enter judgment. •

Electronic links via Internet constitute sufficient contacts for personal jurisdiction

by Heather Sullivan

The Sixth Circuit Court of Appeals in *CompuServe v. Patterson*, 89 F.3d 1257 (6th Cir. 1996), held that a Texas resident, who subscribed to a computer information and network service and employed that service to market computer software, is subject to personal jurisdiction in the service's home state even where contacts with that state are mostly electronic. The court limited its holding to the issue at hand, because this case is relatively unique and probably the first of many similar cases to follow due to the rise in business and communication through the Internet. In this particular case, the court held: (1) the subscriber purposefully availed himself of the benefits of doing business in Ohio; (2) the action arose from the subscriber's contacts with the state; and (3) the exercise of personal jurisdiction is reasonable due to the substantial connection between the defendant's acts and the state of Ohio.

CompuServe ("CompuServe") is a computer information service with headquarters in Ohio which provides access to computing and information services via the Internet. CompuServe is currently the second largest provider on the "information super highway." Individual subscribers contract with CompuServe to gain electronic access to more than 1,700 information services. CompuServe also provides computer software products to its subscribers. This software may be a

product of CompuServe or other parties. Products distributed in this manner are referred to as "shareware." This software makes money through the voluntary cooperation of an "end user"—another CompuServe subscriber who pays the creator's suggested licensing fee if he or she decides to use the software beyond a certain trial period. The fee is paid directly to CompuServe in Ohio. CompuServe charges 15% for its trouble before it transfers the balance to the shareware's creator.

CompuServe files declaratory judgment action denying trademark infringement

Richard Patterson, the defendant, was a subscriber of CompuServe. Patterson, a resident of Houston, claimed to have never visited Ohio, where CompuServe is located. Patterson placed items of "shareware" on CompuServe for use and purchase. As a shareware provider, Patterson entered into a Shareware Registration Agreement ("SRA") which incorporated two other agreements: the CompuServe Service Agreement ("Service Agreement") and the Rules of Operation. Thus, Patterson and CompuServe entered into an independent contractor relationship. The SRA permitted Patterson to place software he created on the