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December 29, 1983

Louis Etlinger, Esquire
Director, Patents and
Licensing
Sanders Associates, Inc.
Daniel Webster Highway, South
Nashua, New Hampshire 03061

Re: Magnavox v. Activision

Dear Lou:

As you requested last week, enclosed is a copy of Judge Decker's decision of December 6 granting a preliminary injunction in the Atari v. JS&A case.

Our best wishes to you and Dick for the New Year.

Very truly yours,

NEUMAN, WILLIAMS, ANDERSON & OLSON

By

James T. Williams

JTW:de
Enclosure

cc: Theodore W. Anderson - w/encl.

UNITED STATES DISTRICT COURT, NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

Name of Presiding Judge, Honorable Bernard M. Decker

Cause No. 83 C 8333

Date Dec. 6, 1983.

Title of Cause ATARI, INC. v. JS&A GROUP, INC.

Brief Statement of Motion _____

The rules of this court require counsel to furnish the names of all parties entitled to notice of the entry of an order and the names and addresses of their attorney. Please do this immediately below (seperate lists may be appended).

Names and Addresses of moving counsel _____

Representing _____

Names and Addresses of other counsel entitled to notice and names of parties they represent. _____

Memorandum Opinion and Order entered.

~~For~~ the reasons stated above, the court grants plaintiff's ^{Reserve space below for notations by minute clerk} motion for a preliminary injunction. Defendant JS&A and its agents and servants will be preliminarily enjoined from selling, marketing, distributing or otherwise disposing of PROM BLASTERS. Plaintiff will prepare an appropriate order to submit to the court, and at that time bond will be fixed.

(DRAFT)

DOCKETED
DEC 7 1983

Hand this memorandum to the Clerk.
Counsel will not rise to address the Court until motion has been called.

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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

ATARI, INC.,

Plaintiff,

-vs-

JS&A GROUP, INC.,

Defendant.

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) NO. 83 C 8333
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MEMORANDUM OPINION AND ORDER

This is a suit for declaratory and injunctive relief and for damages for contributory copyright infringement, patent infringement, unfair competition, and various state law torts. The plaintiff, Atari, Inc. ("Atari"), brought this suit because the defendant, JS&A, Inc., ("JS&A") sells and advertises a device called the "PROM BLASTER". The case is before the court on plaintiff's motion for a preliminary injunction on the copyright infringement claim.

Factual Background

Atari manufactures and sells a home computer video game system, the "2600", and game cartridges such as "CENTIPEDE" and "PAC-MAN" for use in the 2600. In order to play the games at home, the consumer connects the Atari computer to a television set and plugs his controls, or "joysticks", into the computer. A game cartridge, which is usually purchased sepa-

rately, is then inserted into the computer. The computer program in the cartridge causes the audiovisual aspects of the game to emanate from the television. The 2600 has been a resounding commercial success.

The various game cartridges consist of a heavy plastic housing which contains an electronic circuit, or "chip", which in turn contains the game's computer program. The chips in Atari 2600 game cartridges are "Read Only Memory", or "ROM", chips. The parties have stipulated that a ROM can neither be reprogrammed nor erased. The game cartridges sell for as much as \$40 apiece.

Atari has copyrighted its video games as audiovisual works. In addition, it is seeking to register a copyright of the computer program for the CENTIPEDE game. Plaintiff's Exhibit D.

JS&A is a retailer of electronic products. It began this fall an effort to market its PROM BLASTER, a device for the duplication of those video games which are compatible with the Atari 2600 home computer. The machine has two slots, one for a 2600-compatible cartridge and one for a blank cartridge sold by JS&A for \$10. In the words of JS&A's advertisements, "[y]ou simply plug in your Atari[®] or Activision[®]1/

1 Activision is one of several companies which sell 2600-compatible video game cartridges.

cartridge in one slot and a blank cartridge in another, press a button and three minutes later you've created an exact duplicate." Plaintiff's Exhibit A. The PROM BLASTER sells for \$119, and JS&A currently has \$12,000 in inventory on hand. The defendant agreed not to fill any orders for the product pending the disposition of this motion.

JS&A markets the PROM BLASTER primarily as a means of making "back-up" copies of 2600-compatible games. The advertisements urge the consumer to protect his investment in video game cartridges which "can easily be ruined." Plaintiff's Exhibit A. The advertisements assure the public that this copying does not violate the copyright laws because "[i]n 1980, Congress passed an amendment to the copyright act that clearly permitted consumers to duplicate their cartridges" but warn that "[y]ou can't sell, lease or give away a duplicate cartridge produced from a copyrighted original that you own." Id. A related selling point for the PROM BLASTER is that the buyer "can make copies for [his] friends who wish to own archival copies of their favorite games and charge them for the service." Id.

JS&S also sells nine 2600-compatible video games of its own. JS&A grants the purchaser of a PROM BLASTER the right to copy the games, and even to sell the copies, without any limitation.

on the market with the PROM BLASTER, quite recently, no one knows if consumers want to play these games, much less copy them. Furthermore, PROM BLASTERS sell for \$119. It strains credulity to assert that consumers would spend that much for a machine that could only copy JS&A's games. This capability of the PROM BLASTER is by itself insufficient to make its sale legal.

JS&A's liability as a contributory infringer thus turns ultimately on the legality of the primary use of the machine, that which JS&A encourages with its advertisements, the duplication of others' video games. This is the machine's only substantial use, and if it is an infringing use the PROM BLASTER is fatally limited.

Section 106 of the Copyright Act details the exclusive rights of copyright owners, and it states in relevant part:

"Subject to sections 107 through 118, the owner of copyright under this title has the exclusive right to do and to authorize any of the following:

- (1) To reproduce the copyrighted work in copies"

17 U.S.C. §106. Absent an exception, therefore, the duplication of Atari's copyrighted games is an infringement of its rights. Atari is likely to prevail unless JS&A can establish that an exception applies. JS&A has the burden because it

Congress created the Commission in 1974 to study copyright problems with respect to computers and photocopying and to make recommendations for statutory changes. The Final Report of the Commission ("CONTU Report") sets forth and explains those recommendations, which Congress in 1980 adopted. "Although the Congressional action in 1980 does not appear to be supported by a legislative history, it is fair to conclude, since Congress adopted its recommendations without alteration, that the CONTU Report reflects the Congressional intent." Midway Mfg. Co. v. Strohon, 564 F. Supp. 741, 750 n.6 (N.D. Ill. 1983) (Will, J.).

The CONTU Report does provide some guidance in that it explains the limited purpose of the archival exception:

"One who rightfully possesses a copy of a program, therefore, should be provided with a legal right to copy it to that extent which will permit its use by that possessor. This would include the right to load it into a computer and to prepare archival copies of it to guard against destruction or damage by mechanical or electrical failure. But this permission would not extend to other copies of the program."

CONTU Report at 31 (emphasis added). The purpose of the exception is to protect the use of a copy against a particular type of risk: "destruction or damage by mechanical or electrical failure." The parties accept that this is the purpose of the exception. Plaintiff's Brief at 5; Defendant's Brief at 6. They disagree, however, as to the applicability of the exception to computer programs embodied in ROMs.

Computer programs are stored in a wide variety of media. Not all of these are subject to the same risks, and not all are subject to mechanical or electrical failure. For example, the instructions of the program can be printed on paper in a human-readable form. CONTU report at 55. That piece of paper could be burned or shredded, yet it could not be destroyed by mechanical or electrical failure. The medium of storage must, therefore, determine whether the archival exception applies. Where, and only where, a medium may be destroyed by mechanical or electrical failure, the archival exception protects the owners of programs stored in that medium by granting them the right to make back-up copies.

The parties stipulated at the December 1 hearing in this case that the programs in ROMs can be neither reprogrammed nor erased. Atari concludes from this that the programs are not susceptible to destruction or damage through mechanical or electrical failure. JS&A disagrees, and argues that ROMs can be destroyed "as a result of a wire becoming disconnected, liquid spillage, crushing, etc." Defendant's Brief at 3. In support of its argument, JS&A offered Exhibit 1, a letter from a customer who wrote that four of his cartridges "died." Defendant's Exhibit 1 at 2. The customer did not, however, specify the cause of death. This is the only evidence JS&A

JS&A markets the PROM BLASTER primarily as a means of copying those video games, and Atari has shown that such copying is likely an infringement of its copyrights. If JS&A sells the PROM BLASTER and the buyers put it to its intended and encouraged use, it is at least a fair inference that Atari will lose some sales, even if the copies thus made merely replace damaged copies. Because consumers do the copying, Atari can never know the extent of the copying or the extent of its loss. Those lost sales constitute immediate, irreparable harm sufficient to support the issuance of a preliminary injunction.

3. Balance of Hardships

The balance of hardships tips in Atari's favor. Against its investment of hundreds of millions of dollars in its video games, JS&A can offer only its \$12,000 investment in inventory and potential sales in an undetermined amount. Atari stands to lose much more than JS&A could hope to gain if this injunction does not issue.

4. Public Interest

The public interest in the protection of Atari's copyrights is the reward and encouragement of creative expression. If the defendant could legally infringe Atari's right to make and distribute copies, Atari and other producers of copyrightable material would hesitate to invest in its creation and development. The public interest in preserving the rewards for