Skadden

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VIDEO GAMING/E-GAMING LAW UPDATE

Also in this issue:

Main Quest — How To Tell ROM From Right

As we review some of the more prominent legal issues that impacted the video game industry this past year and consider what 2022 may have in store, one question stands out for its longevity and seemingly intractable nature: how to handle ROMs.

The term "ROMs" (originally short for "read-only memory") now generally refers to any software employed by computer programs known as "emulators" that allow users to play older (and in some cases difficult to find) video games. These early games were stored on ROM computer chips, and thus the modern-day software options that recreate such games have been dubbed "ROMs" as well.

ROMs and emulators have been around for nearly as long as the video game industry itself, and legal battles over emulator and emulator-like technology date back to at least as early as 1982.[1] However, despite the intervening four decades and the fact that the legal landscape governing both emulators and ROMs has been fairly well settled, the use of ROMs remains a hot-button issue. For example, Nintendo of America's recent lawsuit against the now defunct website RomUniverse, concerning the use of Nintendo's copyrights and trademarks in connection with ROMs made available on that site, was met with widespread criticism from the gaming community, despite the overwhelming recognition of Nintendo's legal right to enforce its rights against online pirates.

In this article, we explore the current legal status of ROMs and emulators, as well as common arguments for and against changing how the law deals with ROMs. We conclude with potential options that could help address some of the concerns such policy arguments raise while still maintaining robust protection for game developers' rights.

The Legal Status of ROMs and Emulators

As an initial matter, it is important to note that neither ROMs nor emulators are per se or categorically illegal; indeed, much like well-established intellectual property (IP) decisions involving VCRs and video cassettes, emulators and ROMs have been held to constitute fair use in certain circumstances.[2] That being said, the types of ROMs that are most concerning to the video game industry — namely, ROMs that directly reproduce the code and assets of video games — are almost

[1] In that year, Atari Inc. filed a lawsuit against Coleco Industries Inc. alleging patent infringement related to an expansion module developed for the ColecoVision console that gave it the ability to play Atari VCS games.

[2] *See, e.g., Sony Computer Entertainment v. Connectix Corp.*, 203 F.3d 596 (9th Cir. 2000).

universally recognized to constitute infringement.[3] These are the ROMs that present the greatest potential market impact for video game developers, and the ones that companies like Nintendo focus on most when pursuing legal action.

This is not to say, however, that even video game ROMs may never be used legally. For example, in connection with the Copyright Office's triennial rulemaking procedure under the Digital Millennium Copyright Act (DMCA), the Librarian of Congress has promulgated a number of exemptions to the DMCA that permit certain institutions — such as museums, libraries and archives — to store and access specific categories of video game software in connection with their educational or preservation activities. While these exemptions currently only apply to certain types of games (primarily games that previously required third-party verification to play, and have since had their servers shut down) and allow only for local gameplay (which drastically limits both the number and categories of people who can access such games), they provide a legal means to using certain video game ROMs.[4]

Policy Arguments Regarding ROMs

Despite the fact that the widespread use of ROMs is recognized by many as likely infringing game creators' rights, enforcement efforts against ROMs are — not surprisingly — unpopular in the gaming community. Those opposed to such enforcement efforts often advocate for a change in the law based on policy considerations, but the issues are not nearly as cut-and-dried as they contend.

One of the most prominent arguments in favor of changing the law to allow more widespread use of ROMs is that the preservation and historical study of video games requires the use of ROMs. There are many unique features of video games that set them apart from other forms of artistic expression and provide support for this argument. For instance, many historical video games are fixed in a medium that is easily corruptible or prohibitively expensive to access, and ROMs provide a way to preserve such games in a more stable and easily accessible format. Further, unlike literature or "traditional" visual media that has a substantial body of materials in the public domain that can be freely accessed and utilized, the history of video games is far more recent, and true "public domain" software and freeware are more difficult to find. Accordingly, proponents argue, ROMs are necessary to allow for the preservation, historical documentation and study of video games.

The main counterpoint to the foregoing policy argument is that the DMCA exceptions to enforcement are largely ignored, as is the fact that educational institutions and museums do provide students and visitors access to historical video games. While there may be issues in terms of the breadth or equity of access (for example, the DMCA exceptions do not permit for online access, meaning that in most cases one must be a member of such institutions to access their archives), such issues concerning scope have little bearing on whether the system should be overhauled entirely. Further, while it is undoubtedly true that providing easier, legal access to ROMs would permit more people who are interested in the study and history of video games to explore these interests, such a group is likely far overshadowed in size by those who would use such access for noneducational purposes (*i.e.*, gameplay), thus potentially hurting the market for classic video games.[5]

Another frequently asserted justification for permitting ROMs and emulators is to provide greater game access to people who otherwise may not be able to enjoy them. For example, while a game studio may not have the resources or interest in translating a game for a foreign market, a dedicated "modder" (*i.e.*, an individual who modifies software or code) could create a ROM that translates the game into their local language, providing players worldwide with access to an otherwise geographically or language-restricted game.[6] Similarly, in areas where gaming consoles are prohibitively expensive for the majority of the population, ROMs may allow players to access games without

[3] Indeed, in the recent case Nintendo brought against RomUniverse, the court held that there was no issue of material fact with respect to whether the use of ROMs — which recreated Nintendo's copyrighted video games — constituted copyright infringement, and that the website's use of Nintendo's trademarks in connection with such ROMs constituted trademark infringement. *See Nintendo of America, Inc. v. Storman*, Case No. CV 19-7818-CBM-(RAOx), ECF No. 75 (C.D. Cal. May 26, 2021).

[4] While the exceptions pertain only to the anti-circumvention procedures of the DMCA and thus do not explicitly impact whether the use of such ROMs violates the other portions of the Copyright Act, it is worth noting that in promulgating such exceptions, the Librarian of Congress has found that the excepted uses constitute fair use under Section 107 of the Copyright Act.

[5] Indeed, in the Copyright Office's 2021 triennial rulemaking process, this was the reason given for declining to extend the DMCA exception for video games to online access. The Librarian of Congress determined that the proponents of such expansion had not shown that the benefits of access outweighed the potential risks to the market.

[6] It should be noted that there is an entirely different category of ROMs, also created by "modders," that significantly alter or change elements of an existing game, rather than merely recreating or translating it. Such "mods" or "ROM hacks" are outside the scope of this article but present their own unique legal questions and concerns, most notably to what extent they may be considered transformative works and thus subject to a fair use defense.

a material impact on the realistic market for purchasing those games (since, according to this argument, those players would not have had the means to purchase the game in the first place). In this way, a ROM website is argued to be like an online public library, where users can borrow titles without needing to have purchased the physical hardware to play those titles.

Again, however, the counterpoint is that such a justification ignores the potential downsides of such an arrangement. For instance, while a game studio may not have any immediate plans to localize its game to other regions, it may in the future, and the potential market for such localization could be significantly harmed if a modder with more time to dedicate (or less concern for accuracy or player experience) gets there first. To cite a notable real world example, the official versions of the Japanese role-playing games Final Fantasy II and III were not localized for English-speaking markets until 15 and 16 years, respectively, after their original releases in Japan.[7] Similarly, as with the historical preservation argument discussed above, it is questionable whether the portion of individuals who truly would not otherwise have access to games would outweigh that of (or approximate the number of) individuals who chose to access games through ROMs versus other official means simply as a matter of preference or convenience.

Finally, proponents of ROMs and emulators often argue that rather than negatively impacting the market for classic games, the existence of ROMs has kept the community's interest in classic games alive, thus paving the way for successful business opportunities like the SNES Classic and the PlayStation Classic. Further, they argue that certain classic games being sold by gaming companies actually rely on emulator software to operate, and thus gaming companies are simultaneously benefiting from and cracking down on emulators.

With respect to the first point, whether the presence of illegal ROMs has or has not increased the demand for classic games has little impact on whether such activities should be made legal.[8] The fact that some gaming companies have financially benefited from such behavior does not mean that others (or, indeed, those same companies) cannot enforce their rights against such behavior in the future. With respect to the second point, as noted above, emulator technology is not inherently illegal, and it makes sense that gaming companies would employ the same technology used by third parties to run classic games. The mere fact that both legitimate and illegitimate copies of a certain game run on the same technology does not in and of itself counsel in favor of legalizing the illegitimate versions. (Consider the parallel of the VCR and the existence of both legitimate and bootleg videos.)

As a final point, all of the above arguments in support of ROMs fail to take into account the potential damage done to other rights held by video game companies, such as trademark rights. Issues such as infringement caused by third parties using video game companies' marks to promote their own services, or dilution caused by video game companies' marks being associated with inferior ROM products, could cause significant harm if the use of ROMs became more widespread.

[7] The games titled "Final Fantasy II" and "Final Fantasy III" in English-speaking markets were Final Fantasy IV and Final Fantasy VI as released in Japan, respectively.

[8] This argument also presupposes that the interest in classic games was a result of the prevalence of ROMs, rather than the prevalence of ROMs being a result of an already-existing interest in classic games.

Strategy Guide

Despite passionate proponents on both sides of the debate, there has been surprisingly little progress in developing frameworks for determining when ROMs should be considered permissible and when they are more problematic. While it seems that everyone believes the current system is not working, few can agree on what actually should be done. Below, we set forth a few proposals that could start a conversation about how to provide increased access to older video games without eviscerating game companies' valuable IP:

- The video game industry could take inspiration from the music industry's playbook and combat piracy with legitimate ROM "streaming" services. The video game industry has already seen great success with its forays into official releases of classic video games (*e.g.*, the classic NES and SNES games Nintendo has made available on the Switch platform), and it is likely that many gamers would be willing to pay a monthly fee (or watch advertisements) in order to access a library of legal ROMs.
- The DMCA exemptions could be expanded to provide more access to the legal ROM libraries that already exist. While abuse is certainly a concern, educational and historical institutions could establish ways to permit online members to access a limited number of ROMs at a time, for a limited period of time (much like a public library does for other media, including in some instances physical copies of video games). The gaming industry could work with ROM advocates during the next triennial rulemaking (set to occur in 2024) to find a system that works for everyone.
- Proponents of ROMs could work with the video game industry to help identify works that may be suitable for "public domain" or "open source license" treatment. There may be games in a studio's library that the company has no interest in preserving itself, and it may therefore be open to providing them for free under certain conditions.

Side Quests

Recent judicial decisions and enacted statutes or regulations that are likely to impact the video game industry

Apple's Motion To Dismiss in 'Loot Box' Gambling Suit Is Granted (*Taylor v. Apple Inc.*, No. 20-cv-03906-RS (N.D. Cal. Jan. 4, 2022))

- In June 2020, a putative class action lawsuit was brought against Apple over alleged predatory practices regarding loot boxes — in-game rewards, often randomized, that can be purchased while playing a video game — in various games that are available for download on the Apple App Store.
- On August 8, 2021, Apple filed a motion to dismiss the amended complaint, arguing primarily that the plaintiffs — a mother and her minor son — had failed to adequately allege any claims against Apple, as Apple's only conduct as alleged in the complaint was making games developed by third parties available to consumers.
- On January 4, 2022, the U.S. District Court for the Northern District of California found in favor of Apple and dismissed the complaint with prejudice.
- The court found that the plaintiffs failed to demonstrate economic injury resulting from Apple's conduct, as players do not purchase loot boxes directly from Apple. Rather, they purchase virtual currency that can then be used to buy loot boxes in-game.
- The court rejected the plaintiffs' argument that Apple's conduct enticed consumers to "gamble" on loot boxes, because consumers obtain precisely what they pay for from Apple: virtual currency (which ultimately may or may not be used to purchase a loot box).
- The court also noted that any arguments regarding any harmful effects of loot boxes and the possibility of enticing gambling are better addressed by legislative rather than judicial remedies.

UK Court Sides With Nintendo, Blocks Piracy-Enabling Sites (*Nintendo Co. Ltd v. British Telecommunications PLC*, No. IL-2021-000083 (U.K. 2021))

- On December 17, 2021, in an oral decision, the High Court of Justice of England and Wales granted Nintendo's request for an injunction against websites that host pirated games.
- Nintendo successfully argued that such websites engaged in copyright and trademark infringement, and contributed to Nintendo's loss of sales and revenue.
- It is notable that the websites at issue do not host pirated games themselves but merely provide links to websites that do. The court was nonetheless persuaded by Nintendo's argument that providing these links "deliberately and in full knowledge" constituted copyright infringement.

Terminal Reality's Patents Still Valid After Finding of Noninfringement (*Infernal Technology LLC, Terminal Reality, Inc. v. Sony Interactive Entertainment, LLC*, No. 2:19-CV-00248-JRG (E.D. Tx. Dec. 7, 2021))

- Terminal Reality, Inc., a Texas video game developer, brought a suit against Sony, alleging that the PlayStation 3 and 4, as well the games Spider-Man and God of War, infringed on its patents covering graphics-rendering processes. In October 2021, a jury found that Sony did not infringe on these patents.
- Sony subsequently argued that Terminal Reality's patents should be invalidated under step one of the *Alice* test, arguing that the patents are directed to an abstract idea.
- The U.S. District Court for the Eastern District of Texas found that the patents should not be invalidated, holding that Sony "greatly oversimplifies the invention," and that it actually covers "an innovative process" that allows "today's computers to achieve a result not previously available within the parameters of the art."
- Terminal Reality is still involved in litigation against other gaming companies concerning the patents at issue, so the Sony ruling may impact future litigation.

Jury Finds No Infringement in Atari Redbubble Case (*Atari Interactive Inc. v. Redbubble Inc.*, No. 4:18-cv-03451 (N.D. Cal. Nov. 4, 2021))

- In June 2018, Atari brought trademark and copyright infringement claims against the print-on-demand merchandise seller, Redbubble, alleging the company sold merchandise with images taken from some of its signature games, such as Pong and Asteroid.
- Around the same time, Atari brought similar suits against Zazzle, TeePublic and SunFrog, which all have similar business models to Redbubble. Those cases were either settled or resolved out of court.
- In response to Atari's claims, Redbubble argued that it is difficult for Redbubble to know if artists using their website have uploaded infringing work, despite having systems in place to manually review potentially infringing content.
- In November 2021, after less than a day of deliberation, a California jury found that Redbubble did not infringe any of Atari's intellectual property.
- On December 16, 2021, Atari filed an appeal with the U.S. Court of Appeals for the Ninth Circuit, and the briefing is scheduled to be completed by the end of May 2022.

Patch Notes

New litigation filings and proposed legislation and regulations that may lead to important legal developments in the video game industry

Call of Duty Publisher Files Suit Over Cheat Codes (*Activision Publishing, Inc. v. EngineOwning UG*, No. 2:22-cv-00051 (C.D. Cal. Jan. 4, 2022))

- On January 4, 2022, Call of Duty publisher Activision brought a complaint against German corporations EngineOwning UG and CMM Holdings S.A. for various claims related to the defendants purportedly selling cheat codes that allow players to manipulate the Call of Duty games to their personal advantage.
- Activision claimed that creating, marketing, selling and distributing these cheat codes violates the anti-circumvention provisions of the DMCA, and that such conduct also interferes with and disrupts the contracts Activision has with its customers, which prohibit cheating.
- Activision alleges that the use of cheat codes impacts consumer confidence in its products and leads to a loss of revenue for the publisher as noncheating players elect to quit matches.

- Activision requested a preliminary and permanent injunction to restrict the defendants from trafficking the circumvention devices, intentionally interfering with player contracts and engaging in unfair competition, as well as damages and fees.
- On January 14, 2022, the U.S. District Court for the Central District of California granted Activision's *ex parte* application to serve 15 subpoenas for business records from various internet service providers, payment providers and social media websites in an attempt to identify additional defendants Activision claims are liable.

League of Legends Developer Files Suit Over 'Knock-Off' Game (*Riot Games, Inc. v. Suga PTE, Ltd.*, No. 2:22-cv-00429 (C.D. Cal. Jan. 20, 2022))

- On January 20, 2022, Riot Games, developer of the popular League of Legends (LoL) and related games, filed suit against a Vietnamese mobile game developer alleging that the developer's recent game, I Am Hero: AFK Tactical Teamfight, infringes Riot's copyrights.
- Specifically, Riot alleges that I Am Hero contains a number of playable "hero" characters that blatantly rip off the names, designs, backstories and abilities of LoL's playable "champion" characters.
- In the complaint, Riot notes that certain heroes have the same or nearly identical name as the counterpart champions, look nearly identical to the champions and have their backstories taken verbatim from the champion backstories included in LoL.
- Riot further alleges that the name of the Vietnamese developer's U.S. subsidiary (Imba) is a direct reference to LoL jargon (referring to an "imbalanced" or overpowered champion) and that Imba hosts its own LoL tournament among its employees.
- Riot is seeking actual or statutory damages, along with attorneys' fees, costs and an injunction.

Motion To Dismiss Filed in Destiny Cheat Code Case (*Bungie, Inc. v. AimJunkies.com*, No. 2:21-cv-0911 TSZ (W.D. Wa. Jan. 11, 2022))

- On June 15, 2021, Bungie, Inc., the developer of Destiny 2, sued AimJunkies.com for allegedly developing, advertising and distributing cheat codes that give players an unfair advantage in the game.
- On January 10, 2022, AimJunkies.com filed a motion to dismiss Bungie's lawsuit, arguing that Bungie failed to properly allege that the cheat codes at issue constituted unauthorized copies of its copyrighted work, and that it similarly failed to allege a plausible claim for trademark infringement.
- The motion to dismiss also asserts that Bungie misused the legal system to put cheaters and those who assist them on notice as well as reiterate that Bungie does not tolerate cheating in Destiny 2.
- AimJunkies.com further requested that in the event that the motion to dismiss is not granted, Bungie and AimJunkies.com enter into arbitration in accordance with Bungie's terms of service.

Apple/Epic Games Antitrust Case Heads to Ninth Circuit (*Epic Games, Inc. v. Apple Inc.*, No. 21-16506 (9th Cir. 2021))

- In August 2020, Epic Games, developer of Fortnite, introduced a new direct payment option for in-game purchases, eliminating the need for users to go through Apple's payment methods.
- In response, Apple removed Fortnite from the App Store for violating the "anti-steering" provision of the App Store's terms, which prevents developers from directing users to alternative payment methods.
- Epic sued, arguing that the anti-steering rule violates federal and state antitrust laws.
- In September 2021, the Northern District of California found, following a bench trial, that Apple violated antitrust laws by requiring people to pay for apps and in-app items through the App Store. However, the court also found that the overall payment structure of the App Store is not monopolistic.
- The district court issued an injunction requiring Apple to end its anti-steering rules by December 9, 2021. However, both parties appealed the ruling to the Ninth Circuit, and the injunction was stayed.
- Under the current briefing schedule, the appeal and cross-appeal will be fully submitted for consideration by mid-May 2022.

Video Game Developer Sues Apple and Google for Selling Knock-Off Games (*Krafton, Inc. v. Apple Inc.*, No. 2:22-cv-00209 (C.D. Cal. Jan. 10, 2022))

- On January 10, 2022, Krafton, Inc. accused Google and Apple of selling a game that allegedly is a blatant copy of its game PlayerUnknown's Battlegrounds (more commonly referred to as PUBG: Battlegrounds).
- Krafton alleges that Garena Online, a Singaporean video game developer, released an app on the Apple App Store and Google Play store called Free Fire MAX, which features game structure, game play, game elements and color schemes that bear striking similarity to those in PUBG: Battlegrounds.

- The complaint alleges Garena Online has earned more than $2 billion in revenue, due in large part to the sale of these apps on the Apple and Google stores.
- For its claims of direct, contributory and vicarious copyright infringement against Apple and Google, as well as infringement claims against Garena for creating the game and against YouTube for permitting users to post videos featuring gameplay, Krafton is seeking preliminary and permanent injunctions that would prevent infringement, as well as monetary relief and attorneys' fees.
- This is the latest in a long line of lawsuits brought by PUBG: Battlegrounds in its fight to stop alleged copycat games. To date, those lawsuits have all been settled.

End Credits

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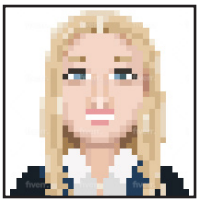

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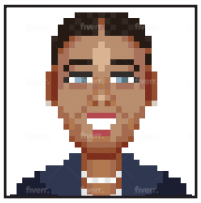

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