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DREAM GAMES OF ARIZONA, INC. V. PC ONSITE

561 F.3D 983 (9TH CIR. 2009)

I. INTRODUCTION

In *Dream Games of Arizona, Inc. v. PC Onsite*, Dream Games of Arizona (“Dream Games”) filed a copyright infringement suit against PC Onsite, Casey Hagon, PC Onsite’s president, and Garland Pierce, the co-founder and majority owner (collectively “PC Onsite”), in the United States District Court for the District of Arizona.¹ Dream Games alleged that PC Onsite infringed its copyright in an electronic video bingo game when it created and distributed a derivative game despite having knowledge of Dream Games’ copyright.² Dream Games also listed claims of breach of contract and unjust enrichment.³ The district court dismissed Pierce from the case, but at the conclusion of the jury trial, the jury held PC Onsite and Hagon liable for copyright infringement and awarded statutory damages to Dream Games.⁴

PC Onsite timely appealed the infringement verdict and the award of statutory damages to the United States Court of Appeals for the Ninth Circuit.⁵ Dream Games cross-appealed the district court’s refusal to grant a partial new trial to decide Pierce’s liability.⁶ The Ninth Circuit affirmed every count that was raised on appeal and cross-appeal.⁷ In addition to affirming the award of

1. *Dream Games of Ariz. v. PC Onsite*, 561 F.3d 983, 986 (9th Cir. 2009).

2. *Id.* at 986-87.

3. *Id.* at 986.

4. *Id.* at 987.

5. *Id.*

6. *Id.* at 987.

7. *Dream Games*, 561 F.3d at 986.

statutory damages, the Ninth Circuit held that copyright holders retain their right to choose whether they want to recover actual or statutory damages when their use of the copyrighted material was illegal.⁸

II. BACKGROUND

A. Factual History

Dream Games of Arizona was a corporation that creates, designs, licenses, and sells electronic video bingo games.⁹ One such video bingo game was called “Fast Action Bingo.”¹⁰ PC Onsite licenses, distributes, and sells computer hardware and software, and performs software upgrade work.¹¹ In March 2002, Dream Games and PC Onsite entered into a contract in which PC Onsite agreed to perform a software upgrade on Fast Action Bingo.¹² Dream Games gave PC Onsite the source code to Fast Action Bingo, and the two companies signed a third-party source code nondisclosure agreement naming Dream Games as the licensor and PC Onsite as the licensee of the code.¹³ The agreement provided that Dream Games would retain all intellectual property rights in the source code and prohibited PC Onsite from transferring the source code in any way.¹⁴

PC Onsite created “Fast Action Bingo II” for Dream Games, but the relationship between the two companies started to deteriorate at the meeting in which PC Onsite presented the upgraded game to Dream Games.¹⁵ The parties tried to reconcile, but PC Onsite eventually decided that further reconciliation attempts were futile.¹⁶ Subsequently, PC Onsite created “Quick Play Bingo I,” an

8. *Id.* at 992.

9. *Id.* at 986.

10. *Id.*

11. *Id.*

12. *Id.*

13. *Dream Games*, 561 F.3d at 986.

14. *Id.*

15. Garland Pierce and Casey Hagon were present at this meeting. *Id.*

16. *Id.*

electronic video bingo game based on Fast Action Bingo II.¹⁷ On November 27, 2002, Dream Games registered a copyright¹⁸ for the Fast Action Bingo I source code.¹⁹

Dream Games operated Fast Action Bingo in two states, Utah and Wyoming.²⁰ In December of 2002, Garland Pierce, the majority owner of PC Onsite, and Casey Hagon, the president of PC Onsite, made a deal with City Entertainment (“City”), a bingo parlor operator, to install Quick Play Bingo I in bingo parlors in Utah and Wyoming.²¹ The two games directly competed with each other between January and March of 2003, because City offered Fast Action Bingo at some of the parlors involved in the PC Onsite deal.²²

B. Procedural History

Dream Games sued PC Onsite, Pierce, and Hagon in the District of Arizona and claimed that PC Onsite committed statutory copyright infringement,²³ breach of contract, and unjust enrichment when it manufactured and sold a new electronic video bingo game based on Fast Action Bingo, even though it knew of Dream Games’ copyright rights in Fast Action Bingo.²⁴ Dream Games obtained a preliminary injunction against PC Onsite to enjoin them from further violating Dream Games’ copyright.²⁵

The State of Utah prohibited gambling and seized several Fast Action Bingo machines, but the State did not declare that Fast Action Bingo was illegal without regard to its operation.²⁶ In addition, after Dream Games initiated its suit, the Supreme Court of Wyoming held that Fast Action Bingo was illegal in the state.²⁷

17. *Id.*

18. No. TX 5-622-656.

19. *Dream Games*, 561 F.3d at 986.

20. *Id.* at 990.

21. *Id.* at 986.

22. *Id.*

23. *Id.* at 987 (citing 17 U.S.C. § 501 (2006)).

24. *Id.* at 986-87.

25. *Dream Games*, 561 F.3d at 987.

26. *Id.* at 990 (citing Utah Const. art. 6, § 27).

27. *Id.* at 990 (citing Fraternal Order of Eagles Sheridan Aerie No. 186, Inc. v. State *ex rel.* Forwood, 126 P.3d 847 (Wyo. 2006)).

During the trial, PC Onsite moved for a judgment as a matter of law, and the district court granted the motion in part.²⁸ The court dismissed Pierce from the case, because he did not participate in Quick Play Bingo's development or directly distribute the game.²⁹ The court also ruled that Dream Games could not collect actual damages for lost profits because it operated Fast Action Bingo illegally in Utah, but the court did not dismiss the entire case, reasoning that Dream Games was entitled to jury-determined statutory damages.³⁰ The district court held that Dream Games could not recover damages in Wyoming, because Fast Action Bingo was "definitely illegal" in the state.³¹ Regarding Utah, the district court determined that because Fast Action Bingo was not illegal per se, Dream Games was allowed to recover statutory, but not actual, damages.³²

The jury awarded Dream Games \$25,000 in statutory damages.³³ After final judgment was entered, Dream Games timely filed for a new trial to determine Pierce's liability on a claim of inducement to commit copyright infringement, but the court denied the motion.³⁴ PC Onsite timely appealed the adverse judgment to Ninth Circuit Court of Appeals and Dream Games timely cross-appealed the denial of motion for a new trial.³⁵

III. LEGAL ANALYSIS

A. Unprotectable Elements of Copyrights

The Ninth Circuit began its analysis of the copyright infringement claim by determining what may receive copyright protection.³⁶ The court noted that copyright law protects the expression of ideas, but does not protect ideas or "elements of

28. *Id.* at 987.

29. *Id.*

30. *Id.*

31. *Dream Games*, 561 F.3d at 990.

32. *Id.*

33. *Id.* at 987.

34. *Id.*

35. *Id.*

36. *Id.* at 988.

expression that necessarily follow from an idea.”³⁷ However, the court stated that copyright protection can cover specific combinations of unprotectable elements.³⁸

The Ninth Circuit stated that in order for the jury to determine whether the arrangements of unprotectable elements are substantially similar, the court must submit the entire work to the jury for consideration.³⁹ According to the court, the precedent case *Apple Computer v. Microsoft Corp.* also required that unprotectable elements be specifically identified so that the jury can distinguish them from the protectable elements.⁴⁰

PC Onsite objected to the jury examining Fast Action Bingo in its entirety, but the court dismissed the claim and reiterated that the jury must see the entire work before it can determine whether the arrangement of unprotectable elements in the two games is substantially similar.⁴¹ PC Onsite also argued that the district court improperly instructed the jury, because even though the court identified the unprotectable elements of Fast Action Bingo for the jury, it did not identify the elements that were protectable.⁴² The court responded by stating that *Apple Computer* only required unprotectable elements to be specifically identified before submitting the entire work to the jury.⁴³

37. *Dream Games*, 561 F.3d at 988 (quoting *Data E. USA, Inc. v. Epyx, Inc.*, 862 F.2d 204, 207-08 (9th Cir. 1988)). In this case, the Court found that the video bingo game itself was an expression, but the on-screen displays of the bingo balls were inherent to the expression, and were not copyrightable. *Id.* at 989.

38. *Id.* at 988 (citing *Apple Computer, Inc. v. Microsoft Corp.*, 35 F.3d 1435, 1436 (9th Cir. 1994)). In other words, the court stated that if the jury determined that the arrangement of unprotectable elements in the two works was substantially similar, copyright protection would apply to the otherwise unprotectable elements of the copyright holder’s work. *Id.* (citing *Apple Computer*, 35 F.3d at 1446). See also *Three Boys Music Corp. v. Bolton*, 212 F.3d 477, 485 (9th Cir. 2000) (stating that juries may find a combination of unprotectable elements to be protected because the effect of appropriating the combination may indicate substantial appropriation).

39. *Id.* at 988.

40. *Id.* (citing *Apple Computer*, 35 F.3d at 1446).

41. *Id.* at 988-89.

42. *Id.* at 989.

43. *Dream Games*, 561 F.3d at 989 (citing *Apple Computer*, 35 F.3d at 1446).

PC Onsite claimed that the jury instructions created prejudicial error against them, because the court did not properly explain the applicable law.⁴⁴ PC Onsite cited *Harper House, Inc. v. Thomas Nelson, Inc.*⁴⁵ to support its argument that jury instructions must distinguish between protectable and unprotectable material.⁴⁶ The Ninth Circuit agreed, but stated that only unprotectable elements must be specifically identified to juries⁴⁷ and that “[n]o case law or legal theory requires that ‘protectable’ elements be identified as well.”⁴⁸ The Ninth Circuit ruled that the jury had been properly instructed, because (1) the jury received the entire work, (2) the unprotectable elements of Fast Action Bingo were identified, and (3) the district court properly explained how unprotectable elements can receive protection based upon arrangement.⁴⁹

Furthermore, the Ninth Circuit held that the district court properly denied PC Onsite’s proposed jury instructions.⁵⁰ PC Onsite’s instructions listed only four specific protectable elements of Fast Action Bingo, and the Ninth Circuit held that such instructions would have improperly narrowed the jury’s analysis of possible copyright infringement because relevant case law requires that juries consider the entire work.⁵¹ In light of these findings, the court upheld the jury instructions and reaffirmed that juries in copyright infringement cases must examine the entire work, as long as the unprotectable elements are specifically denoted.⁵²

B. Plaintiff’s Improper Use of Copyrighted Material

The issue of whether illegal use of a copyrighted work by its owner precludes the award of actual or statutory damages had never been addressed in the Ninth Circuit.⁵³ The court relied on

44. *Id.* at 989 (citing *Gambini v. Total Renal Care, Inc.*, 486 F.3d 1087 (9th Cir. 2007)).

45. *Harper House, Inc. v. Thomas Nelson, Inc.*, 889 F.2d 197 (9th Cir. 1989).

46. *Dream Games*, 561 F.3d at 989.

47. *Id.* at 989 (citing *Apple Computer*, 35 F.3d at 1446).

48. *Id.* at 989.

49. *Id.*

50. *Id.*

51. *Id.*

52. *Dream Games*, 561 F.3d at 989.

53. *Id.* at 990.

cases presenting similar issues to reach the conclusion that illegal use or operation of a copyrightable work does not eliminate copyright protection or preclude remedies.⁵⁴

1. Analogous Case Law

The Ninth Circuit cited several cases in which infringing parties unsuccessfully raised an illegal use defense to infringement of intellectual property rights.⁵⁵ The court began by citing *Belcher v. Tarbox*, which held that defendants cannot rely on the fraudulent content of a copyrightable work as a defense to infringement.⁵⁶ Next, the court used *Mitchell Bros. Film Group v. Cinema Adult Theater* to state that copyright infringers cannot assert a defense of the copyright holder's unclean hands if the copyright holder's misconduct did not have an effect on the controversy being litigated.⁵⁷ The court stated that the copyright infringer must be personally injured by the copyright holder's wrongful conduct differently than the way the copyright holder's wrongful conduct affects the public at large before courts can bar the copyright holder's relief.⁵⁸ The court posited that if a copyright holder misrepresented to the court and the opposing party the extent of its copyright, that situation would be grounds for barring relief.⁵⁹ The Ninth Circuit quickly distinguished the cases⁶⁰ presented by PC Onsite, referring to them as "decades-old" and "noncontrolling" because they did not address the issue of whether the copyright

54. *Id.* at 991.

55. *Id.* at 990. *See, e.g.* *Belcher v. Tarbox*, 486 F.2d 1087, 1088 (9th Cir. 1973); *Jartech, Inc. v. Clancy*, 666 F.2d 403, 406 (9th Cir. 1982). *But see* *L.A. News Serv. v. Tullo*, 973 F.2d 791, 799 (9th Cir. 1992) (allowing the defense when plaintiff's conduct amounted to misuse of the legal system).

56. *Id.* at 990 (citing *Belcher*, 486 F.2d at 1088 (refusing to deny copyright protection to fraudulent advertising)).

57. *Id.* at 990-91 (citing *Mitchell Bros. Film Group v. Cinema Adult Theater*, 604 F.2d 852, 863 (5th Cir. 1979)).

58. *Dream Games*, 561 F.3d at 990. *See also* *Keystone Driller Co v. Gen. Excavator Co.*, 290 U.S. 240, 245; *Fuller v. Berger*, 120 F. 274, 278 (7th Cir. 1903).

59. *Id.* at 991.

60. *Id.* (citing *Kessler v. Schreiber*, 39 F. Supp. 655 (S.D.N.Y. 1941); *Affiliated Enters, Inc. v. Gantz*, 86 F.2d 597 (10th Cir. 1936)).

holder's illegal use presented a defense to infringement.⁶¹

The Ninth Circuit stated that courts have no business passing judgment on the truth of the views of a copyrighted work, and any attempt to do so would only create more problems than solutions, because courts would be forced to address “theological, philosophical, economic, and scientific” issues in determining the truth or falsity of copyrighted works.⁶² Furthermore, the court reasoned that widespread use of the illegality defense would lead to absurd results.⁶³ For example, the *Mitchell* court stated that if a plaintiff brought its copyrighted materials into a jurisdiction on a truck that did not meet federal emissions standards, such “illegal use” would not allow an infringing defendant to shield itself from a claim of copyright liability with the illegality defense.⁶⁴ The Ninth Circuit synthesized these holdings to determine that illegal operation of a copyrightable work does not bar protection or relief.⁶⁵ The court determined that if illegal and obscene⁶⁶ content can receive copyright protection, then a work that contains legal content but could be used illegally (such content that becomes illegal based on its physical location) must also receive copyright protection.⁶⁷

When the court applied its analysis to the case at bar, it determined that Dream Games was entitled to damages.⁶⁸ The court noted that at any time before the final trial judgment is rendered, the copyright owner may elect to recover statutory damages rather than actual damages.⁶⁹ Accordingly, the court held that the Copyright Act did not automatically dissolve the right to choose the preferred type of damages if the infringing party presented evidence of illegal activity on the part of the copyright

61. *Id.*

62. *Id.* (quoting *Belcher*, 486 F.2d at 1088).

63. *Id.* (citing *Mitchell*, 604 F.2d at 864).

64. *Dream Games*, 561 F.3d at 991 (citing *Mitchell*, 604 F.2d at 851).

65. *Id.*

66. *Id.* at 990 (citing *Belcher v. Tarbox*, 486 F.2d 1087 (9th Cir. 1973) (fraudulent advertising); *Mitchell Bros. Film Group v. Cinema Adult Theater*, 604 F.2d 852 (5th Cir. 1979) (pornography)).

67. *Id.* at 991 (stating that denying copyright protection to a work that is legal in some states but illegal in others would be an absurd result).

68. *Id.* at 992 (citing 17 U.S.C. § 504(c)(1)).

69. *Id.*

holder.⁷⁰ Unless the copyright holder's illegal activity directly injured the infringing party, the court determined that copyright holders are entitled to either type of damages under the Copyright Act.⁷¹

2. Exclusion of Evidence of Illegal Operation

The Ninth Circuit affirmed the district court's decision to exclude evidence of Dream Games' illegal use of Fast Action Bingo.⁷² The court began by analyzing the jury's ability to award statutory damages to Dream Games under the Copyright Act.⁷³ In addition, the court cited Supreme Court and Ninth Circuit precedent⁷⁴ to state that juries have the power to determine statutory damages awards in copyright infringement cases⁷⁵

The court stated that statutory damages promote the public policy against copyright infringement by punishing the infringing party and compensating the copyright holder.⁷⁶ It further determined that fact finders are only constrained by the limits imposed by the Copyright Act when awarding damages.⁷⁷ Fact finders must determine "what [was] just in the particular case" based on the circumstances of the infringement and the nature of the copyright when awarding statutory damages.⁷⁸ The court also noted that some Circuits allow the fact finder to consider the

70. *Dream Games*, 561 F.3d at 992.

71. *Id.*

72. *Id.* at 993.

73. *Id.* at 992 (citing 17 U.S.C. § 504(c)(1) which provides copyright holders the right to recover statutory damages between \$750 and \$30,000.).

74. *Id.* (citing *Columbia Pictures Television, Inc. v. Krypton Broad. Of Birmingham, Inc.*, 259 F.3d 1186, 1192-93 (9th Cir. 2001) (substituting the word "jury" for "court" in § 504(c) of the Copyright Act)).

75. *Id.* (quoting *Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340 (1998) (holding that juries may decide issues related to statutory damages, including the amount of the damages)).

76. *Dream Games*, 561 F.3d at 992 (citing *L.A. News Serv. v. Reuters Television, Int'l*, 149 F.3d 987, 996 (9th Cir. 1998)).

77. *Id.* (citing *Peer Int'l Corp. v. Pausa Records, Inc.*, 909 F.2d 1332, 1336 (9th Cir. 1990); *Krypton Broad.*, 259 F.3d at 1194; *Nintendo of Am., Inc. v. Drago Pac. Int'l*, 40 F.3d 1007, 1010 (9th Cir. 1994)).

78. *Id.* (quoting *Peer Int'l Corp.*, 909 F.2d at 1336).

plaintiff's conduct during the course of litigation.⁷⁹

The Ninth Circuit stated that the district court did not abuse its discretion to exclude evidence of Dream Games' illegal operation of Fast Action Bingo, because the court had reason to believe that the evidence could influence the jury to reduce the damages award.⁸⁰ Such a reduction would be improper, because illegal use of copyrighted material does not diminish the copyright holder's copyright protection or claim to damages.⁸¹ Furthermore, the court said that Dream Games' illegal operation of Fast Action Bingo in states that prohibit gambling speaks neither to relevant aspects of their copyright nor their conduct during litigation.⁸²

According to the court, PC Onsite mistakenly relied on *Advisers, Inc. v. Wiesen-Hart, Inc.*, which held that illegal content of copyrighted works could prevent the copyright holder's recovery of damages.⁸³ The court noted that *Advisers* was decided before the Copyright Act of 1976,⁸⁴ and that due to the new Act's expansion of the statutory damages provision, the new Act superseded *Advisers*.⁸⁵ Furthermore, the Ninth Circuit stated that the *Advisers* court did not explain the basis for finding Congressional Intent in the 1909 Copyright Act⁸⁶ to reduce damages in light of illegal content.⁸⁷ Therefore, the court held that allowing evidence of illegal operations would be too prejudicial to

79. *Id.* at 992-93 (citing *Warner Bros., Inc. v. Dae Rim Trading, Inc.*, 877 F.2d 1120, 1126 (2d Cir. 1989) (reducing the damages award due to offensive manner in which plaintiff conducted the infringement action); *Bourne Co. v. Hunter Country Club, Inc.*, 772 F. Supp. 1044, 1052 (N.D. Ill. 1990), *aff'd* 990 F.2d 934, 939 (7th Cir. 1993) (reducing damages award due to plaintiff's unjust delay in litigation)).

80. *Id.* at 993. The Court stated that, despite the jury's discretion in awarding damages, trial courts are still "evidentiary [gatekeepers]." *Id.* If the danger of the jury potentially using the evidence to make a decision on improper grounds substantially outweighs the probative value of the evidence, the court may exclude it. *Id.* (citing Fed. R. Evid. 403).

81. *Id.* at 993.

82. *Dream Games*, 561 F.3d at 993.

83. *Id.* at 993 (citing *Advisers*, 161 F. Supp. 831, 834 (S.D. Ohio 1958)).

84. 17 U.S.C. §§ 101-810.

85. *Dream Games*, 561 F.3d at 993.

86. Pub. L. No. 349, 35 Stat. 1075 (repealed 1976).

87. *Dream Games*, 561 F.3d at 993.

Dream Games.⁸⁸

C. Dismissal of Garland Pierce

The Ninth Circuit affirmed the district court's denial of a partial new trial to determine the liability of PC Onsites' co-founder, Garland Pierce.⁸⁹ The court stated that the appeal was timely despite PC Onsite's assertion to the contrary,⁹⁰ but ultimately held that Dream Games' appeal failed on procedural grounds.⁹¹

1. Timeliness

The district court entered final judgment on March 30, 2007,⁹² but on April 2, Dream Games timely filed a motion to amend or correct the judgment.⁹³ Specifically, Dream Games sought the correction of a clerical error in the name of a defendant as well as a permanent injunction enjoining PC Onsite from infringing Dream Games' copyright in Fast Action Bingo.⁹⁴ Dream Games moved for a partial new trial on April 16, and the district court denied the motion and entered an amended final judgment on May 2, 2007.⁹⁵

The Ninth Circuit stated that parties must file motions for new trials no later than ten days after the entry of final judgment.⁹⁶ The court noted that, excluding Saturdays, Sundays, and legal holidays, the deadline for filing would have been April 13, three days before Dream Games actually filed its motion.⁹⁷ However, the court noted that Dream Games' motion to amend or correct the judgment affected the finality of the March 30 judgment, which tolled the period for filing a timely notice of appeal.⁹⁸ Therefore,

88. *Id.* at 994.

89. *Id.* at 996.

90. *Id.* at 994.

91. *Id.* at 995-96.

92. *Id.* at 994.

93. *Dream Games*, 561 F.3d at 994 (citing Fed. R. Civ. P. 59-60).

94. *Id.*

95. *Id.*

96. *Id.* at 994 (citing Fed. R. Civ. P. 59(b)).

97. *Id.* at 994 (citing Fed. R. Civ. P. 6(a)).

98. *Id.* at 994 (citing Fed. R. App. P. 4(a)(4)(A)(iv)).

the Ninth Circuit held that it had jurisdiction to hear the appeal.⁹⁹

2. *Merits of Dismissal*

According to the court, although Dream Games properly appealed the denial of a new trial to judge Pierce's liability, it did not follow proper procedure at trial or on appeal to allow the Ninth Circuit to reverse the district court's decision not to grant a partial new trial.¹⁰⁰ The court held that Dream Games waived its ability to argue that Pierce was directly liable for copyright infringement when it failed to argue the claim in its opening brief.¹⁰¹ On appeal, Dream Games focused on Pierce's secondary liability, a claim distinct from direct infringement.¹⁰² According to the Ninth Circuit, to prove secondary liability in an infringement action, copyright holders must show that the infringing party had knowledge of a third party's infringement and "induc[ed], caus[ed], or materially contribut[ed] to the infringing conduct."¹⁰³

However, because Dream Games did not raise the secondary liability claim at trial, the court barred the company from raising the issue on appeal.¹⁰⁴ The Ninth Circuit noted that the first time Dream Games asserted the secondary liability claim was during oral arguments on PC Onsite's motion for a judgment as a matter of law.¹⁰⁵ Therefore, the court held that Dream Games did not properly put PC Onsite on notice of a claim of secondary liability.¹⁰⁶

Furthermore, Dream Games could not claim that the issue was tried by consent,¹⁰⁷ because PC Onsite expressly objected to Dream

99. *Dream Games*, 561 F.3d at 994.

100. *Id.* at 996.

101. *Id.* at 994-95 (citing *Miller v. Fairchild Indus., Inc.*, 797 F.2d 727, 738 (9th Cir. 1986)).

102. *Id.* at 995.

103. *Id.* at 995 (quoting *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788, 795 (9th Cir. 2007)).

104. *Id.* at 996.

105. *Dream Games*, 561 F.3d at 996.

106. *Id.*

107. *Id.* at 995 (citing Fed. R. Civ. P. 15(b), which allows issues not raised in the pleadings to be tried by express or implied consent of the parties if the issue is treated in all respects as if it were raised in the pleadings).

Games' proposed jury instructions that included the secondary liability issue, thus demonstrating PC Onsite's intent not to treat the issue as if it were raised in the pleadings.¹⁰⁸ All of the evidence that Dream Games raised at trial and that could have related to the secondary liability issue could also relate to the direct infringement issue.¹⁰⁹ Because Dream Games made no indication at trial that any of the evidence which could have supported secondary liability was related to that issue, the court stated that Dream Games could not be deemed to have impliedly raised the issue.¹¹⁰ The court concluded that allowing Dream Games to argue secondary liability after introducing it in response to a judgment as a matter of law motion would unfairly prejudice PC Onsite by not giving it fair notice of the claim at trial.¹¹¹

IV. CONCLUSION

The Ninth Circuit affirmed the district court's judgments on every issue raised on appeal and cross-appeal.¹¹² In affirming the award of statutory damages, the court noted that if a copyright holder illegally operated its work, the copyright holder would retain the right to elect actual or statutory damages at any time before the court renders its final judgment.¹¹³ The court justified its holding by pointing to cases in which copyright holders recovered damages based on works with content that was patently illegal or obscene.¹¹⁴ The court added an exception that if the illegal nature of the work or its use directly harmed the infringing party, that party could raise a defense of illegality.¹¹⁵ Applied to this case, the court held that PC Onsite was not harmed by Dream Games when it operated its video bingo game in states that prohibit gambling.¹¹⁶ The court also reaffirmed its requirements for extending copyright protection to works based upon their

108. *Id.*

109. *Id.*

110. *Id.*

111. *Dream Games*, 561 F.3d at 995-96.

112. *Id.* at 996.

113. *Id.* at 991.

114. *Id.*

115. *Id.* at 992.

116. *Id.*

unprotectable elements, stating that juries must see the entire work, and the unprotectable elements must be specifically marked to differentiate them from the protectable elements.¹¹⁷

V. FUTURE IMPLICATIONS

At first blush, the Ninth Circuit's ruling that copyright holders can recover actual damages for infringement of their illegally used copyrighted materials may seem absurd. Actual damages are calculated based on the copyright holder's lost profits or diminished market value due to the infringement.¹¹⁸ Therefore, if the copyright holder's profits were obtained illegally, asking for lost profits would be pointless, because the copyright holder would not have been entitled to such profits. However, not all illegal uses of copyrighted works end in illegal profits. In *Dream Games*, the Ninth Circuit noted that the State of Utah had "seized several Fast Action Bingo machines."¹¹⁹ The court did not address whether or not the money in the machines was also seized, and because not all courts recognize states' ability to seize money in gambling machines along with the machines themselves, *Dream Games* may not have lost all of its profits from Fast Action Bingo.¹²⁰

The Ninth Circuit's holding will most likely not radically affect how copyright infringement damages are calculated, because before the ruling, copyright holders had to prove that their loss of profits was causally related to the infringement.¹²¹ If the copyright holder failed to prove actual damages, the court could not award actual damages even though the copyright holder proved that the defendant infringed its copyright.¹²² In addition, if the copyright holder elected to pursue actual damages and failed to prove them, the court would be unable to award statutory damages instead.¹²³ Therefore, copyright holders likely elect statutory damages if they

117. *Dream Games*, 561 F.3d at 988-89.

118. 18 Am. Jur. 2d Copyright and Literary Property §§ 257-258.

119. *Dream Games*, 561 F.3d at 990.

120. 38 Am. Jur. 2d Gambling § 198.

121. 18 Am. Jur. 2d Copyright and Literary Property § 258.

122. *Id.*

123. 18 Am. Jur. 2d Copyright and Literary Property § 257.

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do not believe that they will be able to prove actual damages because of their illegal profits,¹²⁴ but the holding preserves the option to pursue actual damages for all copyright holders if the holder believes it can prove actual damages.

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124. The purpose of statutory damages is to discourage copyright infringement by awarding damages when the copyright holder is unable to prove actual damages. *L.A. News Serv.*, 149 F.3d at 996.

