

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WISCONSIN

TOCCATA GAMING INTERNATIONAL,
LLC and BIG DADDY GAMES LLC,

Plaintiffs,

v.

REEL SPIN STUDIOS, LLC;
GAME MANAGEMENT CORPORATION;
JAMES DONKER; DAVID GROND;
PATRICK YOUNG; WILLIAM STIMAC;
MICHAEL LINDEMAN; NIGLS CHIEFTAIN;
GAME DAY SPORTS BAR;
ANTLER'S SPORTS BAR & GRILL;
MIDDLETOWN GRILL & TAVERN;
DINGERS SPORTS BAR; CINDERELLA;
OSHKOSH LANES; BACK AGAIN!
STADIUM BAR; MR. D'S; SUSIE'S TRACKSIDE;
SHOT'S BAR; THE WEBB; TONIC;
WOODSHED; and DOES 1-30,

Defendants.

OPINION AND ORDER

11-cv-600-bbc

Defendants Reel Spin Studios, LLC, Game Management Corporation, James Donker,
David Grond, Patrick Young, William Stimac, Michael Lindeman, Nigls Chieftain, Game
Day Sports Bar, Antler's Sports Bar & Grill, Middletown Grill & Tavern, Dingers Sports

Bar, Cinderella, Oshkosh Lanes, Back Again!, Stadium Bar, Mr. D's, Susie's Trackside, Shot's Bar, The Webb, Tonic, Woodshed and Does 1-30 have moved to dismiss the amended complaint filed by plaintiffs Toccata Gaming International, LLC and Big Daddy Games, LLC for failure to state a claim upon which relief may be granted. Plaintiffs are suing defendants for money damages and injunctive relief, contending that defendants have infringed plaintiffs' copyrights on certain video games, violated plaintiffs' rights under the Lanham Act, 15 U.S.C. § 301, and engaged in unfair competition in violation of state law. Plaintiffs allege that defendants are leasing video amusement game consoles that use plaintiffs' copyrighted games and installing the consoles in bars and restaurants in Wisconsin and elsewhere throughout the United States.

In support of their motion to dismiss, defendants contend that (1) the court cannot provide the relief that plaintiffs are seeking because their claims relate to gaming machines that are illegal under Wisconsin law; granting them relief in this situation would encourage or reward illegal activities; (2) in count II, plaintiffs have failed to state a claim against defendants Reel Spin and Game Management for violating the Lanham Act, 15 U.S.C. § 1125(a)(1)(A); and (3) plaintiffs' common law unfair competition claim in count III is preempted by federal copyright law, 17 U.S.C. § 301(a). Plaintiffs oppose the motion in all respects.

I will deny defendants' motion for dismissal in part and grant it in part. Defendants'

contention that the case must be dismissed because the video games at issue are used in illegal activity cannot be resolved until the facts are developed further, so that part of defendants' motion will be denied. I will grant defendants' motion to dismiss counts II and III, because plaintiffs have failed to state an actionable claim against defendants under the Lanham Act, in count II, and plaintiffs have failed to state a claim for unfair competition in count III, but I will give plaintiffs a chance to replead these two claims.

Plaintiffs have fairly alleged in their complaint the following facts relevant to the pending motion.

ALLEGATIONS OF FACT

Plaintiffs Toccata Gaming International, LLC and Big Daddy Games LLC hold rights to video amusement games titled Spooky Spins, Egyptian Treasure and Reef Reels that were created by John Paul Jones, an Australian citizen, in Australia, between 2002 and 2004. Plaintiffs distribute the games for recreational use in bars and restaurants in Wisconsin and elsewhere throughout the United States.

In a series of transactions, plaintiffs obtained all of the rights to Jones's games as of January 6, 2009. Plaintiffs possess a registered United States copyright for Spooky Spins and have filed copyright registration applications for Egyptian Treasure and Reef Reels. The copyrights to the games cover the original software source code for the games, certain

original graphics and audio files contained in the games, the arrangement of the graphics for each of the games, the arrangement of the sounds for each of the games and the design of the games' layout.

On or about January 27, 2009, plaintiff Toccata leased certain video amusement game consoles containing versions of the games to Mike Lindy Amusements, Inc., for subsequent lease to retail businesses located in six Wisconsin counties. Mike Lindy Amusements, Inc. is one of several corporations, including defendant Reel Spin, controlled substantially by Michael Lindeman. The lease agreement required Lindy Amusements to pay monthly rent to plaintiff Toccata in an amount equal to 25% of the net amount of gross proceeds collected from an item of equipment less the winnings paid out to the players of that item of equipment together with the sales tax based upon the direct revenue generated by that item of equipment. Lease, dkt. #74-27, ¶ 6(a). Shortly after the parties executed the lease agreement, Mike Lindy Amusements began breaching the agreement by, among other things, refusing to pay required lease amounts and refusing to return game consoles to plaintiff with past due lease balances.

Plaintiff Toccata terminated the lease agreement on December 28, 2009. Soon afterwards, defendant Reel Spin began the wrongful and unlawful distribution of games that copied plaintiffs' games, using the same names, appearance and function. Defendants have placed infringing games at a number of businesses located throughout Wisconsin. The

games are publicly displayed in these businesses and are in operation.

Defendants are business entities or owners of business entities that have infringed plaintiffs' games or operated them in their own businesses. Defendants Game Management and Reel Spin have made or contributed to the making of false designations of origin and misleading representations of fact, by passing off goods and services as those of plaintiffs, causing confusion, mistake and deception in interstate commerce about the affiliation between these defendants and plaintiffs and about the origin of defendants' goods and services, in violation of 15 U.S.C. § 1125(a)(1)(A) (§ 43(a) of the Lanham Act). Their acts have been committed in bad faith, with the intent to cause confusion, mistake or deception, and they have caused plaintiffs substantial injury to their businesses, including their goodwill, reputation and profits. (Because only defendants Reel Spin Studios and Game Management Corporation play any part in this opinion, all further references to "defendants" will be limited to these two.)

Plaintiffs have not licensed or otherwise given permission to any defendant to display, operate or otherwise use any of the games or to create or use any works derivative of their games. Plaintiffs have demanded in writing that defendants immediately cease use of the games; neither defendant has agreed to do so.

OPINION

A. Unclean Hands Doctrine

Defendants would like plaintiffs' entire case thrown out on the ground that plaintiffs' "unclean hands" prevent them from proceeding on this suit for injuries suffered in connection with gambling machines, which are prohibited under Wisconsin law. They contend that plaintiffs are seeking relief that would encourage or award illegal acts, something the law does not allow.

In a case decided in this district on a motion for summary judgment, Superior Vending, Inc. v. Dick's Bar, 2010 WL 4386663, *11 (W.D. Wis. Oct. 29, 2010), Magistrate Judge Stephen Crocker concluded that allowing the plaintiff to enforce a contract to lease video poker machines that made payouts to players would reward the plaintiff's illegal behavior and defeat the objectives of Wisconsin's anti-gambling statutes. Plaintiffs' case may meet a similar fate once the facts are determined, but it would be premature to dismiss it at this stage.

Defendants argue that plaintiffs' allegations in their complaint and the provisions in the equipment lease attached to their complaint make it clear that plaintiffs are involved in gambling, that the games at issue in this suit are designed to provide opportunities for illegal gambling and that plaintiffs lease gaming consoles and collect rent on those consoles that, by the terms of the lease, is calculated in reliance on the payouts made to players of the

gaming consoles. In response, plaintiffs say that they are suing only about the games themselves, which can be used in machines or under circumstances that do not permit payouts.

Neither the lease agreement attached to plaintiffs' complaint nor the allegations in their complaint support plaintiffs' view of the games' legality. Plaintiffs have alleged that plaintiff Toccata leased certain video amusement game consoles to a non-defendant, Mike Lindy Amusements, Inc., for subsequent lease to retail businesses in Wisconsin, Am. Cpt., dkt. #74, at ¶ 39, and that Lindy Amusements breached the lease arrangement by refusing either to reimburse plaintiff Toccata for damages caused to the game consoles or to pay required lease amounts to plaintiffs. Id. at ¶ 40. The lease agreement is directed to the leasing of gaming consoles and, as noted, specifies a rent due to be collected from the earnings of each console, minus the payouts to the players and sales taxes. I agree with defendants that these allegations and the lease provisions suggest that plaintiffs' primary concern in this lawsuit is with the leases of the gaming consoles and the rental payments.

However, plaintiffs also allege, separately from their allegations relating to defendants acts in breach of the lease, that defendants have misused or misappropriated the games. None of plaintiffs' claims for relief relate to the alleged misuse of the gaming consoles or to breaches of leases, despite the allegations in their complaint about these matters; the claims are limited to damages and injunctive relief relating to the alleged misuse of the games.

Plaintiffs maintain that their claims are not based on copyrights to video gaming machines but on copyrights to the games themselves, which can be played independently of a gambling machine.

It is not possible at this stage of the proceedings to say that this is untrue or that the parties' dispute is so intertwined with gambling as to require dismissal. Therefore, I will deny defendants' motion to dismiss the case at this time. This determination can be revisited at summary judgment or at trial, when the relevant facts can be fleshed out by the parties.

B. Lanham Act Claim

Defendants' second ground for dismissal is that plaintiffs' allegations are not specific enough to state a claim under the Lanham Act, 15 U.S.C. § 1125(a)(1)(A), as set out in count II. Section 1125(a)(1)(A)(1) authorizes a civil action against "any person who, on or in connection with any goods or services, or any container for goods, uses in commerce . . . any device, . . . or any false designation of origin, . . . which (a) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, as to the origin, sponsorship, or approval of his or her goods, services or commercial activities by another person."

Plaintiffs allege in their complaint that they distribute copyrighted video amusement

games for recreational use in bars and restaurants in Wisconsin and elsewhere throughout the United States and that they have suffered damages stemming from defendants' use of plaintiffs' games, ¶ 1; that defendant Reel Spin began distributing copies of plaintiffs' games that are "knockoff" versions that use the same names and are substantially similar in appearance to plaintiffs' games, ¶ 40; and that defendants are displaying, operating or distributing the infringing games, which are "substantially similar" to plaintiffs' games. ¶¶ 53-55. These allegations that defendants are selling games developed by plaintiffs as their own state a claim of copyright infringement under count I; they do not support a Lanham Act claim, because they make no reference to any false designation of origin. Plaintiffs do not allege that defendants deceived customers about the actual source of the physical games.

In ¶ 60 relating to count II, however, plaintiffs set out an entirely different allegation, which is that defendants have made, or contributed to the making of, false designations of origin, by attempting to pass off their own goods and services as the goods and services of plaintiffs, and that these acts are likely to cause confusion, mistake and deception in interstate commerce as to the connection between plaintiffs and defendants and about the origin of the goods and services. In essence, plaintiffs are alleging two competing ideas: in count I, that defendants are distributing copies of plaintiffs' games in a way that makes the games appear to be defendants' own games (and thereby are infringing plaintiffs' copyrights); in count II, that defendants are passing off the inferior games they are distributing as

plaintiffs' products.

Nothing prevents plaintiffs from alleging two different theories in support of their claim for relief, so long as each theory is sufficiently supported. Rule 8(d)(3) ("A party may state as many separate claims or defenses as it has, regardless of consistency"); 5 Charles Alan Wright & Mary Kay Kane, Federal Practice & Procedure § 1282 (3d ed.) In this case, however, plaintiffs have not alleged any specific acts or statements of defendants to support their alternative claim that defendants are distributing games in a manner that suggests that the games are plaintiffs' products. It is not even clear that plaintiffs are continuing to assert this claim; they did not say anything about it in their brief in connection with their Lanham Act claim. Instead, they discussed the claim as if it were limited to the allegation that defendants are selling the games as their own. Plts.' Opp. Br., dkt. #111, at 7-8 ("Plaintiffs allege that Defendants are selling the Games as their own"; "Plaintiffs' Amended Complaint alleges that Reel Spin Studios is 'wrongfully and unlawfully distributing copies of the Games' and that '[t]he games that Reel Spin began marketing and leasing are knockoff games that use the same names as Co-Plaintiffs' games and are substantially similar in appearance and function to Co-Plaintiffs' games,'" Am. Cpt., dkt. #74, ¶ 42; and defendants' "placement of the Infringing Games in the locations identified in the Amended Complaint constitutes a 'false designation of origin' under the Lanham Act because it falsely represents that [defendants] possess the right to sell, license, distribute and/or place the Games when, in

fact, such rights solely belong to Plaintiffs.”).

Plaintiffs have alleged nothing to suggest that defendants have misled their customers about the true *manufacturer* or *producer* of the physical games, although proof of a violation of § 1125(a) requires a showing that the sellers have misled buyers about the *origin* of the products they are selling, that is, about “the producer of the tangible product sold in the market place.” Dastar Corp. v. Twentieth Century Fox Corp., 539 U.S. 23, 31 (2003). In Dastar, the issue was the application of the Lanham Act to Dastar’s re-packaging of the ideas and films of others into a new video production of World War II campaigns in Europe. Copyright owners of some of the material sued Dastar for both copyright infringement and violations of the Lanham Act, saying that the sales of the videos without proper credit constituted reverse passing off, that is, misrepresenting someone else’s goods or services as those of his own. Id. at 25-27 & n.1. In addressing the Lanham Act claim that Dastar had misled consumers about the origin of the new product, the Court determined that the term “origin” does not refer to “the person or entity that originated the ideas or communications that ‘goods’ embody or contain.” Id. at 32. It added that copying is not a violation of the [Lanham] Act, because “copyright law “addresses that subject specifically,” id. at 33, and explained that in its construction of the Lanham Act, it had “been ‘careful to caution against misuse or over-extension’ of trademark and related protections into areas traditionally occupied by patent or copyright.” Id. at 34.

Plaintiffs argue that the holding in Dastar, 539 U.S. 23, applies only to work that is in the public domain, as were the items used in the video package, but this argument is not supported by a reading of the opinion. The opinion is clear about the scope of its holding: copyright law is the only recourse for disputes over creative or communicative works, whether the work at issue could have been covered by copyright but never was, was once covered by a copyright that has expired or is still subject to a copyright. Id. at 33 (explaining that term “source” as used in Lanham Act does not apply to creator of communicative idea; if it did, it would cause Act to conflict with copyright law, which addresses subject of copyright specifically). The Lanham Act is not intended to be a substitute or backup for copyright law. If the owner of the work has a valid copyright, he can pursue his claim under copyright law; if his copyrights have expired or were never obtained, so that the work is in the public domain, the Lanham Act does not provide him a means of obtaining relief, and rightly not. As the Court said in Dastar, 539 U.S. at 33-34, “The rights of a patentee or a copyright holder are part of a ‘carefully crafted bargain,’ under which, once the patent or copyright monopoly has expired, the public may use the invention or work at will and without attribution.” (Internal citation omitted). See also General Universal Systems, Inc. v. Lee, 379 F.3d 131, 149 (5th Cir. 2004) (applying Dastar to copyrighted work and noting that claims of copying ideas, concepts, structures, and sequences embodied in copyrighted work are not actionable under Lanham Act); Zyla v. Wadsworth, Div. of Thompson Corp.,

360 F.3d 243, 251 (1st Cir. 2004) (same).

Plaintiffs' allegation that defendants have distributed plaintiffs' games and software, holding them out as their own, is a pure copyright claim. It does not become a Lanham Act claim simply because plaintiffs have alleged that defendants' acts will cause consumer confusion, mistake and deception in interstate commerce as to the origin or sponsorship of the games. Disputes over the origin of software, art, written materials, etc., must be decided under federal copyright law. Dastar, 539 U.S. at 37-38.

Plaintiffs cite Web Printing Controls Co. v. Oxy-Dry Corp., 906 F.2d 1202 (7th Cir. 1990), in support of their Lanham Act claim, but the holding in that case does not help plaintiffs. The court held that the defendant had violated the Act by removing plaintiff's trademark from high-tech printing equipment and sold them as its own. The case did not involve communicative ideas such as works of art or software subject to copyright, so it posed no conflict with the copyright laws.

Under Dastar, it is irrelevant to a Lanham Act claim whether defendants misrepresented the origin of the ideas or software for the games; it is only the misrepresentation of the actual producer of the games that matters. If defendants produced the materials and represented to their customers that they were the producers, plaintiffs have no Lanham Act case, even if defendants copied plaintiffs' software and art. Their only recourse is copyright law.

If plaintiffs wish to pursue a Lanham Act claim against defendants, they will have to amend their complaint to allege facts tending to show that defendants have taken actions or made misrepresentations that misled customers about the *origin* of the games, that is, about “the producer of the tangible product sold in the marketplace.” Dastar, 539 U.S. at 31. It seems unlikely that defendants would have done so—what incentive would they have had?—but I will allow plaintiffs a chance to amend their complaint if they think they have the facts to support such a claim.

At this stage, plaintiffs’ complaint contains only conclusory allegations to the effect that defendants have made false designations of origin, encouraging the passing off of the games as those of plaintiffs. Their reference to a statement by an employee of defendant Game Management regarding this defendant’s intent to pass their games off as those of plaintiffs, Am. Cpt., dkt. #74, ¶ 61, does not add anything to their claim, particularly when plaintiffs do not even say what the statement was.

If plaintiffs choose to amend their complaint as to count II, they should allege something to bolster their conclusory allegations that the games have entered interstate commerce, because this is another prerequisite to a Lanham Act action. Kennedy v. National Juvenile Detention Ass’n, 187 F.3d 690, 695 (7th Cir. 1999). Simply alleging that defendants distribute the games “in Wisconsin and elsewhere throughout the United States” is not sufficient to suggest that any games have entered interstate commerce, particularly

when none of the bars and restaurants named as defendants in plaintiffs' complaint are located outside Wisconsin.

C. Unfair Competition Claim

In count III of their complaint, plaintiffs allege that “defendants’ acts as set forth herein” constitute unfair competition in Wisconsin, ¶ 66, that the acts were committed in bad faith and with the intent to cause confusion, mistake or intent to deceive, ¶ 67, and that as a result of the infringement, plaintiffs have been substantially injured in their business, by losing goodwill and revenue. ¶ 68. By “acts as set forth herein,” I assume that plaintiffs are referring to their allegations in ¶¶ 1, 40 and 53-54 that defendants distribute copyrighted video amusement games for recreational use in bars and restaurants in Wisconsin and elsewhere throughout the United States and that plaintiffs have suffered damages stemming from defendants’ use of plaintiffs’ games; that defendant Reel Spin began distributing copies of plaintiffs’ games that are “knockoff” versions that use the same names and are substantially similar in appearance to plaintiffs’ games; and that defendants are displaying, operating or distributing the infringing games, which are “substantially similar” to plaintiffs’ games. I assume as well that plaintiffs mean to incorporate their allegations in ¶ 60 that defendants have made, or contributed to the making of, false designations of origin through encouraging or furthering the passing off of goods and services of defendant Reel Spin as the

goods and services of plaintiffs, and that these acts are likely to cause confusion, mistake and deception in interstate commerce as to the connection of plaintiffs to defendants Reel Spin and Game Management and about the origin of the goods and services.

Defendants contend that this unfair competition claim must be dismissed because plaintiffs have not alleged enough facts to state a claim or alternatively, because any such claim would be preempted by federal copyright law. I agree with defendants that plaintiffs have not alleged enough facts to state a claim separate from their claim of copyright infringement. They seem to be trying to allege a wholly new claim of passing off, that is, that defendants are selling games that they have produced and holding them out as being plaintiffs' games, but they do not allege any facts that would support this claim. As defendants point out, plaintiffs attached as exhibits to their complaint purported pictures of their games in use at Antlers Bar, bearing the words Reel Spin Studios LLC, not Toccata, dkt. #74-28, which tends to refute plaintiffs' claim that defendants are holding out the games as their own.

Plaintiffs argue in their brief that "the sale, lease, and display of the Infringing Games causes consumer confusion regarding the origin of the Games. The operation of the Infringing Games creates the incorrect perception that the bar possesses the right to operate the Games." Plts.' Br., Dkt. #111, at 11. They did not include these allegations in their complaint so I have not considered them. In any event, plaintiffs do not explain the import

of these allegations or why they might state a claim.

Defendants' motion to dismiss will be granted as to this claim, but as with count II, plaintiffs will have an opportunity to amend their complaint to state a viable claim of unfair competition. If they choose to do so, they should explain what provision in Wisconsin law supports such a claim, what elements the law requires to state a claim under the provision, why their allegations state the required elements and, to avoid preemption under copyright law, what element of the state law claim is different from or additional to the elements required to state a claim of copyright violation.

ORDER

IT IS ORDERED that the motion filed by defendants Reel Spin Studios, LLC, Game Management Corporation, James Donker, David Grond, Patrick Young, William Stimac, Michael Lindeman, Nigls Chieftain, Game Day Sports Bar, Antler's Sports Bar & Grill, Middletown Grill & Tavern, Dingers Sports Bar, Cinderella, Oshkosh Lanes, Back Again!, Stadium Bar, Mr. D's, Susie's Trackside, Shot's Bar, The Webb, Tonic, Woodshed and Does 1-30 to dismiss counts II and III of the amended complaint filed by plaintiffs Toccata Gaming International, LLC and Big Daddy Games, LLC, is GRANTED; it is DENIED as to count I. Plaintiffs may have until April 13, 2012, in which to file a second amended

complaint.

Entered this 29th day of March, 2012.

BY THE COURT:
/s/
BARBARA B. CRABB
District Judge