

Special focus

Virtual environments: all fun and games for trademark practitioners?

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Many in the legal profession have attempted to avoid the virtual world. After all, busy lawyers have little free time to spend on non-work, 'first life' activities, let alone virtual 'Second Life' ones. However, both legal and news texts constantly talk about metaverses, virtual space and virtual environments, such as Second Life. In April 2008 a Virtual Law Conference was held in New York City for "legal professionals whose companies or clients are currently or may in the near future be influenced by the adoption and use of virtual worlds". Thus, it is now apparent that trademark lawyers need to learn about them too.

One of the most popular virtual environments is Second Life (www.secondlife.com). As Second Life takes place in cyberspace, it is sometimes mistakenly identified as a 'massive multi-player online role-playing game' (commonly called a 'MMORPG' and pronounced 'moor-peg'). However, Second Life is not an online graphical interface MMORPG game like World of Warcraft. Although Second Life shares a surface resemblance to such games in that digitized representations of real people (known as 'avatars') interact with other avatars, there are several distinguishing features from traditional MMORPGs. In Second Life the user:

- can create, write computer code for and manipulate the properties of objects within the virtual environment;
- retains ownership of IP rights in the items and/or software code that he or she creates; and
- has no overall goals or objectives to meet to acquire game points or levels.

Rather, Second Life is designed to be a virtual reflection of the real world where people work, play and socialize.

All types of people and companies have entered virtual environments to take part in a host of different activities:

- NASA has a Space CoLab;

- MTV has a club;
- Toyota sells digital Scion cards that can be customized;
- Dell Computers features a technical support expert who provides technical support for Dell customers;
- Starwood Hotels 'built' a prototype hotel for input by customers;
- the film *X-Men 3: The Last Stand* was promoted via realtime video streaming from its premiere at the Cannes Film Festival;
- the Royal Liverpool Philharmonic Orchestra has a replica of its concert hall and has performed in Second Life;
- several of the 2008 US presidential candidates have had a 'vote for me' presence in Second Life;
- many universities conduct classes and seminars in Second Life; and
- in 2007 Coca-Cola launched its Virtual Thirst contest in Second Life for the creation of a new virtual Coke vending machine.

In addition, several real-world attorneys have a presence in Second Life and have joined the Second Life Bar Association, which was founded by Benjamin Noble, who has written extensively on the topic of trademark infringement in Second Life on his website www.virtuallyblind.com. Some attorneys have their own law firms and provide legal advice to other avatars; for example, since March 2006 attorney Stevan Lieberman has operated an office in Second Life that has the appearance of a wooden octagon floating 300 feet in the air.

In December 2006 Judge Posner of the Seventh Circuit Court of Appeals gave a presentation to promote his new book. The event took place entirely within Second Life and covered such topics as the copyright fair use doctrine. Reportedly, when the judge's talk was interrupted by a six-foot raccoon claiming to be an attorney from Washington DC, he cleverly responded, "I like your tail."

Trademark and copyright disputes

It is estimated that every day over \$1 million worth of transactions take place in Second Life. Therefore, it is no surprise that the virtual economy of Second Life has resulted in trademark and copyright infringement lawsuits being brought before the US courts. In a lawsuit filed on October 24 2007 in the Eastern District of New York a group of virtual merchants selling virtual products in Second Life sued Thomas Simon. The plaintiffs claimed that Simon had made unauthorized copies of their copyright and trademark-protected products and had misrepresented that the products he was selling were authentic. The plaintiffs sell adult-themed virtual items, including furniture, shoes and skins to cover avatars. The complaint included claims of:

- unfair competition under Section 43(a) of the Lanham Act;
- copyright infringement under the Copyright Act; and
- counterfeiting of a registered trademark.

The case was settled in December 2007; however, it would have been interesting if the parties to this case had agreed to resolve the dispute by participating in mediation or arbitration within Second Life. It certainly seems possible that dispute resolution could be successfully accomplished in a metaverse.

Well-known brands and IP ownership

Various large corporations have expanded their branding to virtual environments. Nike has a virtual clothing store and car manufacturers such as Nissan, Pontiac and Toyota have entered Second Life, as have 1-800-FLOWERS and Colgate-Palmolive. There are even businesses that specialize in launching

and integrating real-world brands in the virtual world.

Second Life residents can buy and sell each other's creations using Linden dollars. In early 2007 the exchange rate was L\$270 to \$1. At the time of writing, the Second Life Linden dollar currency exchange website stated: "[R]ates fluctuate based on supply and demand, but over the last few years they have remained fairly stable at approximately 250 Linden dollars (L\$) to the US dollar." Players can use a credit card or PayPal to buy and sell currency through both the official LindeX currency exchange and independent third-party vendors and exchanges. However, where there is money there are taxes - Congress is evaluating whether to tax commerce that takes place in virtual worlds.

Second Life provides that its users own the IP rights to the things they create within the virtual world. According to the Linden Lab terms of service agreement, these rights are enforceable both within the game and offline, and apply to both non-profit and commercial ventures. In what is reportedly the first lawsuit filed against Second Life, Marc Bragg sued Second Life in May 2006. Bragg is alleged to have discovered a loophole that allowed him to buy virtual land very cheaply before other players had an opportunity to bid. Linden removed Bragg from Second Life under the terms of its agreement, which provides that Linden reserves the right to shut down any user's account at any time. Bragg asserted that this forfeiture penalty clause was unenforceable. Linden moved to compel arbitration before the International Chamber of Commerce, as specified by the terms of service agreement. However, in a 46-page opinion the US District Court for the Eastern District of Pennsylvania denied this motion, as well as Second Life's motion to dismiss for lack of personal jurisdiction. The case was later reported as settled, but the terms of settlement have not been disclosed.

Identity theft and money laundering

Trademark and copyright violations and contract disputes are not the only legal concerns raised by virtual worlds. Corporate and government counsel should also be aware that virtual worlds could be used for money laundering, identity theft and other fraud-related crimes. The UK Fraud Advisory Panel, a watchdog created by the Institute of Chartered Accountants in England and Wales, recently published a report urging the government to apply real-world financial regulation to Second Life and other virtual environments. The report warned that players can move illicit funds across national borders without constraint and with little risk of detection.

Some software firms are developing additional payment methods that can be used to purchase and sell virtual money. For example, Swedish software company MindArk is developing automated teller machine (ATM) cards. These cards are essentially reloadable stored-value cards that could be used to deposit and withdraw monies from virtual worlds. At present, no customer identification or suspicious monitoring and reporting requirements have been imposed on virtual worlds, as are required for certain financial institutions under the anti-money laundering provisions of the Bank Secrecy Act and USA Patriot Act. Therefore, individuals who use false information to create one or more avatars are more likely to do so without being detected. An avatar could fund a virtual account with the proceeds of crime through virtual-world ATMs or other payment methods, with a co-conspirator engaging in a series of virtual-world transactions which would convert those funds into various virtual world holdings (eg, virtual real estate), only to be followed by an exchange of the virtual funds (ie, laundering) back into real US dollars. As it stands, it is unclear how much money laundering, if any, occurs in these virtual worlds. However, one thing is clear – virtual worlds are a prime target for money laundering.

Trademark monitoring

Most corporations are aware of and have established procedures to combat piracy, counterfeiting and trademark and copyright infringement that occurs in the real world and through the Internet. However, the trademarks and copyrights of many major corporations are infringed in virtual worlds with impunity. In other words, it is apparent upon a first visit to a metaverse that many trademark and in-house counsel are not yet aware of and have not implemented procedures to investigate and combat such illegal activities within virtual environments. Second Life members can purchase virtual, presumably unauthorized, copies of many brand-name items, including jewellery (eg, Cartier) and cars (eg, Ferrari). Lawyers could create their own avatars to see how their clients' brands are doing in the virtual world. It might seem like fun and games, but it is actually an important trademark monitoring function for the benefit of clients and their customers. If a lawyer identifies the infringement of a client's trademark and wants to learn the true identity of the Second Life member who is the offending party, Section 6.1 of Linden Lab's current terms of service provides that Linden Lab may disclose any information about a member "to private entities... as Linden Lab, in its sole discretion, believes necessary or appropriate to investigate or resolve possible problems or inquiries, or as otherwise required by law". In addition, Section 5.1 of the terms of service provides that "Linden Lab will have the right but not the obligation to resolve disputes between users relating to the service".

Interestingly, within the 'Knowledge Base' support portal of Second Life there is a section that addresses trademarks and copyrights. With regard to trademarks, the policy states: "Linden staff generally removes content that uses trademarks without apparent authorization, with or without giving notice to the object owner. This

generally includes all real life corporate logos and brand names. It is often difficult to tell what may or may not be trademarked. However, use of designer logos and brand names without permission, such as Gucci, Nike, Louis Vuiton [sic], etc., are usually not acceptable. Any resident may file an abuse report if they see any other resident making unauthorized use of trademarked material in Second Life."

Trademark searching and clearance

With the increasing global popularity and the growing number of uses of new and existing trademarks in virtual worlds, trademark practitioners must consider whether to expand their trademark clearance searches to Second Life and other metaverses (eg, There, Vastpark). In the not too distant future, commercial professional trademark search firms should launch expanded search options for metaverses, similar to when, with the explosion of the Internet, a leading trademark search firm introduced into its reports domain name searches in January 1994 and internet content searches in January 2004. Many trademark practitioners will recall that they conducted their own trademark clearance searches on the Internet before the commercial trademark search firms began to offer internet content as a search report feature.

Several categories are available for searches in the Second Life community, some of which allow for filtering. The Second Life search tool is easy to use and allows the searcher to retrieve many hits that encompass truncations and other variants of the search term, without the need to enter symbols or queries other than the search term itself. If one conducts a community search, selecting the category "Second Life all", the search results consist of a listing of groups - appearing next to each group will be the number of Second Life members associated with it.

Before too long, or perhaps already, clients will start asking their lawyers to review advertising materials to be presented in Second Life, or reporting violations of their trademarks or other IP rights in a virtual environment. Alternatively, lawyers will be advising their clients to obtain national, Community, international or other types of trademark registration in the real world for new or existing marks that those clients use in connection with the products they offer in a metaverse. Clients may even inform their lawyers that there is no need to apply for a trademark registration in the real world because there is a Second Life Patent & Trademark Office (SLPTO) with which they have already registered their mark. Although the web page of the SLPTO states that it is "not any kind of legal authority", trademark practitioners should advise their clients as to the meaning and usefulness of registering intellectual property with the SLPTO.

The International Trademark Association has formed a Second Life working group composed of members from its US Patent and Trademark Office subcommittee and its internet online trademark use subcommittee. The group's initial task is to survey brand owners who:

- have a presence in Second Life;
- are conducting promotions in Second Life; or
- are searching for unauthorized use of their brands in Second Life.

The working group is seeking to learn best practices and whether any collective action could be taken to assist brand owners in virtual worlds. Brand owners who would like to provide feedback to the working group should contact Susan Rector at srector@szd.com.

Conclusion

Exposure to and some basic knowledge of virtual environments is now becoming imperative for

in-house and private trademark counsel. With virtual environments come new vocabulary; perhaps one day the promotion of a new Star Trek film in a virtual world will have an introductory voiceover adapted to that world: "Virtual space: the next-to-final frontier. These are the voyages of the avatars from Earth. Their multi-year mission: to explore strange new metaverses; to seek out new avatars and new virtual-world civilizations; to boldly go where no avatar has gone before."

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