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A “Second Life” For Trademarks

VIRTUAL WORLDS RAISE NEW CONCERNS FOR PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

With the advent of virtual worlds accessible through the internet comes the creation of new spaces where one’s trademarks can be promoted—or infringed. Trademark protection is especially important in worlds such as Linden Lab’s “Second Life,” where real money is exchanged for virtual goods and services.





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Toyota lets avatars test-drive and purchase new models of its cars. Starwood Hotels allows users to tour its space and give feedback for hotel development plans.

The 3-D virtual world of Second Life is built and owned by its “residents,” and it has exponentially grown from its opening in 2003 to be “inhabited” by more than 11 million residents worldwide. These residents are internet users from across the globe who have created digital “avatars” of themselves in various creative forms.

Interestingly, avatars engage in many of the same activities as their real-life personas—they buy land, go shopping, attend religious services, watch political debates, go to school, eat dinner, and even get married. Of course, living in a virtual world also offers a few perks that residents typically would not experience in real life—avatars can fly; take fantastic forms; build a luxury villa; or even chat with prominent people who have been known to frequent Second Life, such as the Honorable Richard Posner, a judge on the United States Court of Appeals for the Seventh Circuit.

Real-life businesses have been cashing in on this virtual phenomenon and benefiting from its utility and market reach. For example, some companies are using Second Life to conduct job interviews, consult with clients, or hold business meetings. Moreover, Second Life offers companies a new forum for testing, advertising, and selling both real and virtual goods and services.

The expansion of Second Life, and virtual worlds like it, leads to the inevitable questions: What are a trademark owner’s potential legal rights with regard to the infringement of its trademark in a virtual world? And what are the defenses likely to be raised in response to infringement allegations? Whether they are found in the real world or a virtual world, trademarks serve the same purpose of identifying and distinguishing a trademark owner’s goods and services from those offered by others, as well as indicating the source of the goods and services. This function of a trademark is important even if the mark is used on virtual goods and services, and trademark

owners deserve the same protection from infringing uses of marks in the virtual world as they do in real life. To date, there has not been much case law and analysis on the infringement of intellectual property rights in a virtual world due to the novelty of this technology. However, the way in which the exchange of goods in the virtual world mirrors that in the real world justifies the conclusion that real-world trademark laws should apply to virtual business.

COMMERCE IN SECOND LIFE

The Second Life economy is supported by monthly transactions amounting to millions of “Linden dollars,” which can be converted to U.S. dollars at online currency exchanges. In October 2007, there were more than 23 million transactions ranging from 1 Linden dollar to more than 500,000 Linden dollars. Though the Linden dollar is presently worth only a fraction of a U.S. dollar, the number of transactions occurring in Second Life translates to significant amounts of real money being exchanged.

Many companies have already recognized the value of leasing land in a virtual world to globally promote their brand images and market their real-life products (or virtual copies of real-life products), often to the same types of consumers that are targeted in the real world. Calvin Klein launched a new real-world perfume brand in Second Life by giving away virtual fragrance bubbles and offering some consumers real samples. American Apparel has a Second Life store where avatars can purchase clothing to wear, much like the clothing available from the real-world store.



Toyota lets avatars test-drive and purchase new models of its cars. Starwood Hotels allows users to tour its space and give feedback for hotel development plans. Visitors to the virtual stores run by Dell and Circuit City can view information about and purchase virtual products, as well as order real-world products.

Based on the presence of such well-known brands in the virtual world, many users are likely to believe that the trademarks they encounter in Second Life come from the same source as in the real world. It is therefore important for companies to monitor trademark use in commerce in the virtual world to ensure that users are not being confused or misled into believing that products and services emanate from the trademark owners when they do not. Not only do companies risk losing their own sales from virtual counterfeiting of products, but marks may be used in a way that tarnishes the reputation of the real-world company.

Because the sale of products and services in Second Life often involves the exchange of real money, users stand to gain monetarily from the infringing use of another's marks. As on the real-world black market, counterfeit goods exist in virtual worlds. From clothing to cars to electronics, brands are being misappropriated in Second Life to sell "fake" virtual products for real money. Status symbols abound even in the virtual world. Thus, many companies may be losing out on potential sales by not creating and marketing virtual versions of their real-life products.

The lines between the real and virtual worlds are also becoming increasingly blurred as companies use Second Life as a marketing tool to advertise and test-market new products and as real-world products are sold in virtual stores. As commerce in virtual worlds increases, so will the use of trademarks to sell virtual goods and promote brands.

ANALYZING INFRINGEMENT IN THE VIRTUAL WORLD V. THE REAL WORLD

Because commercial activity in the virtual world replicates sales transactions in the real world, real-world trademark laws should govern the use of marks on spaces such as Second Life to protect both trademark owners and users. Trademark law in the United States, codified as the “Lanham Act,” prohibits use of a trademark that is likely to cause confusion about the source of a product or service. 15 U.S.C. § 1114, 1125(a). The crucial inquiry for a claim for trademark infringement or false designation of origin is whether there will be a likelihood of confusion between the trademark and the allegedly infringing mark. This same standard should govern in the virtual world.

Many of the factors that are relevant in the real world for determining whether there is a likelihood of confusion are equally applicable to the virtual world. These factors include the strength of the trademark owner’s mark; how similar the virtual infringer’s mark is to the trademark owner’s mark in terms of appearance, sound, and meaning; whether Second Life users have been confused by the use of the infringing mark; and a virtual infringer’s intent in selecting the mark. With the ease of teleporting and flying through Second Life and the low cost of most products, other factors that are typically considered in the real-world test for confusion—such as the proximity of goods, marketing channels, and the degree of care likely to be exercised by a purchaser—will be of less importance in determining likelihood of confusion in the virtual world.

While there is little case law on intellectual property rights in the virtual world, there have been decisions relating to trademark rights in the similar medium of video games. For example, in the case of *E.S.S. Entertainment 2000, Inc. v. Rock Star Videos, Inc.*, 444 F. Supp. 2d 1012 (C.D. Cal. 2006), the publisher of the game Grand Theft Auto was sued for trademark infringement because one of the many locations included in the game was a strip club, called the “Pig Pen,” which had a name and logo that were alleged to be confusingly similar to the name and logo of a real business, the “Play Pen.” The court did not change its analysis of trademark infringement because the use was in a video game (*i.e.*, a virtual world) rather than the real world. Although the game was sold in the real world, rendering the case not entirely analogous to Second Life, it is likely other courts would similarly employ real-world trademark law for

trademark infringement in the virtual world when goods and services are sold using infringing marks.

As in the real world, the likelihood of confusion in the virtual world will have to be determined on a case-by-case basis. And even if there is a strong case of likely confusion, trademark owners will still have to overcome a virtual infringer’s defenses for such infringement.

DEFENSES TO INFRINGEMENT IN THE VIRTUAL WORLD

Courts have recognized that not all uses of a trademark will result in trademark infringement, and whether the infringer is a virtual or real-world infringer, it is likely to employ the same defenses to infringement. An infringer may argue that any use it is making of the trademark is a noninfringing use because it constitutes a noncommercial use, fair use, and/or use protected under the First Amendment as free speech, or because the trademark owner has lost its rights in the mark.

At least in the real world, infringement claims are subject to a commercial-use requirement, and a virtual infringer is likely to argue that its use of a trademark was a noncommercial use. To determine whether use of a trademark is a commercial use, a court will typically examine whether such use is in connection with a sale of goods or services. Where real goods are for sale in a virtual world, the standard is clearly met. Further, the sale of virtual goods and services for Linden dollars in Second Life should constitute commercial use because Linden dollars can be converted into real-world currency.

It is less clear whether commercial use can be found where virtual goods and services are given away at no cost. Some courts have held that the commercial-use standard does not require any actual sale of goods or services, but merely requires the virtual infringer to offer competing services to the public. The question, though, is whether someone participating in Second Life for amusement, not for gain, in giving away virtual counterfeits is “competing” with a trademark owner that is not offering its goods or services in Second Life. In giving away virtual iPods, are you competing with Apple for sales of real iPods? The answer to that question remains to be seen.

A virtual infringer may also claim that its use of a trademark constitutes a fair use of the mark. The classic fair-use

doctrine permits use of words or phrases that are also trademarks as long as those words or phrases are used as a description of the goods or services, and not to identify their source. The purpose of the defense is to prevent a trademark owner from appropriating a descriptive term for its exclusive use and thereby prevent others from using the term to accurately describe their goods. The nominative fair-use defense typically applies when an infringer has used a mark for comparison or criticism or as a point of reference. A nominative fair-use analysis replaces the likelihood-of-confusion analysis and is established by showing that the infringing goods or services were not readily identifiable without use of the trademark, the infringer has taken only so much of the mark as is necessary to identify the product or service (*i.e.*, not using the same font or logo but just the word), and the infringer has not taken any action to affirmatively suggest or deny sponsorship or endorsement by the trademark owner. These defenses should be subject to the same standards in the virtual world as in the real world.

A virtual infringer may argue that its use of the relevant trademark is protected by the First Amendment. The success of such an argument will depend on the type of use being made of the trademark. If a virtual infringer is making an expressive use of a trademark owner's mark, such as by providing commentary or criticism regarding the owner's goods or services, the virtual infringer's rights under the First Amendment to use the trademark to communicate such a message may prevail over trademark rights. However, consumers have a right not to be misled by the use of a trademark, so courts must weigh the public interest in free speech and expression against the public interest in avoiding consumer confusion.

The most disconcerting defense that an infringer could take to excuse infringing activity is that the trademark owner has abandoned its mark in the virtual world because of its failure to adequately police virtual infringement. Trademark law requires that trademark owners actively protect their trademarks from infringement. The failure to adequately enforce one's trademarks can lead to the loss of trademark rights or the inability to enjoin the use of a trademark. The possibility that such a defense could be raised is a strong incentive for companies to monitor and police the use of their trademarks in virtual worlds such as Second Life.

RESPONDING TO VIRTUAL-WORLD INFRINGEMENT

By exchanging goods and services in the virtual world, along with engaging in the multitude of other activities that take place in Second Life, users are duplicating commerce in the real world through actions of their second-self avatars in the virtual world. It is therefore appropriate that the laws that govern real-life business, including trademark laws, should apply to virtual transactions. It is also appropriate for trademark owners to take the same measures in a virtual world that they would take in the real world, to the extent possible. These measures include monitoring and documenting any trademark abuse and potentially putting infringers on notice that their activities have not gone unremarked.

Of course, even if real-world trademark laws can be used to enjoin trademark infringement in the virtual world, the global nature of cyberspace, as well as the ability to cloak one's identity in avatars, raises a host of additional problems, such as obtaining jurisdiction over—or even finding—the virtual infringer. Thus, another step a trademark owner should consider is requesting that Linden Lab remove the offending trademark. The terms of the service agreement entered into by users of Second Life require users not to post content that infringes third-party property rights, and the terms also give Linden Lab broad power to eliminate content. And Linden Lab has an incentive to police such activity in order to attract more businesses to Second Life, which may be hesitant to invest in a virtual world if their products are being rampantly infringed.

After all, it should be the trademark owner, not a virtual infringer, that obtains a second life for its trademarks. ►►

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