



# Bulletin

The Voice of the International Trademark Association

December 1, 2009

Vol. 64, No. 22

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## Trademarks in Virtual Worlds

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*The rapid pace of development in virtual online worlds is breathtaking, and trademark law is having to move fast to keep up. This article looks at the most recent trends in how brands are used and abused in this parallel universe.*

Realism and social interaction in computer gaming have been greatly enhanced in recent years by advances in software technology, computer hardware and bandwidth. This is perhaps most evident in online “virtual worlds,” where large numbers of players from around the world can simultaneously log on to a “massively multiplayer online role-playing game” (or MMORPG) and interact in real time with other players, often through their own fictional “avatar” stand-ins. These worlds depict richly detailed virtual environments and, with ever-increasing frequency, both fictional and real-world brands.

Adding realism and higher levels of interactivity enhances game play and entices more players to join online games and virtual worlds. This leads to revenue generation. Players either pay recurring game subscription fees (such as in the enormously popular WORLD OF WARCRAFT game) or engage in virtual commercial transactions within a virtual world (as in SECOND LIFE or the Swedish-owned venture ENTROPIA UNIVERSE). In another business model, free game play is offered in a MMORPG in exchange for users viewing in-game advertisements, as in the ANARCHY ONLINE “Free Play” option.

This in turn creates a vast captive marketing audience for setting up virtual marketplaces in which real-world companies can infuse their real-world brands into the games in order to market their goods and services. In virtual worlds like Second Life, unlike a traditional game where all content is created by the game developer, participants themselves create enormous amounts of content, including their own “virtual” brands for goods and services that exist solely in the virtual environment. Under the Second Life terms of service, user-generated content and associated intellectual property rights are retained by their creators.

High levels of realism in games often require game designers to replicate material objects with which we interact in the real world, including branded products and services. For example, game designers creating urban landscapes by necessity may want to use images of real cars and building structures with recognizable names or designs (including protectable trade dress) to enhance realism. Licenses may be required from brand owners depending on whether such uses

would likely create confusion as to the source or sponsorship of such marks or trade dress in the game or otherwise dilute the distinctiveness of the brand, or, alternatively, whether such uses would be deemed a descriptive or nominative fair use if, for example, they were relegated to fleeting background imagery.

In the United States, constitutional concerns may also arise because of the artistic nature of many game designs. The First Amendment to the U.S. Constitution grants a broad right of free speech and freedom of expression, particularly applicable to creative arts. For example, in *E.S.S. Entertainment 2000, Inc. v. Rock Star Videos, Inc.*, 547 F.3d 1095 (9th Cir. 2008), the U.S. Court of Appeals for the Ninth Circuit examined whether the depiction in the game “Grand Theft Auto: San Andreas” of a real Los Angeles strip club, including the club’s logo and exterior design, as part of a virtual world depiction of a dark urban environment, infringed the strip club owner’s trademark rights. The court held that such use did not infringe the actual club’s trademark and trade dress rights even in the absence of nominative fair use, because it was protected by the First Amendment and because “[n]othing indicates that the buying public would reasonably have believed that [the club owner] produced the video game or, for that matter, that [the video company] operated a strip club.”

From a commercial perspective, 3D virtual worlds in particular present the opportunity for real-life companies to promote their own brands in a rich interactive environment to millions of potential viewers worldwide. Virtual world markets also allow gamers to create user-generated brands that acquire goodwill and economic value among players. This is perhaps best illustrated by the highly popular Second Life, as well as other popular 3D virtual world MMORPGs, such as IMVU.com and There.com.

In Second Life (operated by Linden Labs), virtual goods are widely created by users and can be sold or traded in online markets using fictional money called “Linden Dollars,” which is purchased for fractions of real dollars in the real world. Linden Dollars even are subject to currency exchange fluctuations and can be purchased and redeemed for U.S. dollars and foreign currency through a LindeX Exchange. At the time this article was written, the exchange rate was about 260 Linden Dollars to one U.S. dollar. There is even an online market data index for exchange rates posted by Linden Research, Inc., the parent of Linden Labs, at <http://secondlife.com/statistics/economy-market.php>.

This infusion of the concept of real commerce into the virtual environment raises the more difficult question of whether such use of virtual brands, not otherwise found in the real world, can be protected under existing trademark law if other users engage in acts that in the real world would constitute infringement. Under Second Life’s terms of service, ownership rights in user-created content remain with the content creators to the extent such rights exist “under applicable law,” thus empowering content creators to protect their own brands from misuse.

In the United States, because trademark rights arise only from use “in commerce,” an open issue is whether use of a fictional brand solely in a virtual online game is use in commerce. Arguably, the “commerce” element is present because virtual goods and services can be bought and sold for fictional currency purchased in the real world and tied to real dollars. A more difficult issue is whether protection under U.S. law can exist for fictional brands that are merely passive and not involved in purchase or sale transactions online.

Whether such virtual brand owners have enforceable trademark rights is about to be tested. In September 2009, two creators of virtual erotic goods and clothing filed a class action against Linden Research in California, alleging that piracy of their brands runs wild in Second Life. One of the claimants, Eros LLC, sells erotic products in the game and has reportedly earned a million dollars in revenue over the last five years. The complaint alleges that Eros's brands and copyrights have been infringed by counterfeit goods that are sold in the game to other players. In 2007, Eros filed in New York and Florida what may have been the first-ever virtual brand infringement suits, against individuals who allegedly sold counterfeit Eros goods in Second Life. The former action ended with a consent judgment and the latter by a default judgment. (See [www.iptoday.com/articles/2008-5-vern.asp](http://www.iptoday.com/articles/2008-5-vern.asp).)



Some virtual world players have even obtained trademark registrations for their “branded” avatars. For example, the pictured image of the popular Second Life avatar named “Aimee Weber,” whose real-world owner creates virtual designs and products in the game, was registered in 2008 with the U.S. Patent and Trademark Office in Class 42 for “computer programming services, namely, content creation for virtual worlds and three dimensional platforms.” (Reg. No. 3531683, Nov. 11, 2008.)

The line between virtual reality and the real world is getting ever thinner. Over the past few years, many major consumer companies have embraced virtual worlds by injecting their own brands into the gaming environment. For example, in July 2008, Gibson Guitar added a virtual island in Second Life, where it “encourages consumers to participate in this new and exciting virtual world, complete with digital luthiers, instruments, and guest stars.” [www.gibson.com/en-us/Lifestyle/Features/enter-a-virtual-3d-world-with/](http://www.gibson.com/en-us/Lifestyle/Features/enter-a-virtual-3d-world-with/). Dozens of other well-known brands, such as Adidas, BMW, Cisco, CNET, Dell, Mercedes, Nissan, Pontiac and Reuters, have opened shops or their own virtual “islands” within the game. Companies have also used Second Life to promote product launches or film debuts. The American Red Cross has even held fundraising events in Second Life by auctioning off donated virtual goods. Indeed, Second Life offers its own “Brand Center,” which “provides guidance on how to promote your contributions to the Second Life world without implying that Linden Lab is endorsing them or otherwise affiliated with them.” <http://secondlife.com/corporate/brand/index.php>.

But what happens when a player in a virtual game creates merchandise or content that itself is fictional but is branded with real-word marks or trade dress of well-known brand owners? With major companies now marketing their brands in virtual worlds, the likelihood is increased that consumers will be confused into believing that such brand usage anywhere in a game has been undertaken or sponsored by the brand owner itself. Brand owners thus may have stronger infringement and dilution claims against such potential virtual counterfeiters today than they had several years ago. This is especially true as to dilution claims under U.S. law that do not require proof of consumer confusion but still require some use in commerce. Where there is unauthorized use of real brands on virtual goods or services that are actually bought and sold in virtual worlds, the “use in commerce” element should be satisfied.

In an early 2004 test case, Marvel Enterprises, Inc. sued online computer game publisher NCsoft(R) Corp. and game developer Cryptic Studios in California federal court, alleging that

their MMORPG, City of Heroes®, permitted players to create their own avatars modeled after famous superheroes to which Marvel owned the rights. The game’s user agreement prohibited players from creating potentially infringing characters. In March 2005, however, the court dismissed several of the claims, including those for contributory trademark infringement respecting users’ creation of characters and character names, on the ground that the alleged infringing names and characters “were not used in commerce to identify the goods or services” but were “used to identify characters in a recreational game.” In December 2005, the remaining claims were settled.

More recently, in April 2009, Taser International Inc. filed suit against Linden Research for allegedly permitting rampant sales of unauthorized TASER branded virtual stun guns. The lawsuit also named a third party that was selling such products in the game. In July 2009, however, Taser voluntarily withdrew its complaint before Linden Labs answered, reportedly as a result of a settlement.

Times have changed dramatically over the last few years for virtual worlds, which are growing exponentially along with significant real-world revenues. According to the *New York Times*, virtual world transactions are “estimated at between \$1 billion and \$2 billion a year in real dollars.”

[www.nytimes.com/2009/10/22/fashion/22Avatar.html?scp=1&sq=%22second%20life%22&st=cse](http://www.nytimes.com/2009/10/22/fashion/22Avatar.html?scp=1&sq=%22second%20life%22&st=cse).

Virtual world marketing and branding consultants have even emerged, such as KZero and Market Truths Ltd. KZero predicts that the number of virtual worlds will grow from about 150 in 2009 to 900 by the end of 2012. [www.kzero.co.uk/blog/?cat=34](http://www.kzero.co.uk/blog/?cat=34). While the level of monetized transactions in virtual worlds was rather de minimis early in the decade, leading brand owners to perhaps ignore potentially infringing uses of their marks because the prospect of recovering damages was nil and any harm was negligible versus the cost of litigation, today the stakes are a lot higher. Companies now infuse their brands into virtual worlds, and a robust virtual economy entices players to create detailed goods and services that are actively traded among millions of players worldwide.

While often projecting images of quasi-utopian worlds, virtual gaming is creating significant marketing and commercial opportunities that are beginning to lead to not-so-utopian results. Inevitably, we will see court decisions addressing these issues on the merits. In the words of Aldous Huxley, it’s a “brave new world” ... well, at least a virtual one.

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