Real Trademark Issues in Virtual Worlds

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Generally speaking, virtual worlds are computer-based simulated environments intended for users to inhabit and interact via avatars. For the uninitiated, avatars are a virtual world user’s representation of himself or alter ego. Virtual world avatars normally are depicted as textual, two-dimensional or three-dimensional graphical representations of the embodiment of their users.

From a trademark rights perspective, two additional attributes of virtual worlds are particularly interesting: (1) persistence of user-created content; and (2) an economic environment encompassing a real cash economy (RCE) including real money transactions (RMT). Persistence of user created content means that if a user creates something in the virtual world, it will still be there when the user logs in the next time. Other users can interact with the created content in the meantime even while the creator is not logged in to the virtual world. An economic environment is a feature of most non-youth-oriented virtual worlds. While some virtual worlds encourage trading of platform accounts or virtual property for real-life money, others allow such trade only under certain circumstances, for example, in their virtual currencies, and explicitly disallow real money transactions pursuant to their terms of service or end user license agreements. However, grey markets often exist for items from virtual worlds banning real money transactions because users have begun to sell virtual items on online swap meets.

Commercial Relevance of Virtual Worlds

Before addressing trademark issues in virtual worlds, it might be interesting to review the commercial relevance of virtual worlds and their interfaces with real-world economies. To add in perspective, some observers estimate that the worldwide value of RMT is estimated to amount up to more than USD 2 billion per year.

However, most commentators see virtual worlds in a downturn, including the well known flagship Second Life, which is run by Linden Lab. Praised in 2006 as a platform that would turn the net upside down, two years later Second Life was derided as an overhyped bubble that burst and a waste of time and money. Business owners in Second Life complained of losing turnovers, users criticized technical problems and major companies like AOL, Mercedes-Benz, and the German Post quit their presence in Second Life.

The upcoming months and years will present virtual worlds with massive economic and social challenges. Virtual worlds are part of a long-term transition that affects every area linked to the Internet. However, because bandwidth and data storage will become cheaper and the general use of the Internet is not likely to decrease, virtual world platforms might be able to strengthen their potential to attract people for business, recreation, and communication.

Virtual Worlds, Real Money

As mentioned, in many virtual worlds real money can be helpful to fulfill users' virtual dreams. In the virtual world of There.com, for example, Therebucks are needed to buy virtual property such as clothing, recreational items, and other accessories. Therebucks can be purchased directly from the provider of There.com, from other users, or from third-party online banks that usually offer competitive exchange rates.

Another instance of a virtual world that is based on a real cash economy is Entropia Universe, which is run by the Swedish MindArk company. Entropia Universe’s virtual currency, the PED, is convertible to real currency at a fixed exchange rate of USD 1 for PED 10. Although access to Entropia Universe is free, players report that it
is nearly impossible to make significant progress in the
game without making at least an initial cash investment
to buy certain virtual items. Entropia Universe entered
the Guinness Book of World Records in 2008 for “Most
Expensive Virtual World Object;” a virtual space resort
purchased for USD 100,000 by Jon Jacobs, a movie
director and user of the Entropia Universe platform.9
Second Life also embraces real money transactions. In
Second Life, users can buy and sell Linden Dollars (LD)
to and from other users through the official Linden Dol-
lar Exchange. The current exchange rate is roughly LD
262 for USD 1.10 According to Linden Lab, the company
that runs Second Life, Second Life had approximately
16.7 million residents in January 2009.11 However, there
are no reliable figures for actual long-term consistent
usage. Independent observers estimate that there are
on average not more than 20-40,000 residents logged in
at any particular moment.12 Notably, after Second Life
banned online gambling in 2007, the amount of user-to-
user transactions fell sharply, approximately 30 percent.
One of the most common forms of RMT in virtual
worlds involves buying in-world currency with real cash
from the Web site provider or from other users. Other
transactions involve the exchange of real cash for virtual
goods. People also buy and sell entire accounts to other
users for real money.13
The intersections of virtual worlds with real economies
remain controversial for various reasons:

• First, the developers of the games often seek to pres-
  ent a fantasy experience. The involvement of real
  money transactions contradicts this perception and
  breaks immersion;

• Second, providing virtual items with real monetary
  values would make most of the relevant games,
  essentially, mere gambling venues, which would be
  subject to additional legal regulation. Another issue
  is the impact of taxation that may apply if virtual
  property is seen as having real value; and

• Third, there is the threat of liability of the virtual
  world’s developer and provider. Since they may
  change the virtual world any time, ban a player,
  delete items, or simply take the world down never to
  return, there are serious issues of responsibility in
  cases where “real value” is lost through items being
  removed or accounts being suspended or terminated.

In 2007, Linden Lab banned attorney and Second Life
user Marc Bragg from Second Life.14 The platform pro-
derer revoked his account claiming that Bragg purchased
virtual land at far less than its typical value by accessing
parts of the Second Life system that were not generally
open to the public. In response, Bragg sued Linden Lab
for depriving him of his land. The lawsuit ended with a
settlement in which Bragg was re-admitted to Second
Life. Although the settlement is not a surprise, many
commentators hoped that the case would progress fur-
ther and that the court would issue a substantive ruling
regarding the legal nature of virtual property.15

Business in Virtual Worlds

Probably still the most famous virtual business person
is Ailin Graef and her Second Life avatar Anshe Chung,
respectively. According to Chung, she used the money
she earned selling and creating custom animations to buy
and develop virtual land in Second Life. Chung currently
owns dozens of “square miles” of virtual land, most of
which is rented to other users. In November 2006, Chung
announced that she became the first avatar with a net
worth exceeding USD 1 million.16 She now employs more
than 80 employees in her real-world office.17

Unauthorized Use of Real
Trademarks in Virtual Worlds

Particularly when a prominent brand has decided to
abstain from entering a virtual world, unauthorized use
of its real-world trademarks for others’ virtual items is an
often-observed phenomenon. Currently, over 20 million
unique monetary transactions take place in Second Life
each month. Assuming that the existence of counterfeit
goods in virtual worlds is as numerous as in the real
world, there might be well over 500,000 unauthorized
sales of goods bearing genuine brands every month in
Second Life alone.18

In March 2007, the search term “NIKE” generated 186
hits in Second Life stores.19 Most of those hits linked to
offers for virtual shoes for Second Life avatars bearing
Nike’s distinctive swoosh, but none of these virtual shoes
were sold or authorized by Nike. Another notorious
example is a limited edition of a HIMALIA necklace for
avatars, which was offered for sale for LD 10,00020 in Sec-
ond Life stores apparently without Cartier’s endorsement,
though Cartier has registered HIMALIA for jewelry in
many countries.21 The omnipresence of virtual Swiss
luxury watches such as ROLEX, PATEK PHILIPP, and
BLANCPAIN in virtual worlds has come about with-
out the trademark owner’s encouragement as well. The
Geneva-based manufacturer HUBLOT is still the only
company having established a presence in Second Life.

Virtual world platforms undertake varying degrees
of oversight to prevent the unauthorized use of real
trademarks. For example, There.com monitors all design
uploads to prevent trademark or copyright infringement
by their users. Others, such as Second Life, take a more
hands-off approach and remove content that is alleged to
violate real-world marks only when it is brought to their attention. Linden Lab’s current policy is that if someone files an abuse report alleging trademark infringement it will be investigated and removed on a case-by-case basis.

**Virtual Infringement, Real Litigation**

Trademark owners ignore the unauthorized use of their trademarks in virtual worlds at their peril. Indeed, they have a duty to police their rights against potential infringers.22 When a senior trademark user delays in enforcing its rights, a junior user may acquire a valid trademark in a related field, enforceable against even the senior user.23

With the massive number of unauthorized trademark uses in virtual worlds, it is not a surprise that several cases have found their way into court. Litigation appears to be increasing. In the United States, at least two recent cases dealing with the infringement of real-world trademarks in virtual worlds revealed the difficulties facing a company when it tries to stop the unauthorized use of their marks in virtual worlds.

**Eros v. Leatherwood**

On July 3, 2007, Eros LLC, a company that offers adult-animation products in Second Life under its trademark SEXGEN24 filed a lawsuit in the US District Court for the Middle District of Florida against a fictitious defendant who was, at the time of the filing, known only by the name of his avatar in Second Life “Volkov Catteneo.”25

Eros claimed that Catteneo offered for sale unauthorized copies of Eros’ popular SEXGEN products, virtual devices embedded with computer codes that enable sexual interactions between avatars.

Eros knew neither the true identity nor the address of Catteneo when they filed the lawsuit despite reasonable investigation. Therefore, on the same day the complaint was filed, Eros sought leave to serve subpoenas and conduct related discovery on Second Life’s developer Linden Lab and PayPal, whose services the defendant allegedly used to receive online payments for his infringing sales.

As a matter of prudence, Eros addressed possible First Amendment concerns in its two motions for leave to issue subpoenas and conduct related discovery. Both motions referred to Sony Music Entertainment Inc. v. Does26 where the Southern District of New York considered the following factors to weigh the need for disclosure of user information on the one hand against First Amendment interests on the other:

- A concrete showing of a *prima facie* claim of actionable harm;
- The specificity of the discovery request;
- A central need for the requested information to advance the claim;
- The absence of alternative means to obtain the requested information; and
- The defendant’s expectation of privacy.

Considering all these factors, the Florida District Court granted Eros’ motions, and both Linden Lab and PayPal produced certain information, including the IP addresses Catteneo used for his activities in Second Life.

Using the IP addresses to determine the Internet service providers, Eros returned to the court and sought leave to serve subpoenas on AT&T and Charter Communications. Again, both companies complied with Eros’ discovery requests and the respective information traced back to the defendant’s name and address. Eros then amended its complaint to name Robert Leatherwood, of North Richland Hills, TX, as the fictitious defendant previously known only by his Second Life avatar’s name “Volkov Catteneo.”

One month later, the court entered a default judgment against Robert Leatherwood, allowing Eros to seek damages, fees, and injunctive relief. However, Eros and Leatherwood announced that they had reached a settlement agreement in March 2008. According to Eros’ attorney, the terms of the agreement provide that Leatherwood will not engage in any more copying and will cease from using Eros’ trademarks.27

**Eros et al. v. Thomas Simon**

Eros also was involved in a similar trademark infringement case. On October 24, 2007, six major Second Life content creators filed suit against Thomas Simon with the US District Court for the Eastern District of New York.28 Simon allegedly sold copies of the plaintiffs’ products to other Second Life users as Second Life avatar “Rase Kenzo.” He allegedly took advantage of a flaw in Second Life’s software to duplicate thousands of copies of the creators’ products and sold them under the plaintiffs’ brands. According to a plaintiff’s press release, the six plaintiffs did not seek a lawsuit as a first option and instead tried to go through Second Life provider Linden Lab, but never received answers to their take-down notices and abuse reports.29

Unlike the *Eros v. Leatherwood* case, the plaintiffs in this case already had sufficient real-world evidence to identify Simon and did not have to name a fictitious defendant.

On December 4, 2007, the Court entered a consent judgment requiring Simon to pay USD 525 to the plaintiffs, make his PayPal and Second Life transactional records available to them, inform plaintiffs of any future alternate accounts in Second Life, and enjoining Simon from copying and selling any of the plaintiffs’ merchandises.30
Future Challenges

Suing Unknown Defendants outside the United States?

Virtual worlds, by their nature as pseudonymous meeting places, attract a high percentage of users who feel strongly about the protection of a certain level of privacy. As we have seen in the *Eros v. Leatherwood* case, this privacy is flimsy and can be stripped away under certain circumstances. However, unlike in the United States, many other jurisdictions do not allow lawsuits against unknown defendants. In Switzerland, as in other European jurisdictions, every defendant has to be named at the time when the complaint is filed.

Further, trademark owners are faced with the complication that most jurisdictions do not have discovery proceedings comparable to the United States, and, therefore, trademark owners normally experience vast problems when they try to learn the name and address of the proper defendant and extent of the avatar’s virtual activities.

The European Court of Justice (ECJ) addressed this topic in an eagerly awaited decision on January 29, 2008. There, it stated that, in the context of civil litigation, the TRIPS Agreement and the relevant provisions of the European law did not require the member states of the European Union to lay down an obligation to communicate personal data in order to ensure effective protection of intellectual property rights. However, the ECJ did not rule out that the European Union’s member states can establish such an obligation under national law.

In accordance with the ECJ’s jurisdiction and the European Union Enforcement Directive, many member states of the European Union have established provisions requiring Internet service providers to produce personal data of their clients in civil litigation cases under certain circumstances.

In Germany for example, a highly controversial Law to Improve the Enforcement of Intellectual Property Rights came into effect on September 1, 2008. The law states that Internet service providers that provide on a commercial scale services used in infringing activities must produce specific information that allows the owners of intellectual property rights to identify alleged infringers.

However, in many other countries Internet service providers and telephone companies cannot be compelled to produce IP addresses or other documents to identify unknown avatars and their activities in virtual worlds for the purpose of trademark litigation. In these countries, trademark owners often try to initiate criminal proceedings and get the necessary information from the investigation authorities.

How to Judge Likelihood of Confusion?

The test of likelihood of confusion is the crux of a trademark infringement action. One of the factors to assess the likelihood of confusion is the similarity of the goods involved. The issue is whether the goods or services sufficiently are related that consumers likely will perceive their sale or provision under identical or similar marks as indicating they come from the same source. This consideration presents unique problems in cases involving virtual goods.

Research did not reveal any court decision clarifying whether real goods are identical or at least similar to virtual goods for purposes of determining likelihood of confusion under trademark law. It is unclear whether, for example, a real life luxury watch is sufficiently similar to a virtual watch bearing the same brand. It also is unclear whether a virtual wristwatch sold to an avatar shall be deemed to be an ordinary watch, a digital picture of a watch, data or software creating a picture of a watch on your computer screen, or a wholly new virtual item—call it a virtual timekeeper.

The answer to this question is less important for Rolex, because based on their famous brand they can prevent unauthorized users from entering even unrelated fields, as famous marks are normally protected regardless of dissimilarity of the goods involved in most jurisdictions. However, the issue of relatedness between virtual and real world goods is crucial for smaller manufacturers whose marks may be less well-known and used only on real goods.

Because the *Eros v. Leatherwood* and *Eros v. Simon* courts did not render a decision on the merits, we do not know whether courts would hold that consumers likely will perceive that real and virtual goods come from the same source.

What Territory of Infringement and Applicable Law?

By nature, virtual worlds do not stop at real life borders. Trademark rights, like all intellectual property rights, are based on the principle of territoriality. The territorial nature of these rights means that each state or region determines, for its own territory and independently from any other state, what is to be protected as a trademark, who should benefit from such protection, and how protection should be enforced.

The emergence of the Internet has created new issues, for example, whether the use of a mark on the Internet is in the course of trade within a specific jurisdiction. This can be particularly relevant to determine jurisdiction and applicable law.

Most countries have established factors to determine whether the use of a sign (a trademark or other source identifier) on the Internet has contributed to the infringement
of a mark, with many countries following the World Intellectual Property’s (WIPO) Joint Recommendation Concerning Provisions on the Protection of Marks and Other Industrial Property Rights in Signs on the Internet. 40

According to the WIPO Joint Recommendation, the use of a mark on the Internet shall constitute use in a member state only if this use has a commercial effect in that member state. However, the relevant factors to determine whether the use of a mark on the Internet has a commercial effect in a member state do not lend themselves cleanly to virtual worlds.

For example, the currency in which allegedly infringing goods are offered can link the facts of a case to the law of a specific jurisdiction according to WIPO’s Joint Recommendation. 42 Because prices of virtual goods are normally indicated and paid in the currency of the relevant virtual world and not in an existing state’s currency, this factor does not peg an alleged trademark infringement in a virtual world to a specific jurisdiction. 43 Other factors of the WIPO Joint Recommendation do not seem to apply either. For example, virtual goods are not delivered to an existing geographical place, and the vendor of alleged knock-off goods in a virtual world normally does not know and does not care about the nationality and domicile of his or her customers. These traditional factors cannot be applied to most virtual world transactions.

The Eros v. Leatherwood and Eros v. Simon cases naturally proceeded on the assumption that US trademark law applied to the facts at issue, because the plaintiffs, defendants, and the service providers’ servers were all situated in the US. However, it might be highly controversial what law applies to a case if the plaintiff, defendant, and service provider are located in different countries. Because there is no relevant case law at the moment dealing with this issue, it is unclear what trademark law shall apply to that type of situation. Users should be aware that the terms of service of their end user license agreements cannot set the applicable law with regard to the infringement of third parties’ trademarks, but only apply to the contractual relationship between them and the virtual world providers.

This uncertainty raises some thorny issues. For a virtual world user seeking to develop a new brand for his virtual goods, which countries’ trademark registries must he check before doing so? Only his domicile country’s register or those of the jurisdiction where the platform provider’s servers reside as well, because the virtual items he created are stored there? Or does he have to consider every existing trademark right from wherever the virtual world can be accessed?

Secondary Liability of Service Providers?

In a pending litigation, Second Life developer Linden Lab, its founder Philip Rosendale and the former board Chair Mitch Kapor, have been named as defendants in a complaint filed in the US District Court for the Northern District of New York by Second Life user Richard Minsky on July 29, 2008, together with other defendants. 45

Richard Minsky, proceeding pro se, offered virtual art in Second Life under his registered trademark SLART. 46 He alleged that Linden Lab was liable for, inter alia, direct and contributory infringement of his SLART trademark by the user of Second Life avatar Victor Vezina, who ran a SLART Garden art gallery in Second Life for a limited period of time. Although the SLART Garden art gallery is gone, Minsky is concerned about reoccurrence.

The counts against Linden Lab stem from Linden Lab’s hosting of the allegedly infringing content and alleged failure to remove it when it was brought to Linden Lab’s attention by Minsky.

By way of relief, Minsky sought:

• A declaration that his trademarks have been infringed;
• An order compelling Linden Lab to remove unlicensed uses of the SLART trademark from Second Life and inform Minsky of the identities and locations of alleged infringers; and
• USD 1,000 per day from April 24, 2008, through the termination of the action for each act of alleged infringement.

In its answer and counterclaim, Linden Lab asked the court, inter alia, that Minsky’s complaint be dismissed with prejudice, Minsky’s SLART trademark be cancelled and Minsky be enjoined and restrained from using the mark SLART, and that the Court issue a declaration that Linden was within its rights under the Terms of Service to terminate Minsky’s Second Life account. As of the beginning of January 2009, the dispute has not been decided.

Until now, there is no generally accepted standard of reasonable diligence that developers of virtual worlds and platform providers must observe. In particular, there is no published case law available with regard to the question of secondary liability of developers and operators of virtual worlds for trademark infringement.

However, two considerably conflicting decisions dealing with the secondary liability of online auctioneers have been issued recently. A US court ruled on July 14, 2008, that Tiffany & Co, the world-famous jewelers, failed to prove that online auctioneer eBay was responsible, or could be held liable, for the sale of fake Tiffany jewelry on its Web site. Only a few weeks earlier, Louis Vuitton, the French luxury goods maker, was awarded EU 38.6 million in a French case against eBay for selling counterfeit goods. Both cases have been appealed. The outcome of both proceedings might provide guidance...
on the required diligence for developers and operators of virtual worlds to monitor trademark infringement in those worlds.

**Alternative Approaches**

Some companies have taken creative approaches to the problem of unauthorized trademark use in virtual worlds. Herman Miller, for example, the well-known office and home furniture provider, established a presence in Second Life in the fall of 2007. Of course, as with most major brands, Second Life users were already building and selling knockoff virtual HERMAN MILLER chairs. As a consequence, for a limited time Herman Miller offered anyone who had previously purchased knockoff virtual HERMAN MILLER chairs a free copy of a licensed HERMAN MILLER virtual chair in exchange for a promise to destroy the knockoff.50

Herman Miller’s long-term strategy seems to be a success and other companies such as Playboy are joining them in trying to find creative ways to police their trademarks without instantly resorting to lawsuits.51 A brand owner’s presence in the virtual world offers authorized alternatives to knockoffs, potentially allows the brand owner to better police its marks, and likely strengthens its legal position against virtual infringers. These benefits are in addition to the potential business opportunities virtual worlds present. For many brand owners, in particular companies that see virtual worlds as test laboratories for creative ideas rather than as money-making opportunities, this method of enforcement might offer an attractive alternative to enforcement.
may provide that the judicial authorities shall have the authority, unless this would be out of proportion to the seriousness of the infringement, to order the infringer to inform the right holder of the identity of third persons involved in the production and distribution of the infringing goods or services and of their channels of distribution.


35. See Bundesgesetzblatt (BGBl) 2008 I at 1191.

36. Section 19 of the German Trademark Act revised by the Law to Improve the Enforcement of Intellectual Property Rights; Id.

37. The issue of identity and similarity, respectively, between real world and virtual goods should not be confused with the question whether virtual property should be legally recognized and protected at all. The identification and protection of virtual property does not provide an answer to the question whether real world and virtual goods are identical or similar in the sense of trademark law or not.


39. See Kane & Duranske, supra n.22, at 13.


41. Article 2 of the WIPO Joint Recommendation, Id.

42. Article 3(1)c(ii) of the WIPO Joint Recommendation, Id.

43. However, the factor might apply when the currency of the virtual world at issue is pegged to the currency of an existing state.

44. Article 3(1)c(iii) of the WIPO Joint Recommendation, supra n.41.


46. SLART is registered on the US Federal Trademark Register (Registration No. 3,399,258), among others, for on-line publications of art, publication of electronic magazines, publications of electronic newspapers accessible via a global computer network and publications of the editorial content of sites accessible via a global computer network.

47. Tiffany (NJ) Inc. and Tiffany and Company v. eBay, Inc., US District Court Southern District of New York, Case No.: 04-CV-4467.


49. See Kane & Duranske, supra n.22, at 13–14.
