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VIRTUAL TRADEMARKS

Candidus Dougherty[†] & Greg Lastowka^{††}

Abstract

In this article, we discuss how trademark law might apply to virtual worlds and virtual economies. In Part I, we consider how trademark infringement in virtual worlds resembles and differs from trademark infringement in other media. In Part II, we look at the various business models of contemporary virtual worlds and how commerce takes place within them. In Part III, we consider the circumstances where trademark infringement may occur in virtual worlds by discussing questions of use, confusion, dilution and fair use. In Part IV, we examine the issue of contributory trademark infringement.

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I. TRADEMARKS IN PLAY

Avatars can, for example, purchase from “enterprising” residents virtual NIKE shoes bearing the distinctive Swoosh Design.

—WIPO MAGAZINE¹

The defendant, who goes by Rase Kenzo in Second Life, has a pretty good excuse: ‘It’s only a computer game!’

—WASHINGTONPOST.COM²

Imagine that two people, Neo and Trinity, are sitting at a table having lunch. Neo and Trinity are somewhat unusual in that they both have an interest in play acting. They frequently enjoy engaging each other in discussions about imaginary events. (One imagines some people might actually do this kind of thing from time to time.)³

Neo: Hey Trinity, would you like to buy an imaginary can of Coke and an imaginary pair of Nike sneakers from me?

Trinity: Yes, Neo, I would like those imaginary things. Here are ten imaginary dollars.

Neo: Thank you—I have now given you an imaginary can of Coke and an imaginary pair of Nike sneakers.

No physical exchange occurs during this conversation. Neo and Trinity are merely talking to each other.

The owners of the Coke and Nike trademarks would never bring a trademark lawsuit over this conversation. The exchange took place only in the realm of imagination and entailed no actual trade of

1. Susan D. Rector et al., *Second Life - Brand Promotion and Unauthorized Trademark Use in Virtual Worlds*, WIPO MAG., Nov. 2007, http://www.wipo.int/wipo_magazine/en/pdf/2007/.

2. See *Second Life Players Bring Virtual Reality to Court*, WASHINGTONPOST.COM, Oct. 29, 2007, http://blog.washingtonpost.com/offbeat/2007/10/second_life_players_bring_virt.html (responding to *Eros, LLC et al. v. Simon*, Civ. No. 07-04447-SLT-JMA (E.D.N.Y. Oct 24, 2007)).

3. See, e.g., KATHERINE PATERSON, *BRIDGE TO TERABITHIA* 38-47 (1977).

physical property or currency. Enjoining this type of conversation under the rubric of trademark law would clearly place unreasonable limits on freedoms of thought, speech and imagination.⁴

Now, let's change the hypothetical situation slightly. What if Neo and Trinity were to use a few evocative "props"?

Neo: Trinity, that was fun, but it was missing something. Okay, so now my iced tea is going to be a Coke, and this matchbook is a pair of Nike sneakers. Would you like to buy another Coke and pair of Nike sneakers from me?

Trinity: Sure! My fork is a ten dollar bill! Will you accept it as payment?

Neo: Gladly. Enjoy your purchases!

[They trade the props.]

Here, we step cautiously outside the realm of pure speech. But, should our analysis of this act, from the perspective of trademark law, change just because there is an exchange of tangible material? Surely, our natural reaction is that little here is different. Trademark law accords with this common sense reaction.

Notably, in this case, Neo and Trinity do not own all of the property they purport to exchange. Title to the fork (playing the part of the money) belongs to the restaurant. Trinity and Neo presently have a license to use the fork, but Neo will need to leave it on the table after the play is done. If Trinity drinks the iced tea (the Coke), either she or Neo will need to pay for it before leaving. Presumably, Trinity can keep the matchbook.⁵

From the perspective of trademark law, the legal ownership of the chattels in play here is not a principal concern. Instead, the most important considerations are that Neo and Trinity are not confused about the source or origin of the items on the table and that they do not exchange those items "in commerce." These are the fundamental requirements of trademark infringement, and they are not met here.

4. *Cf.* *White v. Samsung Elecs. Am.*, 989 F.2d 1512, 1513 n.6 (Kozinski, J., dissenting from denial of rehearing en banc) (suggesting that trademark law has inherent limits in a "free society").

5. We are curious, from a legal perspective, as to the exact mechanism by which one acquires title to matchbooks in restaurants, but such matters are beyond the scope of this discussion.

Apart from the spoken words, there is also no invocation of the marks that is visible to the public or that could be associated with the exchange of the objects. In their minds, Neo and Trinity have fantasized about a purchase of Coca-Cola beverages and Nike sneakers and have not shared their fantasy with others.

What if they did?

A. Trademarks in Expressive Works

FADE IN. A corner drugstore in Camden, New Jersey, specializing in sneakers and flavored beverages. Neo stands at the counter, playing a hand-held video game. Trinity slams a pair of Nike sneakers and a can of Coca-Cola down on the counter.

Trinity: Hey, you there, can I pay for these or what?

Neo: Can you give me a sec? I am on the Burly Brawl level. Okay, okay, whatever, that'll be ten dollars.

Trinity places a ten dollar bill on the counter and exits.
FADE OUT.

Neo and Trinity have taken their activities one step further by financing and filming a major motion picture. Though the Coke, the Nike sneakers and the ten dollar bill were all inauthentic articles,⁶ they appeared on the screen to audiences across the country as being indistinguishable from the real things. Should Trinity and Neo be concerned about their use of famous trademarks?

Applying common sense, infringement may seem just as unwarranted as in the situations described above. If Neo and Trinity cannot use and display well-known brand names in their motion picture, should a novelist then procure a license in order to have a character ask for a Coke?⁷

Motion pictures are expressive media and, like speech, are protected against government interference by the First Amendment. However, most major motion pictures are produced as commercial,

6. The reproduction of a ten dollar bill might give rise to criminal liabilities, but the consideration of these laws is beyond the scope of our discussion here. See Julie K. Stapel, Note, *Money Talks: The First Amendment Implications of Counterfeiting Law*, 71 IND. L.J. 153, 154-73 (1995); J.S.G. Boggs, *Who Owns This?*, 68 CHI.-KENT. L. REV. 889, 899-904 (1993).

7. Cf. Stacey L. Dogan & Mark A. Lemley, *Grounding Trademark Law Through Trademark Use*, 92 IOWA L. REV. 1669, 1672 n.11 (2007) (listing lawsuits concerning the use of trademarks in expressive works).

profit-driven activities. Because the sale of expressive work is a commercial activity, it can fall within the reach of trademark law.⁸

The increasing practice of paid product placement in movies may give rise to audience confusion about sponsorship.⁹ Entertainment industry decisions about the placement of brand-name products in films and television may hinge on little more than commercial payments.¹⁰ If consumers are aware of this when they see the film of Neo and Trinity, they may ask themselves: did Nike and Coke pay to place their products in this film?

Trademark holders have frequently initiated lawsuits over the appearance of their brands in films. As Judge Alex Kozinski has noted, this has often occurred in instances where trademark owners have been offended by unflattering portrayals of their marks.¹¹ What is surprising is that courts, on some occasions, have agreed with plaintiffs and found defendants liable for violations of trademark law.¹² For instance, in the famous case of *Dallas Cowboy Cheerleaders v. Pussycat Cinema*, a pornographic film that utilized the costumes of the Dallas Cowboy cheerleaders was held to infringe trademark rights.¹³ In another case, trademark infringement was found in a parody advertisement that associated the brand of Anheuser-Busch with “oily” beer.¹⁴

Perhaps these cases have gone too far. Legal scholars have argued that trademark law should not be used to limit the freedom of

8. See, e.g., *Charles Atlas, Ltd. v. DC Comics, Inc.*, 112 F. Supp. 2d 330, 336-37 (S.D.N.Y. 2000) (discussing the “use in commerce” requirement in the context of expressive works).

9. See, e.g., *id.*; Ellen P. Goodman, *Stealth Marketing and Editorial Integrity*, 85 TEX. L. REV. 83, 87 (2006) (describing the trend toward paid placement practices in entertainment).

10. See Goodman, *supra* note 9, at 104.

11. *White v. Samsung Elecs. Am.*, 989 F.2d 1512, 1513 n.6 (Kozinski, J., dissenting from denial of rehearing en banc) (“[I]t’s unlikely Kool-Aid relished being connected with LSD, Hershey with homicidal maniacs, Disney with armed robbers, or Coca-Cola with cultural imperialism.”).

12. See, e.g., *Dallas Cowboy Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 206 (2d Cir. 1979) (rejecting a First Amendment defense to infringement based on trademark-protected costumes in a pornographic movie); *Coca Cola Co. v. Gemini Rising, Inc.*, 346 F. Supp. 1183, 1188-90 (E.D.N.Y. 1972) (finding that a depiction of the Coca-Cola mark in a poster endorsing drug use infringed plaintiff’s trademark rights); *Anheuser-Busch, Inc. v. Balducci Publ’ns*, 28 F.3d 769, 774-77 (8th Cir. 1994) (finding that the depiction of a brewer’s mark in a parody advertisement for “oily” beer infringed brewer’s trademark).

13. *Dallas Cowboy Cheerleaders*, 604 F.2d at 206-07 (affirming the preliminary injunction issued by the district court).

14. *Anheuser-Busch, Inc.*, 28 F.3d at 779 (reinstating plaintiff’s trademark infringement and dilution claims).

creative expression,¹⁵ and some have even stated that current law, despite these cases, should not be understood to extend to the use of marks in expressive media.¹⁶ Nevertheless, these adverse decisions may make filmmakers concerned about the potential negative consequences of allowing well-known trademarks to appear in their films. Popular trademarks can be concealed by using more generic props; but, risk-avoidance practices may further contribute to the industry impression that trademark licensing is necessary for a brand to appear in an expressive work.¹⁷

Even if the general consensus of scholars is right and those decisions that limit trademark usage in expressive works are aberrational, it must be acknowledged that the law in this area is in flux. The steady statutory and judicial broadening of trademark rights in past decades (most recently by the Trademark Dilution Revision Act¹⁸) raise the possibility that what trademark law did not prohibit in the past may be prohibited today or tomorrow.

So while we might hope that trademark law would not prevent Neo and Trinity from filming and marketing their imagined scene, they may want to be more cautious. Are we any more or less cautious when we leave the darkened theater and enter the Matrix?

B. Trademarks in Video Games & Virtual Worlds

Neo is sitting on a sofa while, on the TV screen in front of him, he controls a cartoonish figure in a video game. Neo (or

15. See, e.g., James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 YALE L.J. 882, 933-34 (2007); Goodman, *supra* note 9, at 106.; Pratheepan Gulasekaram, *Policing the Border Between Trademarks and Free Speech: Protecting Unauthorized Trademark Use in Expressive Works*, 80 WASH. L. REV. 887 (2005); Brian Goldman, *Putting Lamborghini Doors on the Escalade: A Legal Analysis of the Unauthorized Use of Brand Names in Rap/Hip-Hop*, 8 TEX. REV. ENT. & SPORTS L. 1, 19 (2007); Matthew Savare, Comment, *Where Madison Avenue Meets Hollywood and Vine: The Business, Legal, and Creative Ramifications of Product Placements*, 11 UCLA ENT. L. REV. 331 (2004); Lauren P. Smith, Note, *Trademarks and the Movies: "An Af-'fair Use' to Remember"*, 48 CLEV. ST. L. REV. 415, 438 (2000).

16. See, e.g., Gulasekaram, *supra* note, 15 at 889 ("The crux of this Article is that even without permission, those engaged in noncommercial expression, such as filmmakers, are at liberty to reference, disparage, ridicule, or otherwise use a trademark or trademarked product in their expressive work without undue fear of trademark liability.").

17. Gibson, *supra* note 15, at 919 ("[T]oday's audiences have learned to view branded products in movies and television programs as more than mere incidental props, and they are more likely to assume that prominently featured brands are licensed by the mark owner. Thus doctrinal feedback is born.").

18. Trademark Dilution Revision Act of 2005, Pub. L. No. 109-312, 120 Stat. 1730 (2006) (codified as amended at 15 U.S.C.A. § 1125(c) (West Supp. 2007)).

actually, the cartoon he controls) drives a Camaro Z28 down a street that calls to mind Los Angeles, California.

He stops the car in front of a building called "The Pig Pen." He gets out. Inside, sitting on the bar, are a pair of Nike sneakers (recognizable by the distinctive swoosh) and a red and white can with the words "Coca-Cola" plainly visible on its exterior. Neo picks them up and leaves the building.

In this example, we see Neo playing a video game. We are now very close to what will be our concern in this article. There is, today, a specific class of video games that are referred to as virtual worlds.¹⁹ Although virtual worlds are arguably something more than games, their ancestry in video game technology, culture and business practices cannot be disputed.

Trademarks and video games have a long history. Ever since Pong and Pac-Man burst onto scene in the 1970's and 1980's, video game brands have been commercially important. There have been many lawsuits during the past decades that have raised trademark (and trademark-type) claims relating to video games. As John Festinger noted in his recent book on video game law, trademark rights are essential to the video game industry.²⁰

Generally, trademark law in the videogame industry has been applied when the symbols were used in the promotion and sale of video games. However, in recent years, trademark owners have started to pay closer attention to the symbols presented *within* games. They have even started to bring lawsuits when they have felt their marks were expressively misappropriated.

For instance, in 2006, Rockstar Games, the maker of the popular and controversial Grand Theft Auto series of games, was sued by Play Pen Gentlemen's Club (a strip club) under a theory of trademark infringement.²¹ Included within Rockstar's video game *GTA: San Andreas* was a depiction of a strip club called "The Pig Pen."²² The Pig Pen was loosely based on photographs of the Play Pen.²³ The

19. Often, law review articles touching on virtual worlds engage in a lengthy exposition about the nature and history of these online environments. See, e.g., F. Gregory Lastowka & Dan Hunter, *The Laws of the Virtual Worlds*, 92 CAL. L. REV. 1 (2004). We will presume the reader has a basic familiarity with the term.

20. JOHN FESTINGER, VIDEO GAME LAW 65 (2005).

21. E.S.S. Entm't 2000, Inc. v. Rock Star Videos, Inc., 444 F. Supp. 2d 1012, 1014 (C.D. Cal. 2006).

22. *Id.* at 1017-18.

23. *Id.* at 1018.

plaintiff claimed that the video game company had no right to reproduce its mark within the video game without permission.²⁴

Play Pen lost its case on Rockstar's motion for summary judgment.²⁵ The district court, looking to the history of trademarks used in expressive media, ultimately found that the depiction of the "Pig Pen" within the game was speech protected under the First Amendment.²⁶ The court's lengthy and somewhat convoluted opinion indicated that it took the asserted claims quite seriously. It had to struggle with the fabric of existing doctrine regarding fair use and free speech rights before arriving at its conclusion.

Increasingly, it would seem the incentives of video game manufacturers are aligned with those of film makers. Video game makers are probably unlikely to include known trademarks within their games due to fears of inviting lawsuits. At the same time, game manufacturers will pursue paid placement deals to profit from advertising.

Thus, trademark issues with respect to video games today are probably fairly close to those found in film. One important difference is that video games are played, not simply watched. When a player navigates through a video game, he or she performs the game in a manner that can constitute a form of independent expression. In the past, this performance was largely solitary and had little impact on others. This is changing.

In today's virtual worlds, players express themselves in ways that may be seen by a handful, a large group or even thousands of other players. If such players in virtual worlds are invoking trademarks during their performances, are there trademark law implications? Common sense might lead us to think we are simply returning to the realm of fantasy, which falls outside the reach of trademark law. But, common sense may lead us astray because, as many have observed in recent years, virtual economies can be quite real.²⁷

24. *Id.* at 1014.

25. *Id.* at 1049.

26. *Id.* at 1048.

27. See, e.g., Jason A. Archinaco, *Virtual Worlds, Real Damages: The Odd Case of American Hero, the Greatest Horse that May Have Lived*, 11 GAMING L. REV. 21, 22-27 (2007); Jack M. Balkin, *Virtual Liberty: Freedom to Design and Freedom to Play in Virtual Worlds*, 90 VA. L. REV. 2043, 2059-60 (2004); Brian T. Camp, *The Play's the Thing: A Theory of Taxing Virtual Worlds*, 59 HASTINGS L.J. 1, 53-61 (2007); Bettina M. Chin, *Regulating Your Second Life: Defamation in Virtual Worlds*, 72 BROOK. L. REV. 1303, 1313, 1325, 1331, 1341 (2007); Joshua Fairfield, *Virtual Property*, 85 B.U.L. REV. 1047, 1085 (2005); Eric Goldman, *Speech Showdowns At The Virtual Corral*, 21 SANTA CLARA COMPUTER & HIGH TECH. L.J. 845, 849

As we will discuss in the next part, most virtual worlds contain active in-game markets for various forms of virtual property. These markets are structured around the exchange of virtual currencies. Though these currencies are usually intended as “play money,” to the extent that they are capable of alienation (technologically), they are almost inevitably exchanged for real cash. Even though such exchanges are contractually forbidden by many virtual world owners, small and large businesses have been built around the exchange of virtual property and currencies for real money.²⁸

If it turns out that Neo and Trinity can make real money while engaging in fantasy commerce with their chosen brands, then perhaps their imaginary commerce is not fantastic at all. And maybe there are real issues that must be addressed by real unfair competition law.

II. VIRTUALLY REAL COMMERCE

Since trademark law is essentially a form of commercial regulation, it is important to understand the variety of business models and economies found in virtual worlds. Yet, saying anything general about the fantastic and real commerce that occurs in virtual worlds can be difficult because virtual commerce takes many different forms.

By definition, virtual worlds are malleable software structures designed to appeal to a variety of audiences. As a result, social expectations about commerce and commercial practices vary widely. For example, in a heavily-branded, child-oriented virtual world like Nickelodeon’s *Nicktropolis*,²⁹ social activities, expectations and virtual objects differ radically from those in a space-based, adult wargame like *Eve Online*.³⁰

Even within particular virtual worlds, it is not uncommon to find groups of players with divergent opinions about the nature of the space and what constitutes acceptable or desirable behavior within

(2005); Leandra Lederman, “*Stranger Than Fiction*”: *Taxing Virtual Worlds*, 82 N.Y.U. L. REV. 1620, 1629, 1655 (2007); Erez Reuveni, *Authorship in the Age of the Conductor*, 54 J. COPYRIGHT SOC’Y U.S.A. 285, 303-04 (2007); Kevin W. Saunders, *Virtual Worlds-Real Courts*, 52 VILL. L. REV. 187, 229 (2007).

28. See generally JULIAN DIBBELL, *PLAY MONEY* (2006) (describing a year of working in the virtual economy).

29. *Nicktropolis*, <http://www.nick.com/nicktropolis/game/> (last visited Feb. 3, 2008) (part of the Nickelodeon Website).

30. *EVE Online*, <http://www.eve-online.com/> (last visited Feb. 3, 2008).

it.³¹ Often, the culture and software of a particular virtual world are moving targets. Players establish new practices, and virtual world owners frequently expand and improve their platforms by releasing downloadable “patches” that modify the world’s space, rules and physics.

Bearing that in mind, we posit that there are three general types of virtual worlds. These types are not inevitable and other categories, subcategories and distinctions could be drawn. We offer these three types simply to provide the reader with a sense of the varied commercial landscape of virtual worlds.

Our first category is composed of virtual worlds structured as games and funded by player subscription revenues. Our second category includes virtual worlds structured as social spaces and funded by either advertising or by sales of virtual property. Our third category covers user-generated “metaversal”³² virtual worlds that are funded through the sale and control of virtual property and harnessing the creativity labor of distributed individuals. The dominant world in this last category is Linden Lab’s *Second Life*.³³

A. *The Game Worlds*

The first and most lucrative type of virtual world today is the game world, which can be traced back to the original structure of text-based virtual worlds known as MUDs.³⁴ These virtual worlds are environments where games are played. Players explore the virtual spaces while working together in a long and potentially unending process of combat and social problem-solving in order to increase the power and wealth of their avatars.³⁵ As in all games, players pursue

31. Julian Dibbell, *Griever Madness*, WIRED, Feb. 2008, at 90. Julian Dibbell has recently written about “griever culture” in contemporary virtual worlds. As Dibbell describes, those who “grief” virtual worlds are generally more interested in outraging other participants than they are in playing the game by the accepted rules.

32. See NEAL STEPHENSON, SNOW CRASH (1992). The term “metaverse” was first used by Neal Stephenson in his 1992 novel, *Snow Crash*, but is often used to refer to immersive three-dimensional virtual spaces like user-generated worlds. *Second Life* is supposedly modeled after the Metaverse, as described in Stephenson’s novel. Kevin Maney, *The King of Alter Egos is Surprisingly Humble Guy*, U.S.A. TODAY, Feb. 5, 2007, at 1B (describing an interview with Philip Rosedale, the creator of *Second Life*).

33. See *Second Life*, <http://secondlife.com/> (last visited Mar. 15, 2008).

34. “MUD” stands for “multi-user dungeon.” For some background on the history of MUDs and their evolution to contemporary virtual worlds, see Lastowka & Hunter, *supra* note 19. For greater detail, see also RICHARD A. BARTLE, *DESIGNING VIRTUAL WORLDS* 2-3 (2004).

35. An avatar is an image or icon that represents a person on the Internet. Wikipedia, *Avatar (Computing)*, http://en.wikipedia.org/wiki/Avatar_%28computing%29 (as of Apr. 18, 2008, 19:11 GMT). In the context of virtual worlds, an avatar is a three-dimensional graphical

certain game objectives (i.e. finishing quests, defeating monsters and acquiring treasure). The typical virtual world game is, in essence, a mix of fantasy and a Horatio Alger story³⁶ where players begin as weak and powerless, but, through long hours of pluck and luck, eventually they become the virtual lords of the online realm.

Virtual game worlds include titles such as *City of Heroes*,³⁷ *Dark Age of Camelot*,³⁸ *Everquest*³⁹ and *Everquest II*,⁴⁰ *Eve Online*,⁴¹ *Lineage*,⁴² *Lord of the Rings Online*,⁴³ *Maple Story*⁴⁴ and *World of Warcraft*.⁴⁵ These games are financed through software purchases and monthly subscription fees. The game software usually costs from 30 to 50 dollars,⁴⁶ and the monthly subscription fees range from 10 to 20 dollars.⁴⁷ The world of Azeroth (the world from Blizzard Entertainment's *World of Warcraft*) is the most popular game world in existence today.⁴⁸ Its owners claim to be generating over \$1 billion in revenue a year and providing service to over 10 million paying subscribers.⁴⁹

rendering. LAWRENCE LESSIG, CODE AND OTHER LAWS OF CYBERSPACE 10-12 (2000). In chat rooms, an avatar is a two-dimensional icon. KEVIN BLACKWOOD, CASINO GAMBLING FOR DUMMIES (2006). In MUDs, an avatar is a text-based handle (or name) assigned to the player. TIM JORDAN, CYBERPOWER: THE CULTURE AND POLITICS OF CYBERSPACE AND THE INTERNET 60-61 (1999).

36. Alger is a nineteenth-century best-selling author who wrote a number of "strive and succeed" or "rags to riches" novels where young "street" boys achieved the so-called American dream of wealth and success through working hard to overcome poverty and adversity. See Stefan Kanfer, *Horatio Alger: The Moral of the Story*, CITY J., Autumn 2000, http://www.city-journal.org/html/10_4_urbanities-the_moral.html; C.D. Merriman, Horatio Alger, <http://www.online-literature.com/horatio-alger/> (a biography of Horatio Alger).

37. City of Heroes Community Site, <http://www.cityofheroes.com/> (last visited Feb. 3, 2008).

38. Dark Age of Camelot, <http://www.darkageofcamelot.com/> (last visited Feb. 3, 2008).

39. EverQuest, <http://everquest.station.sony.com/> (last visited Feb. 3, 2008).

40. EverQuest II, <http://everquest2.station.sony.com/> (last visited Feb 3, 2008).

41. EVE Online, <http://www.eve-online.com/> (last visited Feb. 3, 2008).

42. Lineage, <http://lineage.plaync.co.kr/> (last visited Feb. 3, 2008).

43. The Lord of the Rings, <http://www.lotro.com/> (last visited Feb 3, 2008).

44. MapleStory, <http://www.maplestory.com/> (last visited Feb. 3, 2008).

45. World of Warcraft, <http://www.worldofwarcraft.com/index.xml> (last visited Feb. 3, 2008).

46. See Blizzard Online Store, <http://shop.blizzard.com/> (last visited Feb. 27, 2008).

47. See World of Warcraft ("WoW") Subscribe, <http://www.worldofwconline.com/content/worldofwarcraft-subscribe.php> (last visited Apr. 2, 2008).

48. See MMOGCHART.COM, <http://www.mmogchart.com/Chart1.html> (last visited Mar. 4, 2008) (charting the subscription growth of various virtual worlds).

49. See Press Release, Blizzard Entm't, World of Warcraft® Reaches New Milestone: 10 Million Subscribers (Jan. 22, 2008), <http://www.blizzard.com/press/080122.shtml>; Seth Schiesel, *An Online Game, Made in U.S., Seizes the Globe*, N.Y. TIMES, Sept. 5, 2006, at A1;

Game worlds like *World of Warcraft* are similar to video games in that the players lack significant creative control over the environment. Though *World of Warcraft* offers a considerable variety of flora, fauna, objects and architecture, these elements are almost invariably produced by paid employees of the company and are most likely screened by company lawyers for compliance with the relevant intellectual property laws.

Since most of the visual content in *World of Warcraft* is the product of the game company, and not the players, recognizable trademarks are likely to appear only when there has been a promotional agreement between the virtual world owner and an advertiser. While few such agreements have resulted in in-game advertising (after all, a Nike poster or a Coca-Cola machine would seem rather out of place in a game about orcs and elves), they have led to cross-branding initiatives outside of the game world.⁵⁰ In China, for instance, game animation from *World of Warcraft* was used in commercials to promote sales of Coca-Cola (and vice versa).⁵¹ In the United States, a recent television commercial featured a *Warcraft* warrior leading defeating a giant dragon — with the assistance of a Toyota Tacoma truck.⁵²

Because of the virtual world owner's high level of creative control, the trademark law questions raised by game worlds are fairly limited and resemble the problems posed by product placement in motion pictures. It is important to note, though, that the limits on player authorship powers in game worlds are probably not imposed due to fears of incurring trademark liability for player infringement but instead due to a desire to keep the world artistically consistent and appealing. Greater player freedom to shape the game environment would also significantly change the underlying dynamics of the game itself.

Julian Dibbell, *The Life of the Chinese Gold Farmer*, N.Y. TIMES, Jun. 17, 2007, <http://www.nytimes.com/2007/06/17/magazine/17lootfarmers-t.html>.

50. At least one company, Massive Incorporated, specializes in coordinating in-game advertising campaigns. See Massive Incorporated, <http://www.massiveincorporated.com/> (last visited Feb. 3, 2008).

51. Seth Schiesel, *An Online Game, Made in U.S., Seizes the Globe*, N.Y. TIMES, Sept. 5, 2006, at A1.

52. Mike Musgrove, *Toyota Ad Shows How Game Is Changing*, WASH. POST, Oct. 10, 2007, at D1.

All games, online and offline, have rules.⁵³ Game rules place limits on how the goals of the game may be achieved. Many times, the most efficient or ingenious way to achieve a goal is not the method permitted by the rules. For example, a runner in a race may not take a shortcut through the middle of a track or utilize a bike to reach a finish line more quickly.⁵⁴ Either of these options would be more efficient and intelligent, but both would violate the game rules and constitute cheating.

Virtual world owners who wish to engage millions of players may be concerned that if they were to give their players rich authorial abilities within the game, such as the ability to create new virtual objects, players would use these abilities to grant themselves competitive advantages over other players. If a player could simply create and upload a formidable avatar with great wealth and power, there would be little incentive for players to spend long hours playing the game (and paying subscription fees) in order to achieve the same status.

Attempts to enforce game rules are not, however, always successful. Indeed, when virtual world companies actively enforce rules, this makes certain forms of virtual property increasingly inaccessible to all but the most dedicated players.⁵⁵ Increased scarcity, in turn, often gives rise to “black market” economies within games where real money might be traded between players who are willing to buy or sell rare virtual items.⁵⁶

In offline games, the act of paying another player to gain a competitive advantage is frowned upon as cheating. Many, if not all, virtual game worlds have similar prohibitions in official rules. Yet these rules are not always respected. As Edward Castronova, Mia Consalvo, Julian Dibbell and many others have described, real world businesses that sell players the “service” of acquiring virtual property for real cash have emerged — despite the prohibitions in the contractual terms of game worlds.⁵⁷ Recently, the makers of *World of*

53. JOHAN HUIZINGA, *HOMO LUDENS: A STUDY OF THE PLAY ELEMENT IN CULTURE* 46 (Beacon Press 1950) (1938) (noting how games proceed within “boundaries of time and space according to fixed rules and in an orderly manner”).

54. BERNARD SUITS, *THE GRASSHOPPER: GAMES, LIFE, AND UTOPIA* 41 (1978).

55. See Jamais Cascio, *Globalization in the Virtual World*, *WORLD CHANGING*, Jul. 9, 2005, <http://www.worldchanging.com/archives/003081.html>.

56. See EDWARD CASTRONOVA, *SYNTHETIC WORLDS* 163-166 (2005); MIA CONSALVO, *CHEATING: GAINING ADVANTAGE IN VIDEOGAMES* 149-172 (2007); DIBBELL, *supra* note 28.

57. See CASTRONOVA, *supra* note 56; CONSALVO, *supra* note 56; DIBBELL, *supra* note 28.

Warcraft brought a lawsuit against businesses that offer such services, claiming that these businesses have promoted cheating.⁵⁸

While these intersections between virtual and real economies raise some fascinating legal questions, these are not generally questions of trademark law.⁵⁹ However, trademark problems have arisen in game worlds in cases where owners have loosened player authorial limitations.

For example, the South Korean company NCsoft, which makes the *City of Heroes* virtual world, has provided its players with development tools that allow them to design superhero costumes for their avatars.⁶⁰ This is a cosmetic aspect of the game. The costume design has no significant effect on an avatar's performance. Nonetheless, many players devote substantial time and effort in designing the appearance of their avatars.⁶¹

In 2005, Marvel Enterprises sued NCSOft for copyright and trademark infringement, alleging that NCSOft provided software that enabled its players to infringe Marvel's trademarks and copyrights in well-known superhero characters such as Spiderman, The Hulk, Wolverine and Captain America.⁶² In a way, the trademark suit closely resembled the *Play Pen* case but with the interesting twist that NCSOft had not, itself, included the marks in the game environment but instead had supplied the tools that the players used to add the marks to the game world.⁶³

58. See, e.g., *Blizzard Entm't, Inc. v. In Game Dollar, L.L.C.*, No. 07-0589 (C.D. Cal. 2007); *MDY Indus., L.L.C. v. Blizzard Entm't, Inc.*, No. 06-2555 (D. Ariz. 2006). See also *Hernandez v. Internet Gaming Entm't., Ltd.*, No. 07-21403-Civ-COHN/SNOW (M.D. Fla. 2007) (class action lawsuit brought by players of *World of Warcraft*).

59. Those who engage in "gold farming" do not misrepresent the source of their services or borrow the brands of others. See David Barboza, *Ogre to Slay? Outsource it to Chinese*, N.Y. TIMES, Dec. 9, 2005, at A1 (describing "gold farming"). While gold farming may be illegal, it is not a matter of trademark law.

60. Press Release, NCsoft, NCsoft Launches City of Heroes in North America, (Apr. 28, 2004), http://www.ncsoft.net/global/board/view.aspx?BID=mc_press&BC=&SYear=&SType=&SWord=costumes&PNo=1&BNo=23.

61. The value of superhero costume design is also indicated by the fact that players must "earn" the ability to wear a cape. See *City of Heroes, Cape Mission*, http://www.cityofheroesonline.com/funthings/missions/costumemissions/capes_mission.php (last visited Mar. 15, 2008).

62. *Marvel Enters., Inc. v. NCSOft, Corp.*, 74 U.S.P.Q.2d (BNA) 1303 (C.D. Cal. 2005).

63. Both the authors helped to prepare an *amicus* pleading in this case, on behalf of the game studies scholars, in support of NCSOft. To obtain a copy of the brief as well as other documents from the case, see Electronic Frontier Foundation, <http://www.eff.org/cases/marvel-v-ncsoft> (last visited Apr. 15, 2008).

The case was ultimately settled out of court. Before that occurred, Marvel's trademark claims were rejected on the basis that the use of Marvel superhero names by players within the game was not an infringing use.⁶⁴ The court stated that the players had not used the marks in commerce, as required for trademark infringement: "[P]laintiffs do not allege that game users in any way used these character names in commerce. Rather than labeling or referencing goods or services in the course of interstate commerce, game users used these names to identify characters used in a recreational game."⁶⁵

Thus, the claim in the *Marvel* case failed primarily because the court understood that the virtual environment in which the marks were used was a non-commercial, game-focused platform. (As we will see in the next pages, other virtual worlds have different models.) Unfortunately, despite the fact that NCSoft prevailed, the ultimate lesson of the *Marvel* suit may be that makers of future game worlds, seeking to avoid litigation, should err on the side of caution when deciding whether to empower participants with tools of creative expression.

B. *The Social Worlds*

The second major genre of virtual world is the social world. The dominant activity in these worlds is chat and informal play. Social worlds are based on revenue models that entail substantial advertising and/or the sale of virtual property to participants. In this category, we include virtual worlds like *Habbo Hotel*,⁶⁶ *IMVU*,⁶⁷ *Club Penguin*,⁶⁸ *The Sims Online*,⁶⁹ *There*,⁷⁰ *Cyworld*,⁷¹ MTV's crop of several virtual worlds⁷² (including *The Virtual Hills*⁷³ and *The Virtual Real World*⁷⁴), *Gaia Online*⁷⁵ and Coca-Cola's *CCMetro*.⁷⁶

64. *Marvel*, 74 U.S.P.Q.2d (BNA) 1303.

65. *Id.* at 1309.

66. *Habbo*, <http://www.habbo.com/> (last visited Feb. 3, 2008).

67. *IMVU*, <http://www.imvu.com/> (last visited Feb. 3, 2008).

68. *Club Penguin*, <http://www.clubpenguin.com/> (last visited Feb. 3, 2008).

69. *The Sims Online*, <http://www.ea.com/official/thesims/thesimsonline/us/nai/index.jsp> (last visited Feb. 3, 2008).

70. *There*, <http://www.there.com/> (last visited Feb. 3, 2008).

71. *Cyworld*, <http://us.cyworld.com/> (last visited Feb. 3, 2008).

72. *Virtual MTV*, <http://www.vmtv.com/> (last visited Feb. 3, 2008).

73. *The Virtual Hills*, <http://www.vmtv.com/virtualhills.html> (last visited Feb. 3, 2008).

74. *The Virtual Real World*, <http://www.vmtv.com/virtualrealworld.html> (last visited Feb. 3, 2008).

75. *Gaia*, <http://www.gaiaonline.com/> (last visited Feb. 3, 2008).

76. *MyCoke*, <http://mycoke.com/> (last visited Feb. 3, 2008).

We distinguish social worlds from game worlds based on whether socializing (for its own sake) or game achievement (for its own sake) is the primary animating theme of the environment. In other words, in game worlds, players socialize during the course of game play, whereas, in social worlds, participants play various games in the course of socializing.

This may seem like a slim distinction, and it is. Game worlds and social worlds overlap significantly in many ways. Game worlds are invariably social realms where chat is an activity as common as game play,⁷⁷ and, in most social worlds, game play is a prominent component — even when the social world's software does not include games. Yet the game/social distinction, while thin, seems a tenable one based on the existing landscape of virtual worlds.

Social worlds, like game worlds, have some roots in text-based virtual worlds, but they have also been heavily influenced by the history of visually-enhanced, “avatar chat” rooms. Social virtual worlds tap into the popularity of chat rooms and instant messaging systems by offering a visually richer, more complex and avatar-mediated environment for chatting and socializing with others. Remaining true to their roots in avatar chat, many social worlds are free and accessible through web-based software, so participants do not even need to leave the comfort of their web browser.⁷⁸

Habbo Hotel is one of the leading social virtual worlds. It reportedly has an active user base of over 7 million regular monthly participants worldwide (mostly teenagers in the 12-16 age range).⁷⁹ While registering for *Habbo* is free, the company sells “Habbo coins” (at a rate of \$50 for 300 coins) that can be used to purchase furniture and clothing for avatars.⁸⁰ Reportedly, the company has generated

77. For an excellent discussion of how people socialize in and around the *Everquest* game world, see T.L. TAYLOR, *PLAY BETWEEN WORLDS* (2006) (providing an ethnography of player culture in *Everquest*).

78. Chat rooms and instant messaging systems are some of the most popular forms of software on the Internet—especially for younger demographics. Consumers have come to expect that chat services, like email, will be provided as a free service, and that, due to their low-cost, will include less impressive sound and graphics than those typically found in commercial software like video games.

79. Marc Graser, *Habbo Hotel has Hollywood hopes*, *VARIETY*, Sept. 7, 2007, <http://www.variety.com/article/VR1117971399.html?categoryid=1009&cs=1&nid=2567>.

80. *Habbo, Coins*, <http://www.habbo.com/credits> (last visited Feb. 3, 2008). Interestingly, the virtual world owner threatens “permanent banning” for purchasing Habbo coins without first asking a parent for permission.

over \$50 million through such sales of virtual objects.⁸¹ Since *Habbo* is not strictly a game, spending money on virtual objects is not viewed by other participants as a form of cheating.

The social world *There*, a self-described “online hangout,” operates in a similar fashion in that users can buy in-world currency, “Therebucks,” which they may use to purchase virtual objects like avatar fashions and home furnishings.⁸² (Therebucks are also not exchangeable for real currency.)

There allows its users to generate their own objects and to sell them in the virtual world environment. But, like in most social worlds, the user-generated content allowed in *There* is limited and regulated. In *There*, user-generated content must be submitted to the virtual world owner for approval and must comply with very specific guidelines. Some of the *There* content prohibitions include: “sexually offensive or overly suggestive material”; depictions of nudity; “personal attacks”; “references to illegal narcotics”; gory imagery; or the use of brand names.⁸³

Neither the tight content restrictions nor the lack of potential real profits have discouraged users from building *There* virtual businesses and marketing virtual products under their own amateur brands.⁸⁴ Makena Technologies, the owner of *There*, even offers its participants advice on how to effectively market virtual products within the *There* environment.⁸⁵

Just as in film and video games, paid placement advertising is a significant business in social virtual worlds. For instance, in the case of *Sims Online*, both McDonald’s and Intel reportedly paid millions of dollars to place their brands in the virtual world environment.⁸⁶ According to some marketing consultants, brand placement in social

81. L.A. Lorek, *Game Developers Storm into Austin*, SAN ANTONIO EXPRESS-NEWS, Sept. 7, 2007, at 6C.

82. *There*, <http://www.there.com/help.html> (last visited Feb. 11, 2008).

83. *There*: Submission Guidelines, <http://www.there.com/developerSubmissionGuidelines.html> (last visited Feb. 11, 2008).

84. See Betsy Book, *Virtual World Business Brands: Entrepreneurship and Identity in Massively Multiplayer Online Gambling Environments* (June 2005), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=736823.

85. *There*, Your Brand in *There*, <http://www.there.com/yourBrand.html> (last visited Feb 11, 2008).

86. Ellen Edwards, *Plug (the Product) and Play: Advertisers Use Online Games to Entice Customers*, WASH. POST, Jan. 26, 2003, at A1; Matt Richtel, *Big Mac Is Virtual, But Critics Are Real*, N.Y. TIMES, Nov. 28, 2002, at G8.

worlds allows mark owners to forge a unique and special bond between their brands and consumers.⁸⁷

Because the focus of social worlds is on socializing rather than on game or role playing, brands may become more important socially. Users tend to design their avatars in their own personal image — or at least how they wish themselves to be perceived, socially, by others.⁸⁸ Participants weave brands or brand names into their avatar persona when creating their online identities. This brand incorporation projects an “image” based on the brand’s association with consumers to other virtual world participants, which can succinctly communicate status or culture. For example, in *There*, users can purchase Nike-branded clothing and apparel for their avatars.⁸⁹ According to virtual marketing researcher Betsy Book, users are willing to pay more — even in virtual life — for apparel possessing the Nike swoosh to garner the status associated with the famous mark.⁹⁰

Some social worlds, like Coca-Cola’s *CCMetro*⁹¹ and Nickelodeon’s *Nicktropolis*,⁹² take branding one step further by devoting their social environments entirely to their respective brands. *CCMetro* and *Nicktropolis* are marketed to children and offer “free” access to their heavily-branded, online environments.⁹³ Somewhat like virtual Disneyworlds (of which there literally are a few⁹⁴), these environments function simultaneously both as play spaces and advertising platforms.

87. See Betsy Book, “*These bodies are FREE, so get one NOW!*”: Advertising & Branding in Social Virtual Worlds (Apr. 2004), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=536422.

88. *Id.*

89. Leslie Walker, *Will Women Go There?*, WASH. POST., Jan. 12, 2003, at H7.

90. See Book, *supra* note 87.

91. MyCoke, <http://mycoke.com/> (last visited Feb. 3, 2008).

92. Nicktropolis, <http://www.nick.com/nicktropolis/game/> (last visited Feb. 3, 2008).

93. See MyCoke, *CCMetro*, <http://www.mycoke.com/> (last visited Feb. 3, 2008); Nicktropolis, [http://www.nick.com/nicktropolis/ game/](http://www.nick.com/nicktropolis/game/) (last visited Feb. 3, 2008). See also Posting of Sara Grimes to Gamine Expedition, Virtual Worlds for Kids Continue to Gain Momentum, <http://gamineexpedition.blogspot.com/2007/12/virtual-worlds-for-kids-continue-to.html> (Jan. 2, 2008); Brooks Barnes, *Web Playgrounds of the Very Young*, N.Y. TIMES, Dec. 31, 2007, <http://www.nytimes.com/2007/12/31/business/31virtual.html> (“Forget Second Life. The real virtual world gold rush centers on the grammar-school set.”). These worlds raise important questions about the pervasiveness of advertising within childhood play. They provide a much deeper and more technologically mediated relationship between children and marketers than society has ever known in the past.

94. Disney owns at least three major child-oriented virtual worlds: *Virtual Magic Kingdom* (<http://vmk.disney.go.com>), *Toontown* (<http://play.toontown.com>) and the recently acquired, *Club Penguin* (<http://www.clubpenguin.com/>).

Since social worlds are so heavily inundated by marketing and advertising concerns, they actually tend to pose less interesting questions from the standpoint of trademark law. While *Habbo Hotel* and *There* depend, marginally, on the creativity of their participants for their virtual economies, social world owners will generally tend to prioritize the interests of brand owners by immersing their participants in brand-saturated and carefully scripted environments.

Like players in game worlds, participants in social worlds are unable to freely create new virtual content, but the reasons for this restriction differ. Allowing social world participants to create content would pose three risks.⁹⁵ First, the expressions of participants might threaten, obscure or undercut the advertising and marketing efforts to which these platforms are devoted. Second, if participants in worlds like *Habbo* were free to create their own objects, the virtual world owners would lose their monopoly over sales of virtual objects.

Finally, given that the demographic of social worlds is skewed toward younger children, companies may wish to ensure that nothing "inappropriate" appears within the environment.⁹⁶ In fact, in some kid-focused worlds like Disney's *Toontown*,⁹⁷ the software restricts inter-player communications between avatars to only happy thoughts. In *Nicktropolis*, the majority of participant communication is relegated to some form of enthusiasm for the content offering of the television network. George Orwell's "newspeak"⁹⁸ has indeed come to pass in the Web worlds of today's children.⁹⁹

95. A fourth risk is secondary liability for trademark infringement, which is discussed in Part IV.

96. See Barnes, *supra* note 93 (describing the parental controls available in some child-oriented virtual worlds).

97. ToonTown, <http://play.toontown.com/> (last visited Feb. 3, 2008).

98. "Newspeak" is the fictional language that Orwell introduced in his epic 1948 novel, 1984, which catalogues a world where every aspect of life is controlled by the government. Gwyneth Roberts, *Introduction to GEORGE ORWELL*, 1984 (Longman Group Ltd. 1983) (1949), available at <http://www.liferesearchuniversal.com/introduction.html>. Newspeak is premised on the theory that thought depends on the words used to express it. *Id.* In other words, if certain words, such as "free" or "liberty", were removed from the language, they would no longer be thought because individuals would have no way to express those ideals. *Id.* An example would be restricting the word "free" to uses regarding price (*i.e.* "the apple is free") instead of uses regarding personal rights (*i.e.* "a people free of government regulation). The newspeak language was attached to the novel as an appendix; some examples of newspeak, from the book and subsequent film adaptation can be found at <http://www.newspeakdictionary.com/ns-dict.html>.

99. See Michael Agger, *Ice Ice Baby: My Few Weeks in Club Penguin, A Social Networking Site for Middle-Schoolers*, SLATE, Sept. 14, 2007, http://www.slate.com/id/2173910/pagnum/all/#page_start ("For example, it's very difficult to communicate a number in Club Penguin, which means no ages, no phone calls, no street

C. *The User-Generated Worlds (Second Life)*

As the previous two sections summarized, while trademark issues may arise in game worlds and social worlds, they seem no more likely to occur in those worlds than they do in expressive works such as films. If game owners avoid invoking trademarks and place strong limits on the creative powers of players, they will likely avoid trademark-related lawsuits.¹⁰⁰ However, user-generated worlds, our final category of virtual worlds, invite players to create the virtual environment and do not exert a great deal of control over emergent virtual economies. This unique policy decision has spawned many fascinating legal issues involving nearly all bodies of law — including trademark law.

Without a doubt, Neo and Trinity would find user-generated virtual worlds appealing. In user-generated virtual worlds, individual participants are afforded great freedom in defining the shape and purpose of the virtual environment. The world owner creates very little content. Instead, what is offered is a largely empty virtual space, a set of creative tools for authorship and the ability to view (and purchase) the objects, avatars, games and buildings created by others.

User-generated virtual worlds provide a platform-based patchwork of multiple authorships and are some of the most vibrant and bewildering virtual spaces. In the history of text-based virtual worlds, user-generated worlds can be traced back to object-oriented MUDs in which users were privileged to create new objects and environments.¹⁰¹ As Julian Dibbell has explained, these text worlds could generate a wide range of social conflicts and disputes, including elaborate quasi-governmental systems.¹⁰² The field of user-generated virtual worlds is much smaller than those of its counterparts and is dominated¹⁰³ by one particular virtual world that has captured a tremendous amount of media attention: Linden Lab's *Second Life*.

addresses, no interstate rendezvous at Burger King. (I've seen penguins get around this by misspelling numbers, e.g., 'Im tweleve.'))

100. We should emphasize that the increasing prominence of sanitized and technologically restricted virtual worlds is a troubling trend, but this concern is not our main focus in this article.

101. See generally Yib's Guide to Mooing, <http://www.yibco.com/> (last visited March 23, 2008). Perhaps the most well-known MOO is LambdaMOO, which Julian Dibbell described in his book, *My Tiny Life*. See JULIAN DIBBELL, *MY TINY LIFE: CRIME AND PASSION IN A VIRTUAL WORLD* (1998).

102. See DIBBELL, *supra* note 101.

103. Another well-known virtual world based on user-generated content is *Active Worlds*.

Linden Lab bills *Second Life* as being imagined and created by its residents.¹⁰⁴ Unlike game or social world owners, Linden Lab publicly promotes its environment as created entirely by its users. Linden Lab is the only virtual world owner to expressly vest its users with rights to the intellectual property that they create while using the virtual world platform.¹⁰⁵ While it is not precisely clear what this broad grant of ownership rights means, legally, for *Second Life* users, this entitlement appears to have played a part in encouraging user innovation and experimentation within the *Second Life* environment.¹⁰⁶

News reports regularly state that *Second Life* has over 10 million “residents,” but it is misleading to compare this user population estimate to, for example, the 10 million subscribers of *World of Warcraft*.¹⁰⁷ *Second Life* reports, on its home page, that approximately 500,000 accounts are active in a given week, which suggests that many of the 10 million total “residents” are currently not actually using the world.¹⁰⁸ In recent months, the total number of user-hours spent in the environment appears to have reached a (possibly temporary) plateau.¹⁰⁹

Even at this plateau, the amount of new content generation that regularly occurs in *Second Life* is staggering. Cory Ondrejka, the former CTO of Linden Lab, reported that “[a]s of June 2007, residents were adding over 300 gigabytes of data to the world every day, one million distinct items had been bought or sold in the preceding month, and tens of millions of scripts were running at all times within the *Second Life* grid.”¹¹⁰

104. *Second Life*, What is Second Life?, <http://secondlife.com/whatis> (last visited Feb. 27, 2008).

105. Press Release, Linden Lab, Second Life Residents to Own Digital Creations (Nov. 14, 2003), http://lindenlab.com/pressroom/releases/03_11_14.

106. See generally Cory Ondrejka, *Second Life: Collapsing Geography*, 2 INNOVATIONS: TECH., GOVERNANCE, GLOBALIZATION, Summer 2007, at 27, 28.

107. See Press Release, Blizzard Entm't, *supra* note 49.

108. *Second Life*, Economic Statistics, http://secondlife.com/whatis/economy_stats.php (last visited Mar. 15, 2008).

109. See *Second Life*, Economic Statistics: Graphs, <http://secondlife.com/whatis/economy-graphs.php> (last visited Mar. 15, 2008). The lack of recent growth in *Second Life* might be attributed to the banking crisis, which in turn may have been predicated on the institution of Linden Lab's anti-gambling policy. See Robin Sidel, *Cheer Up, Ben: Your Economy Isn't As Bad as This One In the Make-Believe World Of 'Second Life,' Banks Are Really Collapsing*, WALL ST. J., Jan. 23, 2008, at A1; Candidus Dougherty, *Virtual Gambling: Betting on "In-world" Events*, 9 E-COMMERCE L. & POL'Y, Nov. 2007, at 11, reprinted in 6 WORLD ONLINE GAMBLING LAW REPORT (2007).

110. Ondrejka, *supra* note 106, at 35.

The revenue model of user-generated worlds seems to be quite different than that of social or game worlds. Linden Lab makes its money by the sale of virtual land where residents develop content.¹¹¹ A “basic account” membership is free, but, in order to own land, a user must have a “premium account” membership, which presently costs \$9.95 a month.¹¹² Currently, fewer than 100,000 individuals have such accounts or land-owning privileges.¹¹³

In addition to paying the monthly membership fee, a user must also purchase the virtual land by paying a flat fee as well as a monthly “use” fee that is determined based on the size of the land plot.¹¹⁴ Land is restrictively created and auctioned to users by Linden Lab, making it a scarce resource.¹¹⁵ For this reason, it can be quite expensive. For instance, to purchase a 16-acre “private island” in *Second Life*, the cost is \$1,675 with a \$295 monthly maintenance fee (a land tax of sorts).¹¹⁶ Despite these fees, it is unclear whether *Second Life* is actually profitable for Linden Lab.¹¹⁷

While the company may not be accruing substantial revenue, some *Second Life* users *do* obtain significant profits from their in-world activities.¹¹⁸ Unlike other virtual world owners, Linden Lab sells its currency to the public and encourages users to buy and sell custom-crafted virtual objects and structures within *Second Life*'s virtual economy.¹¹⁹ The *Second Life* currency, the Linden dollar, can be exchanged for cash via the company website at a rate of roughly

111. See generally Cory Ondrejka, *Aviators, Moguls, Fashionistas and Barons: Economics and Ownership in Second Life*, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=614663 (last visited Feb. 3, 2008).

112. *Second Life*, Membership Plans, <http://secondlife.com/whatis/plans.php> (last visited Mar. 23, 2008).

113. See *Second Life: Economic Statistics*, http://secondlife.com/whatis/economy_stats.php (last visited Mar. 15, 2008).

114. *Second Life*, Land Pricing & Use Fees, <http://secondlife.com/whatis/landpricing.php> (last visited Feb. 3, 2008).

115. Ondrejka, *supra* note 111.

116. See *Second Life*, Land: Islands, <http://secondlife.com/community/land-islands.php> (last visited Mar. 15, 2008).

117. Daniel Terdiman, *Second Life scores \$11 million in funding*, CNET NEWS.COM, Mar. 28, 2006, http://www.news.com/2100-1043_3-6054598.html (“For now, the company isn’t profitable, and it’s not clear when it will be, said Catherine Smith, Linden Lab’s director of marketing.”).

118. See *infra* notes 124-128 and accompanying text. See also *Second Life*, Terms of Service, <http://secondlife.com/corporate/tos.php> (last visited Feb. 11, 2008).

119. Robert D. Hof, *My Virtual Life*, BUS. WEEK, May 1, 2006, http://www.businessweek.com/magazine/content/06_18/b3982001.htm.

265 Linden dollars per U.S. dollar.¹²⁰ Linden Lab extracts a small transaction fee from these exchanges, but its primary goal seems to be ensuring the continuing expansion of its user-generated world and economy.¹²¹

The real currency aspect of the *Second Life* economy means that product exchanges between *Second Life* users are made for real consideration — a distinction that pushes *Second Life* business transactions into the legal definition of commerce.¹²² Thus, *Second Life* users risk actual loss and can potentially realize substantial gain through their virtual business dealings.¹²³

In recent years, Linden has reported that users spend approximately \$600,000 a day purchasing virtual objects and land in *Second Life*.¹²⁴ In December 2006, Linden estimated that 450 residents generated a monthly income over \$1,000 USD,¹²⁵ and it was reported, more recently, that, in July 2007, 865 users made at least \$1,000 and 145 users made more than \$5,000.¹²⁶ In April 2008, Linden Lab estimated that 60,000 residents had a positive cash flow, and about 12,000 of those residents were receiving over 100 dollars in income.¹²⁷

Some of these *Second Life* business owners have developed their own *Second Life* brands.¹²⁸ So far, at least one *Second Life* user (an

120. Second Life, LindeX Market Data, <http://secondlife.com/whatis/economy-market.php> (last visited Feb. 3, 2008).

121. See Second Life, SL Exchange Fees, <http://www.slexchange.com/modules.php?name=Content&pa=showpage&pid=4> (last visited March 23, 2008).

122. It is legally irrelevant that this commerce occurs during the use of a virtual world. See *SEC v. SG Ltd.*, 265 F.3d 42 (1st Cir. 2001) (finding that classifying something as a “game” did not automatically set it outside the “commercial world”).

123. See William Marra, *Want to Make Money in Second Life? It's Harder Than You Think*, ABC NEWS, Aug. 27, 2007, <http://abcnews.go.com/Technology/Story?id=3527537&page=1>.

124. David Kirkpatrick, *Second Life: It's Not a Game*, FORTUNE, Feb. 5, 2007, http://money.cnn.com/magazines/fortune/fortune_archive/2007/02/05/8399120/.

125. *Id.*

126. Marra, *supra* note 123. While impressive, these numbers pale in comparison to the estimated 450,000 users logged on that same month; Second Life, Economic Statistics, *supra* note 113. See also Alan Sipress, *Where Real Money Meets Virtual Reality, The Jury Is Still Out*, WASH. POST, Dec. 26, 2006, at A01 (reporting that one player in *Second Life* expected to earn \$60,000 during 2006 from the sale of virtual clothing).

127. Ashlea Ebeling, *Taxing Virtual Worlds*, FORBES, Apr. 16, 2008, http://www.forbes.com/business/2008/04/15/taxes-congress-virtual-biz-beltway-cz_ae_0416beltway.html.

128. See, e.g., Avatarian, LLC, <http://www.avatarian.com/> (last visited Feb. 3, 2008) (selling virtual services including content creation, avatar customization, clothing and

avatar fashion designer) has successfully registered her *Second Life*-based mark for federal trademark protections.¹²⁹

A number of real world businesses have also created a *Second Life* presence. Some famous mark owners, like Coca-Cola, have burst into the *Second Life* scene by harnessing what users were already doing with their marks.¹³⁰ In its “Virtual Thirst” campaign, Coca-Cola acknowledged the existing user incorporation of its mark in the virtual world environment and rechanneled that creative energy to bring the focus back to Coke products.¹³¹

Unlike Coca-Cola, most real world businesses have not yet embraced the virtual world culture to the extent of manning virtual storefronts and selling digital renditions of their products. Many real world companies have entered *Second Life* simply to take advantage of the low-cost advertising opportunities.¹³² Real world businesses can hire a company like Millions of Us, a marketing firm that specializes in developing virtual world marketing campaigns, to shepherd them through their *Second Life* debut.¹³³

As in the social worlds discussed above, *Second Life* users have an interest in adopting real world brands to outfit their avatars. As a result, an industry of virtual knock-offs has emerged where users can purchase everything from an iPod to a Ferrari for their avatars.¹³⁴ And that raises a question.

accessories and programming services); Aimee Weber Virtual Content Creation and Services, <http://aimeeweber.com/> (last visited Feb. 3, 2008) (selling virtual services including texture work, clothing and accessories, virtual marketing and 3D modeling).

129. Alyssa LaRoche, owner of the Aimee Weber avatar and Aimee Weber Studios, registered her avatar as a trademark. See U.S. Trademark Serial No. 77110299 (filed Feb. 18, 2007), <http://tarr.uspto.gov/servlet/tarr?regser=serial&entry=77110299>.

130. Virtual Thirst, <http://www.virtualthirst.com/> (last visited Feb. 4, 2008).

131. *Id.*

132. See Richard Siklos, *A Virtual World but Real Money*, N.Y. TIMES, Oct. 19, 2006, <http://www.nytimes.com/2006/10/19/technology/19virtual.html>; Martin Davies, *Capitalism Encroaches on Virtual Utopia*, GUARDIAN, Jul. 6, 2006, <http://www.guardian.co.uk/technology/2006/jul/06/guardianweeklytechnologysection.insideit>.

133. Millions of Us, <http://www.millionsofus.com/> (last visited Feb. 3, 2008). On its website, Millions of Us provides a case study of its *Second Life* marketing platforms for five large corporations: Microsoft (http://www.millionsofus.com/projects_microsoft.php), Intel (http://www.millionsofus.com/projects_intel.php), Pontiac (http://www.millionsofus.com/projects_pontiac.php), Scion (http://www.millionsofus.com/projects_scion.php) and Warner Brother’s Records (http://www.millionsofus.com/projects_wbrecords.php).

134. Benjamin Duranske, Rampant Trademark Infringement in Second Life Costs Millions, Undermines Future Enforcement (May 4, 2007), <http://virtuallyblind.com/2007/05/04/trademark-infringement-virtual-worlds/>; Simon Atkinson, *Fighting Fakes in a Virtual World*, BBC NEWS, Aug. 20, 2007,

A beachside cabana in *Second Life*, framed by palm trees, on the edge of a vast blue virtual ocean. In front of the cabin is a bench where an avatar with dark sunglasses lounges. A pair of Nike sneakers is on the bench next to him. Suddenly, another avatar floats down from the air above.

A chat window opens and the following dialogue ensues.

Neo: Trinity, I have some Nike sneakers here. You interested in buying them?

Trinity: Lol. How much 4?

Neo: Oh, I dunno. . . Hmmm. How about ten Linden dollars?

Trinity: Cheap! Thx! 100 pairs, pls. I'll sell these Nikes 2 the world n rake in the Lindens!

Let us assume that, in this hypothetical, Neo is not a licensed distributor of Nike products. Rather, he constructed his virtual sneakers, uploaded the texture of the Nike logo and affixed the logo to his virtual object. Nike, the sneaker company, had no knowledge or participation in the creative process.

Because the virtual economy of *Second Life* has been constructed to be real enough to support third-party businesses, Neo's sale of virtual Nike sneakers to Trinity was arguably a sale in commerce. Should Neo be concerned about being sued by Nike for trademark infringement? We explore this question in the following section.

III. PLAYER INFRINGEMENT

Since the origins of recorded history, people have been using marks to indicate the ownership or origins of a chattel.¹³⁵ The etching

<http://news.bbc.co.uk/1/hi/business/6938954.stm>; Joyce Schwarz, *Bold New Opportunities in Virtual Worlds*, I MEDIA CONNECTION, Mar. 10, 2006, <http://www.imediaconnection.com/content/8605.asp>.

135. See ANNE GILSON LALONDE ET AL., GILSON ON TRADEMARKS § 1.01 (2007); Gerard Ruston, *On the Origin of Trademarks*, 45 TRADEMARK REP. 127 (1955); Benjamin G. Paster, *Trademarks – Their Early History*, 59 TRADEMARK REP. 551, 551 (1969); Sidney A. Diamond, *The Historical Development of Trademarks*, 65 TRADEMARK REP. 265 (1975). Trademark law, as we know it, began taking form much later in Sixteenth Century England where artisans etched their marks into armor, cutlery and cloth products to not only announce the product's source but also to signify the quality of the product to consumers. See generally Keith M. Stolte, *How Early Did Anglo-American Trademark Law Begin? An Answer to Schechter's Conundrum*, 88 TRADEMARK REP. 564, 564-65 (1998) (declaring the 1584 case, *Sandforth's Case*, the oldest reported trademark case).

of a potter's mark onto a jar in 3500 B.C. and the modern-day mass-branding of goods (such as Coke cans and Nike sneakers) serve the same purpose: both marks identify the source of the product on which they are emblazoned. The contemporary Lanham Act (which sets forth federal trademark law in the United States) is based on very old practices.¹³⁶

The goal of trademark law is to protect the exclusivity of source-identifying marks¹³⁷ from those who would make unauthorized uses of those marks in commerce.¹³⁸ It is a business tort based on the need to promote fair competition. Trademark law is, today, thought to serve two primary purposes.¹³⁹ First, it prevents the deception of consumers.¹⁴⁰ Second, it protects what is called the "goodwill" of the trademark owner.¹⁴¹

For instance, let us return to our motion picture example in Part I.A. If Neo had actually made and sold counterfeit Nike sneakers at a corner drugstore in Camden, New Jersey (rather than just pretending to do so within the picture) he would clearly be violating trademark law.¹⁴² If Trinity bought faux-Nikes, she would assume they were manufactured by the Nike sneaker company. If the shoes quickly fell apart (because Neo failed to use quality materials and careful craftsmanship), Trinity would certainly be annoyed and might vow never to purchase Nike sneakers again.

136. 15 U.S.C. § 1051 (2000). Until the late-1800's, trademark cases in the United States were uncommon and litigated under common law theories of unfair competition. The first trademark case heard by the Supreme Court was *Canal Co. v. Clark*, 80 U.S. 311 (1871). Congress enacted the first trademark statute in 1870 (16 Stat. 210), which was found unconstitutional by the United States Supreme Court in *United States v. Steffen*, 100 U.S. 85 (1879). Now, the Lanham Act, effective as of July 5, 1947, regulates the registration and use of trademarks in the United States; however, many of the original common law doctrines still apply as re-codified by the Lanham Act or as tenets of unfair competition law.

137. The Lanham Act defines a trademark as "any word, name, symbol or device, or any combination thereof . . . [that is] used by a person . . . to identify and distinguish his or her goods . . . from those manufactured or sold by others and to indicate the source of the goods[.]" 15 U.S.C. § 1127 (2000).

138. See, e.g., *Calvin Klein Indust., Inc. v. BFK Hong Kong, Ltd.*, 714 F. Supp. 78, 79 (S.D.N.Y. 1989) ("The Lanham Act, 15 U.S.C. § 1114 *et seq.*, protects against just such unauthorized use of a mark and resultant consumer confusion.").

139. See S. Rep. No. 1333, 79th Cong., 2d Sess. 3, at 3-5 (1946); *Qualitex Co. v. Jacobson Prods.*, 514 U.S. 159, 163-64 (1995); GILSON ON TRADEMARKS, *supra* note 135, § 1.03.

140. GILSON ON TRADEMARKS, *supra* note 135 § 1, at § 1.03[2].

141. *Id.*

142. A distinctive mark – either registered (15 U.S.C. § 1114 (2000)) or unregistered (15 U.S.C. § 1125(a) (2000)) – can be protected from unauthorized use, or trademark infringement, if the mark is used, by the infringer, in commerce and in a manner likely to cause confusion amongst consumers as to the origin of the product. See *infra* Part III.B.

Without the benefit of trademark protection, Nike would probably have little incentive to invest in quality. It might resort to selling cheaper, lower-quality sneakers because it would have no way of recouping its investment in its products. In the absence of trademark law, there would be many Neos who would feel free to sell consumers like Trinity cheap counterfeit Nikes in lieu of the real McCoy. This is clearly not a good result for the consumer (Trinity), the producer (Nike) or society.

This is the traditional justification of trademark law.¹⁴³ But, does it hold up when Neo sells digital renditions of Nike sneakers from a beachside cabana in *Second Life*? In some ways, it does.

If we are trying to protect the consumer from being duped, it seems that, in the *Second Life* situation, Trinity might actually have been confused about the source of the virtual sneakers. She could have mistakenly believed that Nike was the original source of the virtual products that Neo was selling. Even if she were not confused, those consumers to whom she later sells the virtual sneakers could be confused about the origin of those products.

Yet, there do appear to be some important differences between the real world and *Second Life* commerce scenarios. For instance, what constitutes quality with regard to a virtual sneaker? Can a virtual sneaker have material qualities that are only revealed after purchase? If not, do we really need to provide incentives for Nike to protect the quality of virtual footwear?

On the other hand, the Nike mark could, arguably, be subject to other forms of damage when it is used in a virtual world. What if Neo were to apply the Nike brand to something a little less wholesome in the *Second Life* environment, such as to a bed that allowed avatars to engage in exotic forms of virtual sex?¹⁴⁴ If Trinity believed exotic sex beds were sponsored by Nike, she might be less interested in associating herself with Nike's brand, and she may avoid purchasing

143. See S. Rep. No. 1333, 79th Cong., 2d Sess. 3, at 3-5 (1946); *Qualitex Co.*, 514 U.S. at 163-64; GILSON ON TRADEMARKS, *supra* note 135, § 1.03.

144. One of the recent lawsuits concerning trademarks in *Second Life* was based on a complex "Sex Gen" bed. See Complaint, *Eros, LLC v. John Doe*, No. 8:07-cv-01158-SCB-TGW (M.D. Fl. Filed July 3, 2007), available at <http://secondlife.reuters.com/media/SDOC1202.pdf>; Elaine Silvestrini, *Maker Of Virtual Sex Toys Takes Online Dispute To Federal Court*, TAMPA BAY ONLINE, July 3, 2007, <http://www.tbo.com/news/metro/MGB9B6AZO3F.html> ("He said he sells about 1,000 Sex Gens a year for the equivalent of about \$40 each. As Alderman explained it, a Sex Gen is kind of a machine that manipulates avatars into various positions."); Francis X. Taney, JR., *IP Rights and Licenses Within Virtual Worlds: Second Life*, BRIGHT IDEAS, Winter 2007, <http://www.buchananingersoll.com/news.php?NewsID=2562>.

other Nike products.¹⁴⁵ This takes us back to similar claims discussed above with respect to motion pictures.¹⁴⁶

Figuring out the implication of sales of virtual Nike sneakers by virtual world participants is becoming a more pressing question. Lawsuits concerning activities in virtual worlds are becoming increasingly common — two recent cases have involved trademark infringement allegations by *Second Life* users against other *Second Life* users.¹⁴⁷

“Virtual trademark” lawsuits (based on trademarks allegedly used in commerce within virtual economies) could occur in three distinct situations:

	Traditional (Non-Virtual) TM Use	Virtual World TM Use
Traditional (Non-Virtual) Trademark ("Nike")	[Standard trademark case]	Scenario #1
Virtual World Trademark ("Neokers")	Scenario #2	Scenario #3

Scenario #1 is the situation described above. Neo has been selling his own virtual sneakers and branding them with the federally-registered (real world) trademark, Nike.

Scenario #2 is the flip side of the first situation. Rather than considering whether traditional marks could be infringed in virtual

145. The Trademark Dilution Revision Act (TDRA) of 2006 protects famous trademarks from unauthorized and non-confusing uses that would either diminish a mark's distinctiveness (blurring) or harm its reputation (tarnishment). 15 U.S.C.A. § 1125(c) (West Supp. 2007). *See infra* Part III.C.

146. *See supra* Part I.A-B.

147. *See, e.g.*, Complaint, Eros, LLC v. John Doe, No. 8:07-cv-01158-SCB-TGW (M.D. Fl. Filed July 3, 2007), available at <http://secondlife.reuters.com/media/SDOC1202.pdf>; Complaint, Eros, LLC v. Simon, Civ. No. 1:07-cv-04447-SLT-JMA (E.D.N.Y. filed Oct 24, 2007), available at http://www.patentarcade.com/07_10_24_eros_et_al_v_simon_complaint.pdf; Hernandez v. Internet Gaming Entertainment, Ltd., No. 07-21403-Civ-COHN/SNOW (S.D. Fla. 2007); Nick Abrahams, *Issues for Corporates and Regulators in Second Life and Virtual Worlds* (2007), http://www.deacons.com.au/UploadedContent/NewsPDFs/issues_for_corporates_and_regulators_.pdf (discussing various virtual world-related cases in both the United States and abroad).

worlds, we ask whether trademark rights might be gained in virtual worlds and then extended into traditional markets.

In this scenario, Neo sells virtual sneakers in *Second Life* using his own original mark: Neokers. We assume that this term does not infringe upon any existing trademarks and that Neo does not acquire a federal registration. After Neo has built substantial goodwill around the Neokers virtual brand, Morpheus, a real world sneaker retailer and former Nike employee, starts his own sneaker company and affixes the Neokers logo to his (real) sneakers.

Scenario #3 is the all-virtual situation. As in Scenario #2, Neo has established the Neokers brand in *Second Life*. Trinity subsequently uses the Neokers logo on her own virtual sneakers, which she sells only in *Second Life*.

It is worth noting that, although we might refer to the Neokers mark as a “virtual mark,” as we explain below, some marks used in some virtual worlds are surely as real as any other trademark.¹⁴⁸ In those cases, calling a trademark a virtual trademark is not intended to imply a difference in status or trademark rights associated with marks originating in a virtual world.

In this Part, we explore how trademark law may or may not apply to the activities of participants in virtual worlds. We conclude that some uses of marks in the virtual world, *Second Life*, could, potentially, constitute the “use in commerce” and “likelihood of confusion” necessary to sustain a *prima facie* case of trademark infringement or, possibly, lead to alternative forms of trademark liability for players.¹⁴⁹ We use the aforementioned scenarios to illustrate our conclusions.

A. Use in Commerce

The threshold issue in applying trademark law to virtual worlds is determining whether any given “use” of a mark in a given virtual world environment constitutes a “use in commerce.”¹⁵⁰ Use in

148. Alyssa LaRoche is a *Second Life* user who recently was issued a notice of allowance to register a picture of her avatar as a trademark for “Computer programming services, namely content creation for virtual worlds and three dimensional platforms.” Apparently, LaRoche only uses her mark in *Second Life*. See U.S. Trademark Serial No. 77110299 (filed Feb. 18, 2007), <http://tarr.uspto.gov/servlet/tarr?regser=serial&entry=77110299>.

149. It should go without saying that our discussion here is merely academic and exploratory. Readers with specific questions about trademark infringement in *Second Life* (or otherwise) should seek the advice of counsel.

150. The “use in commerce” requirement serves two roles. First, the “in commerce” component confers federal jurisdiction to promulgate and enforce trademark laws. Second, the

commerce is a vitally important question because it is both a prerequisite for federal trademark protection¹⁵¹ (applicable to Scenarios #2 and #3) and a prerequisite for trademark infringement¹⁵² (applicable to Scenario #1). In this section, we examine whether a player's use¹⁵³ of a mark in *Second Life* could meet this threshold requirement by focusing primarily on the acquisition of trademark rights.

1. Commerce

The Lanham Act defines commerce very broadly. It is intended to reach to "all commerce which may lawfully be regulated by Congress."¹⁵⁴ As a constitutional matter, this language includes any activity that "substantially affects" interstate commerce.¹⁵⁵ It is not limited just to activities normally associated with business or the pursuit of profit.¹⁵⁶

Courts applying trademark law have often failed to limit "use in commerce" in any meaningful way. For instance, courts have found that distributing free software over the Internet was a "use in

"use" element establishes ownership of a trademark, which, in turn, creates the right to register and exclusively use the mark.

151. 15 U.S.C. § 1127 (2000). Before the most recent amendments to the Lanham Act, the only way to establish trademark rights was through prior, actual use. *Columbia Mill Co. v. Alcorn*, 150 U.S. 460, 463-64 (1893). Now, constructive use, or a *bona fide* intention to use in commerce, is an allowable precondition to commence the registration process, but the registrant must still demonstrate actual use to finalize registration. *Id.* In addition to the "use in commerce" requirement, the mark must be also distinctive, or unique enough to identify the product of a particular manufacturer and to distinguish it from the products of other manufacturers. 15 U.S.C.A. § 1125(c)(1) (West Supp. 2007).

152. See Graeme B. Dinwoodie & Mark D. Janis, *Confusion Over Use: Contextualism in Trademark Law*, 92 IOWA L. R. 1597, 1612 (2007) (noting that, without use, consumers would not associate a mark with a product and, thus, there would be no need for trademark protections).

153. See *supra* Part I.A-B (discussing use of marks in movies, video games and virtual worlds); Part II.A (discussing product placement agreements between game world owners and trademark owners); and Part II.B (discussing brand-based social worlds) for a discussion of the implications of a virtual world owner's use of trademarks in its virtual world platform.

154. 15 U.S.C. § 1127.

155. *United States v. Lopez*, 514 U.S. 549, 558-59 (1995) ("Congress' commerce authority includes the power to regulate those activities having a substantial relation to interstate commerce . . . i.e. those activities that substantially affect interstate commerce.") (citation omitted).

156. *United We Stand Am., Inc. v. United We Stand Am. N.Y., Inc.*, 128 F.3d 86, 92-93 (2d Cir. 1997) ("'[U]se in commerce' [as used in the Lanham Act] denotes Congress's authority under the Commerce Clause rather than an intent to limit the Act's application to profit-making activity.").

commerce” sufficient to establish trademark rights.¹⁵⁷ The mere act of establishing a website was even held sufficient, by one court, to meet the Lanham Act’s commerce requirement.¹⁵⁸ Nonetheless, there are some conceivable limits: in *Marvel v. NCSoft* the court found that players participating in a game world environment were not engaged in commercial activity but instead were playing a game.¹⁵⁹

The activities of users participating in user-generated worlds,¹⁶⁰ like *Second Life*, are likely distinguishable from those of the players in *Marvel*. Many *Second Life* users are playing for real money profit, whereas the players in *Marvel* competed to gain in-world status and esteem — wealth not recognized outside the game world environment.¹⁶¹ Thus, it seems highly probable that at least some user activities in *Second Life* (like Neo’s sneaker sales) would fall within any court’s definition of use in commerce.¹⁶²

In *Second Life*, specifically, users have the capability of “cashing out” their virtual assets.¹⁶³ Thus, it would seem that even activities intended as non-commercial could fall within the jurisdictional reach of the Lanham Act. In other words, Neo’s distribution of his Neokers sneakers — even if done for free — could undercut another user’s market for virtual sneakers. Neo’s free distribution might affect commerce despite his own lack of a profit motive.¹⁶⁴

157. *Planetary Motion, Inc. v. Techsplosion, Inc.*, 261 F.3d 1188, 1194-95 (11th Cir. 2001).

158. *Planned Parenthood Fed’n of Am. v. Bucci*, 42 U.S.P.Q.2d (BNA) 1430, 1441-42 (S.D.N.Y. 1997).

159. *See supra* Part I.

160. As discussed in Part II, game and social worlds either heavily regulate user-generated content or altogether prohibit it, so it is less likely that a registered trademark would be used by a user in such an environment.

161. *See supra* Part II.

162. *See Steele v. Bulova Watch Co.*, 344 U.S. 280, 283 (1952) (noting the “broad jurisdictional powers” that the Lanham Act confers on federal courts). All virtual world trademark uses are also likely to meet the “interstate” portion of the Commerce Clause because the platforms are available over the Internet on a national or international basis. The district court, in *Intermatic v. Toeppen*, explained that “‘Internet communications transmit instantaneously on a worldwide basis [and therefore] there is little question that the ‘in commerce’ requirement would be met in a typical Internet message.’” *Intermatic Inc. v. Toeppen*, 947 F. Supp. 1227, 1239 (N.D. Ill. 1996) (quoting GILSON, TRADEMARK PROTECTION AND PRACTICE § 5.11[2] (1996)).

163. *See Second Life, LindeX Market Data*, <http://secondlife.com/whatis/economy-market.php> (last visited Feb. 3. 2008).

164. *See Planned Parenthood Fed’n of Am. v. Bucci*, 42 U.S.P.Q.2d (BNA) 1430, 1441 (S.D.N.Y. 1997) (establishing a webpage and “affecting” the ability to offer nationwide health and information services were “in commerce”). Also, in *Toeppen*, the court found that registering a domain name with the intent to resell it was enough to meet the “commercial use” requirement. *Toeppen*, 947 F. Supp. at 1239. The court also explained that Defendant Toeppen’s

It is also possible that non-commercial activities within quasi-commercial virtual worlds could fall within the scope of the use in commerce requirement because the standard does not require *direct* commercial use, just a *substantial affect* on commerce. For example, a *There* user may develop a brand for a clothing line during in-world play.¹⁶⁵ As described above, *There* is social world with no mechanism for participants to cash out profits from in-world “sales,” but yet it does seem possible that a *There* participant could establish goodwill and an association between her amateur mark and the source of her virtual products.¹⁶⁶ The participant might use this same mark on a real world clothing line, on a public website that sells avatar fashions or in the *Second Life* market. While her use of the mark in *There* is not direct commercial use, it may create brand associations in the mind of consumers in a way that could affect commerce in markets outside the *There* environment and (at least arguably) constitute a “use in commerce.”

2. *Bona Fide* Use

To establish ownership rights in a virtual mark, trademark doctrine also requires that a person make a “*bona fide*” use of the mark “in the ordinary course of trade” typical in its market.¹⁶⁷ This use must be “sufficiently public to identify or distinguish the marked goods in an appropriate segment of the public . . . even without evidence of actual sales.”¹⁶⁸

This definition seems extremely broad. If one accepts virtual economies as fully real and as each containing their own distinct commercial markets, it might seem as though any use of a mark within a virtual world would be a use that identifies origin to the public.¹⁶⁹ Courts are more likely to classify the “market” of virtual worlds more restrictively, and, looking to *Marvel*, may lump them all

use of the mark (in the domain name) in the sale of software did not constitute commerce because such use ended before the passage of the Lanham. *Id.*

165. See Book, *supra* note 84 (discussing the *There* user brands “Oy!” and “Jinx_tv”).

166. *Id.*

167. 15 U.S.C. § 1127 (2000). The Lanham Act defines “use in commerce” as a “*bona fide* use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark.”

168. *New England Duplicating Co. v. Mendes*, 190 F.2d 415, 418 (1st Cir. 1951).

169. See *Planetary Motion, Inc. v. Techsplosion, Inc.*, 261 F.3d 1188, 1196 (11th Cir. 2001) (explaining that actual sales and “wide public recognition” were not required when it found that distributing free software over the Internet under a mark constituted “use in commerce”).

together as games where players' activities do not constitute a "use in commerce."¹⁷⁰

Unlike the virtual world in *Marvel*, *Second Life* seems much more likely to be seen as a commercial forum, rather than a non-commercial game. Many *Second Life* users build goodwill in their virtual brands and establish businesses that produce real profits.¹⁷¹ While game worlds declare that players retain no ownership interest in virtual objects created during play, *Second Life* is the leading virtual world where players are poised to reap real economic rewards.¹⁷² Therefore, trademark law would seem fully applicable to these efforts.¹⁷³

If *Second Life* is a real commercial marketplace, the issue then becomes whether those who are building virtual brands have truly made enough "use" to warrant trademark protection. The sufficiency of a claim of virtual trademark use would be determined based on a totality of the circumstances analysis.¹⁷⁴ This type of analysis is bound to be case-specific, but there are some general rules that might be applied. For example, a "hobby-use"¹⁷⁵, a *de minimis* (i.e. "mere advertising"¹⁷⁶) use, a handful of sales¹⁷⁷ or an internal business use¹⁷⁸

170. *Marvel Enters. Inc. v. NCSoft Corp.*, 74 U.S.P.Q.2d 1303 (2005).

171. See Book, *supra* note 87.

172. Ailin Graef, known in-world as Anshe Chung, has proclaimed herself the first virtual world millionaire. See Paul Sloan, *The Virtual Rockefeller, Anshe Chung is Raking in Real Money in an Unreal Online World*, CNN MONEY, Dec. 1, 2005, http://money.cnn.com/magazines/business2/business2_archive/2005/12/01/8364581/index.htm?cnn=yes; Press Release, Anshe Chung, Anshe Chung Becomes First Virtual World Millionaire (Nov. 26, 2006), http://www.anshechung.com/include/press/press_release251106.html.

173. See Taney, *supra* note 144. Mr. Taney has represented several clients who are engaged in business in *Second Life*. With respect to use in commerce, he explains:

As an initial matter, there would appear to be no reason why content creators and other merchants could not obtain trademark protection for marks that have become distinctive as applied to their virtual goods. These merchants are making *bona fide* sales to *Second Life* users throughout the United States and in numerous foreign countries using the Internet and so would seem to easily be able to satisfy the requirement of use of their marks within interstate commerce.

Id.

174. See *Johnny Blastoff, Inc. v. L.A. Rams Football Co.*, 188 F.3d 427, 433 (7th Cir. 1999) ("The determination of whether a party has established protectable rights in a trademark is made on a case by case basis, considering the totality of the circumstances.").

175. See *Heinemann v. Gen. Motors Corp.*, 342 F. Supp. 203, 207 (N.D. Ill. 1972), *aff'd*, 478 F.2d 1405 (7th Cir. 1973) (explaining that trademark law requires "a presently existing trade or business" to acquire an ownership interest in a mark).

176. See *Consumers Petroleum Co. v. Consumers Co. of Ill.*, 169 F.2d 153, 161 (7th Cir. 1948) ("The mere adoption and use of words in advertisements, circulars and price lists and on signs and stationery give[s] no exclusive right to use.") (citation omitted).

will not be sufficient to establish trademark rights. On the other hand, a mark owner does not need a well-established, successful or profitable business¹⁷⁹ in order to establish ownership.¹⁸⁰

In our view, a *Second Life* user who regularly conducts in-world sales under a recognized brand should meet the use threshold required to establish trademark rights. Recent court and administrative decisions seem to support this conclusion. But, even if a *Second Life* user established ownership rights, a question would still remain as to the limits of trademark protection. Are the virtual trademark rights enforceable only against uses within *Second Life*, or do trademark rights acquired in *Second Life* extend nationwide?

3. Limits of Protection

Trademark rights have always been territorially defined based on the use of the mark.¹⁸¹ However, under the Lanham Act, the right in a federally-registered mark may be enforced nationwide—even if the actual use of the mark is confined to a limited area, whereas common law trademark protections are limited to the territory where the mark is actually used in commerce.¹⁸²

If we play out our virtual trademark lawsuit scenarios, we can see that only Scenario #2 raises an interesting question with regard to territorial protection. In Scenario #1, we would imagine that Nike, possessing a federally-registered mark, would be able to enforce its rights in *Second Life* and, assuming that Neo's use was an infringing or diluting use,¹⁸³ enjoin Neo's use of its mark.¹⁸⁴ (Since *Second Life* is a software platform that resides on 2,000 servers located in San Francisco and Dallas, it probably would not be found to exist outside

177. See *Zazú Designs v. L'Oreal S.A.*, 979 F.2d 499, 503 (7th Cir. 1992) (finding that "[a] few bottles sold over the counter . . . and a few more mailed to friends" is insufficient use).

178. See *Blue Bell, Inc. v. Farah Mfg. Co., Inc.*, 508 F.2d 1260, 1265 (5th Cir. 1975) ("Secret, undisclosed internal shipments" are insufficient use).

179. See *Heinemann*, 342 F. Supp. at 207.

180. *Planetary Motion, Inc. v. Techsplosion, Inc.*, 261 F.3d 1188, 1196 (11th Cir. 2001) (finding that the distribution of free software is sufficient use).

181. See generally *United Drug Co. v. Rectanus Co.*, 248 U.S. 90 (1918).

182. See *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 362-63 (2d Cir. 1959).

183. Trademark infringement and dilution are discussed in more detail in the forthcoming sections. See *infra* Part III.B-C.

184. Cf. David R. Johnson & David Post, *Law and Borders—The Rise of Law in Cyberspace*, 48 STAN. L. REV. 1367, 1367-75 (1996) (arguing that the Internet could constitute a separate jurisdiction for the purposes of trademark law). While we find the arguments of Johnson and Post thoughtful and interesting, we believe that, given the current state of the law, courts would be unlikely to accord *Second Life* an independent jurisdictional status.

of the jurisdiction of the United States.¹⁸⁵) In Scenario #3, we presume that Neo, with trademark rights acquired in *Second Life*, should be able to enforce his rights against Trinity in *Second Life*—again, assuming that Trinity’s use was improper and that United States law applies to the “jurisdiction” of *Second Life*.¹⁸⁶

A somewhat novel question is posed by Scenario #2. Neo has been using the Neokers mark in *Second Life* but not in the “real world.” Would he be able to enforce his unregistered trademark rights against Morpheus, a real world sneaker retailer, in any location in the nation? We imagine the likely answer would be yes.

Since *Second Life* is Internet-based, it would seem that Neo’s rights would also extend nationally across the Web. Maybe limiting the protection of a virtual trademark to its virtual “territory”—*Second Life*—would chart a better policy course, but trademark law does not seem to recognize “virtual” geographic limitations.¹⁸⁷ So to the extent such a notion would be accepted as a limitation on virtual trademark rights, it would probably have to be under the rubric that *Second Life* constitutes a separate market, not a separate place.

B. Infringement

Even if any given “use” of a mark in *Second Life* constitutes “use in commerce,” a mark owner complaining about such use still must demonstrate that the unauthorized use is likely to cause source confusion in order to make a *prima facie* case for trademark infringement.¹⁸⁸ This “likelihood of confusion” test is so subjective that courts must analyze each case of infringement based on its own facts.¹⁸⁹ As Judge Alex Kozinski once put it, courts rattle through a

185. Mitch Wagner, *Inside Second Life's Data Centers*, INFO. WEEK, Mar. 5, 2007, <http://www.informationweek.com/shared/printableArticle.jhtml?articleID=197800179>.

186. Potentially, Trinity might argue that she sold sneakers in a different geographic region of *Second Life*, but, for reasons we will not explore here, we doubt such a claim would be availing given the lack of any real mobility constraints in *Second Life*.

187. As indicated above, scholars have been debating, for some time, whether the Internet might be treated as a separate jurisdiction. For the opening salvo, see Johnson & Post, *supra* note 184 1367-75 (1996). Johnson and Post argued that cyberspace could—and should—constitute its own jurisdiction independent of real space territorial sovereignty. They used trademark law as their lead example. For a recent update of that article, focusing on virtual worlds, see David G. Post & David R. Johnson, *The Great Debate : Law in the Virtual World*, 11 FIRST MONDAY, Feb. 6, 2006, <http://www.uic.edu/htbin/cgiwrap/bin/ojs/index.php/fm/article/view/1311/1231>.

188. See 15 U.S.C. §§ 1114, 1125(a) (2000) (noting the likelihood of confusion requirement).

189. Many years ago, the Supreme Court explained in a trademark case that “[w]hat degree of resemblance is necessary to constitute an infringement is incapable of exact definition,

non-exclusive list of factors while “performing a Vulcan mind meld on the ‘reasonably prudent consumer’”¹⁹⁰ to determine whether confusion as to source is likely.

Each circuit has its own test for “likelihood of confusion,” but all consider three general “types” of factors: (1) intent of the alleged infringer; (2) actual confusion; and (3) market factors.¹⁹¹ In this section, we discuss the factors used by the Ninth Circuit and how those factors might apply to our three virtual trademark lawsuit scenarios.¹⁹² We conclude that Scenario #3 (Trinity selling sneakers under the Neokers mark) is the most likely of our lawsuit scenarios to meet the likelihood of confusion test.

1. *Sleekcraft*

In *AMF, Inc. v. Sleekcraft Boats*, the Ninth Circuit enumerated eight factors relevant to determining whether confusion between goods is likely.¹⁹³ It is important to note that this is a non-exclusive list of factors and courts (in every circuit) do not simply tally the factors in favor of each party.¹⁹⁴ Instead, they balance all factors against each other, so, in some cases, a plaintiff could show likelihood of confusion if only one or two factors are strongly in its favor.¹⁹⁵

as applicable to all cases.” *McLean v. Fleming*, 96 U.S. 245, 251 (1877). *See also* *Watkins Prods., Inc. v. Sunway Fruit Prods., Inc.*, 311 F.2d 496, 499 (7th Cir. 1962) (“[T]he likelihood of confusion is a question of fact.”).

190. *Dreamwerks Prod. Group, Inc. v. SKG Studio*, 142 F.3d 1127, 1130 (9th Cir. 1998).

191. *See, e.g., Keds Corp. v. Renee Int’l Trading Corp.*, 888 F.2d 215, 222 (1st Cir. 1999); *Polaroid Corp. v. Polaroid Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961); *Scott Paper Co. v. Scott’s Liquid Gold, Inc.*, 589 F.2d 1225, 1229 (3d Cir. 1978); *Pizzeria Uno Corp. v. Temple*, 747 F.2d 1522, 1527 (4th Cir. 1984); *Amstar Corp. v. Domino’s Pizza, Inc.*, 615 F.2d 252, 259 (5th Cir.); *Homeowners Group, Inc. v. Home Mktg. Specialists, Inc.*, 931 F.2d 1100, 1105 (6th Cir. 1991); *AHP Subsidiary Holding Co. v. Stuart Hale Co.*, 1 F.3d 611, 615 (7th Cir. 1993); *SquirtCo v. Seven-up Co.*, 628 F.2d 1086, 1091-92 (8th Cir. 1980); *AMF, Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348-49 (9th Cir. 1979); *King of the Mountain Sports, Inc. v. Chrysler Corp.*, 185 F.3d 1084, 1089-90 (10th Cir. 1999); *Safeway Stores, Inc. v. Safeway Disc. Drugs, Inc.*, 675 F.2d 1160, 1164 (11th Cir. 1982); *In re Majestic Distilling Co.*, 315 F.3d 1311, 1315 (2003).

192. We have chosen the Ninth Circuit because both *Linden Lab* and the *Santa Clara Computer and High Technology Law Journal* are located in this circuit. While we are using the likelihood of confusion test from the Ninth Circuit, we have, in many footnotes, cited cases from other circuits where the factors overlap.

193. *Sleekcraft*, 599 F.2d at 348-49.

194. *See* *Triumph Hosiery Mills, Inc. v. Triumph Int’l Corp.*, 308 F.2d 196, 198 (2d Cir. 1962); *Scott Fetzer Co. v. House of Vacuums, Inc.*, 381 F.3d 477, 485 (3d Cir. 2004) (“The [factors] are a flexible and nonexhaustive list. They do not apply mechanically to every case and can serve only as guides, not as an exact calculus.”).

195. *Barbecue Marx, Inc. v. 551 Ogden, Inc.*, 235 F.3d 1041, 1044 (7th Cir. 2000) (“The likelihood of confusion test is an equitable balancing test. While no single factor is dispositive, .

a. *Strength of the Mark*

The strength of a trademark is determined based on how distinctive the mark is; the more distinctive, the stronger the mark.¹⁹⁶ There are four types of protectable marks: arbitrary, fanciful, suggestive and descriptive.¹⁹⁷ Arbitrary and fanciful marks are considered very strong marks and receive wide protection, whereas suggestive and descriptive marks are considered weak and infringement is found only when the goods are closely related and the marks are very similar.¹⁹⁸

Determining a mark's distinctiveness is, again, a highly subjective test. But, in our scenarios, the classification of the marks could make a difference in a finding of infringement. In all three, the marks are identical, but, in Scenarios #1 and #2, the products are different: sneakers and digital representations of sneakers. Courts have already considered the Nike mark a very strong mark,¹⁹⁹ and Neokers is also likely to be deemed a strong mark.²⁰⁰ Alternatively, if a court found that Neokers was a weak mark, it is not clear that infringement would be possible in Scenario #2.

b. *Proximity of the Goods*

The second factor — proximity of goods — looks to the likelihood that consumers will associate the goods (if they are closely related), even though such an association does not exist.²⁰¹ For

. . . and courts may assign varying weights to each of the factors in different cases, . . . three of the factors are particularly important: the similarity of the marks, the defendant's intent, and actual confusion.") (citations omitted).

196. *Sleekcraft*, 599 F.2d at 349.

197. *See, e.g.*, *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976) (discussing some categories of trademarks). A fanciful mark is a word created solely for use as a trademark. Example: KODAK. An arbitrary mark is a common word that is applied in an unfamiliar way. Example: APPLE (for computers). A suggestive mark suggests a particular characteristic of the goods or services to which it applies but requires the consumer to think about the mark in order to draw a conclusion as to type of goods or services. Example: COPPERTONE. A descriptive mark identifies a characteristic or quality of the good or service and only receives protections once it has acquired a secondary meaning with consumers, as in it becomes distinctive of the mark owner's goods. Example: VISION CENTER.

198. *See* 3 RUDOLF CALLMANN, *THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS* § 82.1 (2d ed. 1950).

199. *See* *Nike, Inc. v. "Just Did It" Enters.*, 6 F.3d 1225 (7th Cir. 1993); *Nike, Inc. v. Nikepal Int'l, Inc.*, 84 U.S.P.Q.2d (BNA) 1521 (E.D. Cal. 2007).

200. Neokers is probably a fanciful mark, but the pronunciation could affect its classification. For example, if pronounced like Neo's name, it would be: nee-O-kers. However, if pronounced like: nee-kers, the mark then sounds like sneakers, which describes what the products are. Thus, Neokers could be considered suggestive or descriptive.

201. *Sleekcraft*, 599 F.2d at 350.

example, complementary products, goods marketed to the same class of consumers or goods that “are similar in use and function” are more likely to create a consumer association.²⁰²

Again, proximity causes an issue for the plaintiffs in Scenarios #1 and #2, as the products are quite different. Yet, it is possible to view the virtual sneakers as complementary products²⁰³ to or marketed to the same class of consumers²⁰⁴ as the real sneakers. For example, virtual world users who wear Nike apparel in real life would probably be more likely to purchase such apparel for their avatars. Thus, while the products are very different, the consumers purchasing the products could be the same, which would increase the risk of association.

c. Similarity of the Marks

To determine similarity, courts look at the marks based on sight, sound and meaning as they are encountered by consumers in the marketplace.²⁰⁵ In our scenarios, the similarity of the marks is a strong factor for the plaintiffs (either Nike or Neo), since the marks used by the alleged infringers are identical to the plaintiffs’ marks.

d. Evidence of Actual Confusion

Showing actual confusion is the most persuasive factor for demonstrating confusion, but it is also the most difficult to prove.²⁰⁶ Courts require a substantial amount of evidence and the actual confusion itself must be more than minimal.²⁰⁷ It is unlikely that the plaintiffs in our scenarios would be able to meet this burden of proof.

e. Marketing Channels Used

The likelihood of confusion increases if the products are advertised in the same places, sold for the same prices, sold in the

202. *Id.*

203. *See, e.g.,* Standard Brands, Inc. v. Smidler, 151 F.2d 34, 37 (2d Cir. 1945) (finding vegetable tablets and vegetable juice complementary products).

204. *See, e.g.,* Am. Drill Bushing Co. v. Rockwell Mfg. Co., 342 F.2d 1019, 1022 (C.C.P.A. 1965) (finding that drill guides and drill bits were marketed to the same class of purchaser).

205. *See, e.g.,* Sleeper Lounge Co. v. Bell Mfg. Co., 253 F.2d 720, 722 (9th Cir. 1958).

206. *See Sleekcraft*, 599 F.2d at 352; *Autozone, Inc. v. Tandy Corp.*, 373 F.3d 786, 798 (6th Cir. 2004) (“Evidence of actual confusion is undoubtedly the best evidence of likelihood of confusion.” (quoting *Wynn Oil Co. v. Thomas*, 839 F.2d 1183, 1188 (6th Cir. 1988))).

207. *Sleekcraft*, 599 F.2d at 352-53. *But see* *Davis v. Walt Disney Co.*, 430 F.3d 901, 904-05 (8th Cir. 2005) (finding some actual confusion based on affidavits provided by the plaintiff — even though the evidence was created by the plaintiff).

same way or sold to the same class of consumers.²⁰⁸ In other words, this factor involves a comparison of “how and to whom the respective goods or services of the parties are sold.”²⁰⁹

In our scenarios, this factor weighs heavily for Neo in Scenario #3, as Trinity would be selling her virtual sneakers in *Second Life* — the same market. In order to “compete” in the virtual sneaker market, she might sell her products in similar forums, in similar ways and for similar prices.

Scenarios #1 and #2, again, may pose problems for our plaintiffs. Namely, the products are sold in very different markets — one virtual and one real — and the prices are likely to diverge significantly. For example, 10 Linden dollars (the price Trinity paid Neo for virtual Nikes) is worth about four cents, whereas adult Nike sneakers typically retail for approximately \$75 to \$300.²¹⁰ (We should note that the sneakers may have been underpriced—apparently the market in *Second Life* generally will bear somewhat higher prices for virtual fashions.²¹¹) Real sneakers are typically sold in brick-and-mortar stores where people can try on the shoes before purchasing them, whereas there is no concern whether virtual sneakers “fit” an avatar.

There is, however, a potential market overlap in Internet sales and advertising. Staying with Scenario #1, Nike has an extensive online store where consumers can purchase a number of sneaker styles. *Second Life* users often times also sell their virtual products via online stores on their personal websites, in addition to selling via in-world user-to-user exchanges and from virtual boutiques or store fronts. Additionally, Nike may have its own *Second Life* presence where it either advertises its real world products, or sells its own virtual version of its real apparel. This same type of overlap would also be possible in Scenario #2 if Morpheus and Neo both used the Internet or real or virtual world advertising to sell their products.

208. *Sleekcraft*, 599 F.2d at 353.

209. *See, e.g.,* Leelanau Wine Cellars v. Black & Red, Inc., 502 F.3d 504, 519 (6th Cir. 2007) (quoting Gen. Motors Corp. v. Keystone Auto. Indus., Inc., 453 F.3d 351, 357 (6th Cir. 2006)).

210. *See* Nike Store, <http://www.nike.com> (last visited Feb. 14, 2008).

211. For instance, a fashionable gown in *Second Life* may cost about 1,000 Lindens. For a gallery of *Second Life* fashions and prices compiled by the Wall Street Journal Online, see Second Life Fashions, Wall Street Journal Online, <http://online.wsj.com/article/SB115885055618370073.html> (last visited March 27, 2008).

f. Type of Goods and the Degree of Care Likely to Be Exercised

This factor has to do with whether the products are high-end, expensive goods or less expensive, impulse-buy or retail goods.²¹² The assumption is that, if the products are more expensive, the ordinary, reasonable consumers purchasing them will be more sophisticated or, at least, take more care during the purchasing process.²¹³ Thus, it follows, that purchasers paying more money, or purchasing specialized goods, are less likely to be confused. This “ordinary, reasonable consumer” standard excludes the “indifferent” consumer but includes “the ignorant and the credulous.”²¹⁴

Again, the difference in the real sneakers and virtual sneakers becomes an issue for our plaintiffs in Scenarios #1 and #2. The real Nike sneakers, at least, are quite expensive and are designed with specific sports or athletic requirements in mind, and, therefore, the purchasers are likely to be more sophisticated. Following this logic, likelihood of confusion would be less likely because of the higher assumed diligence of the consumers.

This logic is particularly relevant here, since, as noted above, the virtual sneakers could cost mere pennies. The price difference alone is likely to signal a potential difference in source to the high-end sneaker purchaser, and vice versa in the case of Morpheus’s potential infringing use of Neo’s mark.

However, when the products are from mixed buyer markets like here (low vs. high), some courts would use the lowest level of sophistication to determine this factor.²¹⁵ Still other courts typically only look at the market of the product with the allegedly infringing mark.²¹⁶ Thus, a court may look at the virtual sneaker consumers to determine likelihood of confusion under this factor, and, in that case, this factor could be favorable to the plaintiffs.

212. *Sleekcraft*, 599 F.2d at 353.

213. *See, e.g.*, *Versa Prods. Co. v. Bifold Co.*, 50 F.3d 189, 204-05 (3d Cir. 1995) (discussing consumer sophistication in the context of trade dress infringement).

214. *Sleekcraft*, 599 F.2d at 353. *See also* *Fleischmann Distilling Corp. v. Maier Brewing Corp.*, 314 F.2d 149, 156 (9th Cir. 1963) (“The law is not made for the protection of experts, but for the public -- that vast multitude which includes the ignorant, the unthinking and the credulous, who, in making purchases, do not stop to analyze, but are governed by appearance and general impressions.” (quoting *Stork Rest. v. Sahati*, 166 F.2d 348, 359 (9th Cir. 1948))).

215. *See, e.g.*, *Ford Motor Co. v. Summit Motor Prods, Inc.*, 930 F.2d 277, 293 (3d Cir. 1991) (“[W]hen a buyer class is mixed, the standard of care to be exercised by the reasonably prudent purchaser will be equal to that of the least sophisticated consumer in the class.”).

216. *See* *Davis v. Walt Disney Co.*, 430 F.3d 901, 904 (8th Cir. 2005).

In Scenario #3, the products are both less expensive, which significantly increases the likelihood that a purchaser might buy the virtual sneakers on a whim and be confused as to whom made the goods. As evidenced by our example, Trinity purchased 100 virtual pairs of Nike sneakers without much consideration. This might be because the total purchase would only set her back about \$3.75.

g. Defendant's Intent in Selecting the Mark

Courts give significant weight to the alleged infringer's intent.²¹⁷ It is presumed that, if a defendant knowingly copied another's mark, his intention was to deceive consumers and it is likely that he accomplished his goal.²¹⁸ Use alone is not enough to establish bad intent; the plaintiff must show that the defendant "intended the public to believe that the plaintiff endorsed or somehow supported its products or services."²¹⁹ Good faith use does not necessarily make confusion less likely, but a court may consider it when directing the remedy if infringement is ultimately found.²²⁰

In Scenarios #1 and #3, the alleged infringers (Neo and Trinity, respectively) know that the mark they have adopted is already being used by another. If the plaintiff in either case can show that they used the mark with the intent to dupe consumers, then this factor is likely to way against the infringers. But, in Scenario #2, it is quite possible that Morpheus has no idea that the Neokers mark is being used by Neo in *Second Life*. Again, the inadvertent or innocent use would not negate a likelihood of confusion but may mitigate Morpheus's damages if he is found liable for infringement.

In Scenario #1, it is not necessarily clear that the use of a brand in relation to a sale in *Second Life*, even where the alleged infringer is aware of the "real world" brand, is done with a bad faith intent to divert sales from the trademark holder. This may be the case, but the unauthorized use of brands in *Second Life* might also serve expressive purposes for the alleged infringer. A participant may want to recreate his or her appearance in real life, where he or she wears Nike

217. See, e.g., *AmBrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531, 1542 (11th Cir. 1986) (explaining that a defendant's intent "of deriving benefit from the reputation" associated with the mark could alone be enough to support a finding of likelihood of confusion); *Amstar Corp. v. Domino's Pizza, Inc.*, 615 F.2d 252, 263 (5th Cir. 1980) (same). See also RESTATEMENT (FIRST) OF TORTS § 729 cmt. f (1938).

218. *Sleekcraft*, 599 F.2d at 354.

219. *Century 21 Real Estate Corp. v. LendingTree, Inc.*, 425 F.3d 211, 227 (3d Cir. 2005).

220. See, e.g., *Davis*, 430 F.3d at 904. This could be the difference between the institution of an injunction versus a damages judgment, which could be quite expensive.

products. If Nike-branded virtual products cannot be otherwise purchased in *Second Life*, there may be a need for a virtual entrepreneur to create the mark as a form of virtual self-help. Sales may serve to help others in meeting their expressive goals.

h. Likelihood of Expansion of the Product Lines

To determine this factor, courts look to whether either party is likely to expand its business to produce the same goods as the other party.²²¹ “[A] ‘strong possibility’ that either party will expand his business to compete with the other or be marketed to the same consumers will weigh in favor of finding that the present use is infringing.”²²²

As discussed above, many real world businesses are beginning to enter virtual worlds. Some news reports have stated that Nike has actually entered the *Second Life* market and sold virtual sneakers.²²³ Thus, this factor is likely to weigh in Nike’s favor in Scenario #1.

While the same might be true of Morpheus (in Scenario #2) bridging the gap into the virtual market, it is less likely that Neo is going to expand from selling virtual sneakers to manufacturing and selling real sneakers. But, it is not inconceivable that a *Second Life* user would take a virtual business to the real world. In Scenario #3, Trinity and Neo are in the same market and selling the same products. They are already in direct competition with each other, so this factor would likely apply neutrally in Scenario #3.

2. Summary of Confusion Factors

As evidenced by the preceding discussion, the “likelihood of confusion” test seems capable, at least in some circumstances, of

221. *Sleekcraft*, 599 F.2d at 354.

222. *Daddy’s Junky Music Stores v. Big Daddy’s Family Music Ctr.*, 109 F.3d 275, 287 (6th Cir. 1997) (quoting *Homeowners Group, Inc. v. Home Mktg. Specialists, Inc.*, 931 F.2d 1100, 1112 (6th Cir. 1991)).

223. In fact, if these stories are true, Scenario #1 may start to look more like Scenario #3. Steve Woodward, *Frequently asked questions Q: What exactly is Second Life?*, THE SUNDAY OREGONIAN, April 1, 2007, at 8-9 (“Q: Who uses Second Life? . . . A: . . . Corporations, sensing the commercial potential, also have been setting up shop. Nike and Adidas sell virtual shoes for avatars.”); Lisa Vorderbrueggen, *Lawmaker takes next leap: the virtual world of politics*, SAN JOSE MERCURY NEWS, Feb. 5, 2007, at 3E (“In-world stores sell just about everything . . . Nike sells virtual copies of its products.”). *But see* Benjamin Duranske, *Rampant Trademark Infringement in Second Life Costs Millions, Undermines Future Enforcement*, (2007), <http://virtuallyblind.com/2007/05/04/trademark-infringement-virtual-worlds/> (stating that a search for “Nike” in *Second Life* reveals many “stores where shoppers can find avatar shoes bearing the company’s distinctive swoosh. Nike itself does not sell any of these shoes”).

fairly straightforward application to Scenario #3. First, concerning intent, Trinity might conceivably make use of the Neokers mark knowing that Neo has already adopted it. She may intend to trade off the goodwill Neo has established in his brand. Second, since both products are virtual sneakers, it seems likely that some customers may be confused about the source or origin of the virtual sneakers. Lastly, Trinity and Neo's uses occur in the same niche market.

The "likelihood of confusion" factors are less clear in Scenarios #1 and #2, where real world trademarks collide with virtual uses and vice versa.

Consumers in *Second Life* will probably not believe that all branded products within the *Second Life* environment are endorsed by the trademark holders. While it seems possible that this type of confusion would exist, some type of survey evidence would be necessary to establish that fact. Some participants in *Second Life* might not assume that virtual Nike sneakers are a Nike product.

Finally, the difference between real and virtual economies and markets is significant. The market for sneakers is not the same as the market for representations of sneakers, and the virtual economy in *Second Life* is far different than the online and offline market for real sneakers. It is not clear that those supplying products and services in offline markets would be interested in pursuing the sales of the virtual counterparts of those products and services.

For these reasons, there is a good chance that confusion might not exist in the case of virtual sales modeled on traditional markets. We do not mean to suggest that defendants like Neo in Scenario #1 or Morpheus in Scenario #2 would always be successful in avoiding a finding of infringement. If actual confusion existed, liability would be likely. All we are suggesting is that, given the flexibility of the factors and the gap between real and virtual markets, consumer confusion may not always be present where one product is real and the other is virtual.

C. Trademark Dilution

As discussed above, it is not clear that if Nike sued Neo, the company would be able to establish a claim for trademark infringement. There may be some inherent differences between real sneakers and digital representations of sneakers and their respective markets. It is possible that Nike could fail to produce evidence of consumer confusion against a defendant that used its mark in a virtual world.

However, infringement is not the only means by which Nike could attempt to enforce its trademark rights. Nike could potentially bring a claim for trademark dilution as well,²²⁴ and, if it did so, it would not need to show a likelihood of consumer confusion to make its *prima facie* case.²²⁵ The focus of dilution is on the defendant's use of the mark in commerce, rather than on the effect of the use upon the public.²²⁶ In a suit alleging dilution, the absence of potential confusion between the sponsorship of real and virtual sneakers would be unimportant.

While trademark dilution has existed as a theory for over half a century, it was not added to the Lanham Act until 1996²²⁷ and was substantially modified as recently as 2006 by the Trademark Dilution Revision Act (TDRA).²²⁸ In this section, we briefly analyze how the TDRA could apply in virtual worlds. We should note that the judicial application of dilution remains unclear, since, to date, "only a few courts have interpreted the TDRA since its enactment, and none appear to have applied the TDRA at trial."²²⁹

1. Dilution Theory and the FTDA

Today, federal dilution protection permits the owner of a famous trademark to seek injunctive and, in some cases, monetary relief for the unauthorized use of its mark when such use "impairs the distinctiveness of the famous mark"²³⁰ or "harms the reputation of the famous mark."²³¹ As its name implies, the purpose of dilution is to protect a mark from being "diluted," which is generally understood as a "gradual whittling away or dispersion of the identity and hold upon

224. 15 U.S.C.A. § 1125(c) (West Supp. 2007).

225. Nike would not even need to demonstrate the presence of competition or economic damages to prevail in a dilution claim. GILSON, *supra* note 135, § 5A.01.

226. See *Enter. Rent-A-Car Co. v. Advantage Rent-A-Car, Inc.*, 330 F.3d 1333, 1338-40 (Fed. Cir. 2003) (explaining the difference between trademark infringement and dilution).

227. See Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 985 (1996) (codified at 15 U.S.C. 1125 (2000)).

228. Trademark Dilution Revision Act of 2005, Pub. L. No. 109-312, 120 Stat. 1730 (2006) (codified at 15 U.S.C.A. § 1125(c) (West Supp. 2007)).

229. *Nissan Motor Co., Ltd. v. Nissan N. Am., Inc.*, No. CV 99-12980 DDP (MCX), 2007 U.S. Dist. LEXIS 90487, at *52 (C.D. Cal. Sept. 21, 2007). Cf. Barton Beebe, *The Continuing Debacle of U.S. Antidilution Law: Evidence from the First Year of Trademark Dilution Revision Act Case Law*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 449 (2008) (evaluating the results of federal court opinions that analyzed an issue in anti-dilution law).

230. 15 U.S.C.A. § 1125(c)(2)(B).

231. 15 U.S.C.A. § 1125(c)(2)(C).

231. *Id.*

the public mind of the mark or name by its use on non-competing goods.²³²

Dilution is, in some respects, directly at odds with the underlying purpose and policy of trademark law. It provides protection of the distinctiveness and reputation of famous marks, which vindicates a private property interest without trademark law's corresponding public benefit of avoiding consumer confusion and deception.²³³

Due, in part, to its unclear theoretical basis, dilution did not receive clear federal recognition until it was expressly codified by statute in 1996.²³⁴ Even with a statutory basis, dilution still receives a "second-class citizenship" status as compared to trademark infringement²³⁵ with some courts criticizing it as impermissibly creating trademark rights in gross for famous mark owners.²³⁶

In 2003 in *Moseley v. V Secret Catalogue, Inc.*, when the Supreme Court considered dilution for the first time, as laid out in the then-applicable Federal Trademark Dilution Act (FTDA), it set a nearly insurmountable burden of proof for plaintiffs by requiring a showing of "actual dilution."²³⁷ In 2005, Congress reversed the *Moseley* decision²³⁸ by enacting the TDRA, which loosened a plaintiff's evidentiary burden to a likelihood of dilution standard.²³⁹

232. Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 825 (1927).

233. See *Enter. Rent-A-Car Co. v. Advantage Rent-A-Car, Inc.*, 330 F.3d 1333, 1339-40 (Fed. Cir. 2003); *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 429 (2003).

234. The Federal Trademark Dilution Act (FTDA) became effective in January 1996. See *Hasbro, Inc. v. Clue Computing, Inc.*, 66 F. Supp. 2d 117, 126 (D. Mass. 1999), *aff'd*, 232 F.3d 1 (1st Cir. 2000). Interestingly, some courts have applied the injunctive remedies somewhat retroactively to diluting uses that occurred before the effective date of the statutes. *Id.* at 126-30 (enumerating other circuit holdings regarding the retroactivity of the FTDA).

235. See 2 GILSON, *supra* note 135, § 5A.01.

236. *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev.*, 170 F.3d 449, 458 (4th Cir. 1999).

237. *Moseley*, 537 U.S. at 433 (holding that "actual dilution must be established"), *superseded by statute*, 15 U.S.C.A § 1125(c) (West Supp. 2007).

238. See, e.g., *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 477 F.3d 765, 766 (2d Cir. 2007) (noting that *Moseley's* actual dilution standard was superseded by the TDRA).

239. The FTDA standard of actual dilution, as construed in *Moseley*, still applies when plaintiffs seek monetary damages for alleged dilution that occurred before the October 6, 2006 effective date of the TDRA. See *Dan-Foam A/S v. Brand Named Beds, LLC*, 500 F. Supp. 2d 296, 308 (S.D.N.Y. 2007) ("Because the TDRA's relaxed likelihood of dilution standard applies only to pre-October 6, 2006 claims seeking prospective relief, actual dilution under *Moseley* still applies when a pre-October 6, 2006 claimant seeks monetary relief."); see also *Louis Vuitton Malletier v. Dooney & Bourke, Inc.*, 500 F. Supp. 2d 276, 282-83 (2d Cir. 2007). The TDRA changed the factors to determine fame and likelihood of blurring and denied protection to marks famous in a "niche" market. H.R. Rep. No. 109-23, at 8, 25 (2005). According to courts, however, because the majority of the FTDA remained intact, caselaw interpreting unchanged

2. The Trademark Dilution Revision Act

Out of our scenarios, a dilution claim would be most likely to arise from Neo's use of the famous Nike mark on his virtual sneakers (Scenario #1). To succeed in a claim under the TDRA, Nike would need to prove that: (1) its mark is famous and distinctive; (2) Neo's use of its mark on his virtual sneakers is commercial; (3) Neo used the Nike mark in commerce; (4) Neo's use commenced after Nike's mark became famous; and (5) Neo's use of the mark is likely to cause dilution by blurring or tarnishment.²⁴⁰

Establishing the "commercial use" elements would be similar to demonstrating "use in commerce,"²⁴¹ and, presumably, Neo's use of the Nike mark post-dated the mark's fame. Nike would probably also succeed in showing that its mark is famous and distinctive.²⁴²

Courts consider factors such as the reach of the mark publicity, amount of sales under the mark, actual recognition of the mark and the length of registration in determining whether a mark is famous.²⁴³ Even though these market factors overlap with the elements of infringement in some circuits, the showing to establish fame in dilution is higher than what is required to show confusion.²⁴⁴

sections is still applicable. *See Adidas Am., Inc. v. Payless Shoesource, Inc.*, No. CV 01-1655-KI, 2007 U.S. Dist. LEXIS 94192, at *67-68 (D. Or. Dec. 21, 2007) (explaining that the TDRA did not "eliminate the requirement that the alleged diluter's mark be identical, nearly identical, or substantially similar").

240. *See* 15 U.S.C.A. § 1125(c) (West Supp. 2007). To receive damages, a plaintiff must also establish that the defendant willfully intended to either trade on the plaintiff's reputation or dilute the plaintiff's famous mark. Without a showing of willfulness, the plaintiff can only receive injunctive relief.

241. *See supra* Part III.A, for a discussion regarding "use in commerce."

242. Under the TDRA, a mark is famous "if it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the marks' owner." 15 U.S.C.A. § 1125(c)(2)(A).

243. *See id.* This is a non-exclusive list. *Adidas*, 2007 U.S. Dist. LEXIS 94192, at *71-72. As a result, what characterizes a mark as "famous" has been — and continues to be — somewhat unclear under the federal statute. *See* Kurt M. Saunders, *Dilution Revisited: A First Look At The Trademark Dilution Revision Act*, 78 PA.BAR ASSN. Q. 69, 76 (2007); Shari Seidman Diamond, *Trademark Dilution: Of Fame, Blurring and Sealing Wax, With a Touch of Judicial Wisdom*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 521, 529-35 (2008) (discussing how courts have dealt with the fame requirement); Jacob Jacoby, *Considering the Who, What, When, Where and How of Measuring Dilution*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 601, 615-34 (discussing ways of measuring fame and distinctiveness).

244. Specifically, the test for similarity of the marks is the most dramatic difference between the dilution and infringement standards. *See, e.g.,* Thane Int'l v. Trek Bicycle Corp., 205 F.3d 894, 905-06 (9th Cir. 2002) (requiring the mark of the alleged diluter to be "identical or nearly identical" to the protected mark); Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 876 ("[A] higher standard must be employed to gauge the fame of a trademark eligible for this extraordinary [dilution] remedy" (quoting 77 TRADEMARK REP. 375, 461 (Oct. 1987))); Century

While “supermarks” like Coca-Cola or Nike are sufficiently famous to qualify for dilution protection,²⁴⁵ the fame component would pose a problem for Neo if he attempted to bring a dilution claim based on his *Second Life* brand against Morpheus (Scenario #2) or Trinity (Scenario #3). It would be unlikely that a mark used exclusively in *Second Life* could achieve the requisite, nationwide exposure to meet the fame threshold.²⁴⁶ The amount of sales and the reach of the mark would be limited to a relatively small class of people — *Second Life* users. Further, the TDRA expressly removed the possibility of “niche” fame—the fame of a mark in a particular niche geographic or market segment.²⁴⁷ It is doubtful that a mark used in *Second Life* could achieve fame under the TDRA if it were not well-known to those who do not frequent the virtual world.

After establishing the fame of the mark, Nike would still need to show a likelihood of dilution by either blurring or tarnishment. “Dilution by blurring” is defined as an “association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.”²⁴⁸ In the context of purely tangible goods, an example of this type of blurring might be “Nike Cat Food.” While it is unlikely that consumers would believe that Nike, the sports apparel outfitter, also manufactures cat food, the use of the Nike mark on cat food could cause the Nike mark to gradually lose its effectiveness as a source identifier.

21 Real Estate LLC v. Century Ins. Group, No. CV 03-0053-PHX-SMM, 2007 U.S. Dist. LEXIS 9720, at *44-45 (D. Ariz. Feb. 9, 2007) (finding CENTURY and CENTURY 21 not sufficiently similar); Ringling Bros.—Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel and Dev., 170 F.3d 449, 462 (4th Cir. 1999) (requiring an “instinctive mental association” of the two marks); cf. Eli Lilly & Co. v. Natural Answers, Inc., 233 F.3d 456, 469 (7th Cir. 2000) (applying same test for similarity for dilution and infringement).

245. See *Avery Dennison*, 189 F.3d at 875 (quoting I.P. Lund Trading APSv. Kohler, Co., 163 F.3d 27, 46 (1st Cir. 1998)):

Dilution is a cause of action invented and reserved for a select class of marks - those marks with such powerful consumer associations that even non-competing uses can impinge on their value. . . . [T]o meet the “famousness” element of protection under the dilution statutes, ‘a mark [must] be truly prominent and renowned.’

See also *Nike, Inc. v. Nikepal Int’l, Inc.*, 84 U.S.P.Q.2d (BNA) 1521, 1526 (E.D. Cal. 2007) (finding NIKE famous as defined by the TDRA).

246. See *Dan-Foam A/S v. Brand Named Beds, LLC*, 500 F. Supp. 2d 296, 308 (S.D.N.Y. 2007); *Componentone, L.L.C. v. Componentart, Inc.*, No. 02: 05cv1122, 2007 U.S. Dist. LEXIS 89772, at *4 (W.D. Pa. Dec. 6, 2007).

247. See *Savin Corp. v. Savin Group*, 391 F.3d 439, 449-50 (2d Cir. 2004) (holding that a non-famous mark will not receive dilution protection even if the marks in question are identical and the plaintiff can demonstrate actual dilution).

248. 15 U.S.C.A. § 1125(c)(2)(B) (West Supp. 2007).

Over time, consumers might develop less faith in the Nike mark as a proper source identifier if other companies were using the same mark for their products. Consumers would not be able to readily associate the mark with the manufacturer of high-quality sports apparel.²⁴⁹ Nike might claim that Neo's virtual sneakers have the same practical effect as Nike Cat Food. The virtual sneakers are a product offered for sale emblazoned with the famous Nike mark. Even if consumers are not misled about the source of the virtual product, they may begin to associate the Nike logo with commercial agents other than Nike. If Nike could convince a court that it stated a claim for dilution, by showing a likelihood of blurring, it could enjoin Neo from selling the virtual Nike sneakers.

It is unclear how courts will apply the TDRA in the context of virtual worlds—the novel context might lead to some interesting doctrinal innovations.²⁵⁰ Courts could conceivably extend technology-based distinctions to potential dilution by blurring in virtual worlds.²⁵¹

Judge Posner's notion of "dilution by free-riding" offers one way courts could handle claims of dilution in virtual worlds.²⁵² Dilution by

249. Obviously there seems to be some sort of theory (a rather unscientific one) of cognition at play here. For a careful exploration and criticism of the pseudo-scientific premises animating dilution law, see Rebecca Tushnet, *Gone in Sixty Milliseconds: Trademark Law and Cognitive Science*, 86 TEX. L. REV. 507 (2008).

250. See *Nissan Motor Co., LTD v. Nissan North America, Inc.*, 2007 U.S. Dist. LEXIS 90487, *55 (Sept. 21, 2007) ("[T]here is no per se dilution rule in the cyberspace context. Put differently, the rule cannot be that the owner of a famous mark will always be able to enjoin the commercial use of that mark as a domain name."). In that case, the district court noted that the nature of the Internet (specifically the availability of search engines) made the risk of dilution minimal. *Id.* at *54.

251. *Id.* at *54 (noting that the TDRA must be interpreted "cautiously" due to its recent enactment).

252. We admit that we are considering Judge Posner's views on dilution here, in part, because he is one of the first jurists to boldly venture into *Second Life*, where he was subject to fireballs and met a furry humanoid raccoon. For a transcript of the event, see New World Notes, *The Second Life Of Judge Richard A. Posner*, http://nwn.blogs.com/nwn/2006/12/the_second_life.html (last visited Mar. 8, 2008). In *Ty, Inc. v. Perryman*, 306 F.3d 509, 512 (7th Cir. 2002), Judge Posner explained this third type of dilution as follows:

Third, and most far-reaching in its implications for the scope of the concept of dilution, there is a possible concern with situations in which, though there is neither blurring nor tarnishment, someone is still taking a free ride on the investment of the trademark owner in the trademark. Suppose the "Tiffany" restaurant in our first hypothetical example is located in Kuala Lumpur and though the people who patronize it (it is upscale) have heard of the Tiffany jewelry store, none of them is ever going to buy anything there, so that the efficacy of the trademark as an identifier will not be impaired. If appropriation of Tiffany's aura is nevertheless forbidden by an expansive concept of dilution, the benefits of the jewelry store's investment in creating a famous name will be, as

free-riding focuses primarily on the secondary user's benefit from using the famous mark.²⁵³ In other words, the primary question might be whether, by putting the mark on his virtual sneakers, Neo was seeking to trade off the goodwill and consumer loyalty already associated with the Nike mark.

Virtual world users are likely purchasing the virtual Nike sneakers because of the mark's goodwill and what the mark communicates to other users. The virtual Nike sneakers express a status and help to define the user's online persona and identity. Without this strong consumer association, the virtual Nike sneakers have no meaningful value in the virtual world, as product quality concerns are moot since they are not real sneakers. In other words, Neo would be getting more than a slight advantage from this pre-existing association: his virtual business success might be based almost entirely on Nike's goodwill.

Dilution by free-riding is not formally recognized in the TDRA and has only been pondered by Judge Posner as a form of common law dilution.²⁵⁴ It is possible that subsequent Lanham Act amendments will include it,²⁵⁵ but, for now, Nike is limited to pursuing claims for dilution by blurring or dilution by tarnishment, the second type of dilution included in the TDRA.

"Dilution by tarnishment" as an "association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark."²⁵⁶ While tarnishment can occur when a mark is used in association with a lower quality product or when a mark is portrayed in an unflattering way,²⁵⁷ plaintiffs have

economists say, "internalized" - that is, Tiffany will realize the full benefits of the investment rather than sharing those benefits with others - and as a result the amount of investing in creating a prestigious name will rise.

253. *Tj*, 306 F.3d at 512.

254. In *Tj*, Judge Posner noted:

This rationale for antidilution law has not yet been articulated in or even implied by the case law, although a few cases suggest that the concept of dilution is not exhausted by blurring and tarnishment . . . and the common law doctrine of "misappropriation" might conceivably be invoked in support of the rationale that we have sketched.

Id. (citations omitted).

255. *But see* 2 GILSON, *supra* note 135, § 5A.01[2] (describing the Seventh Circuit's discussion of dilution by free-riding a "misunderstanding of blurring").

256. 15 U.S.C.A. § 1125(c)(2)(C) (West Supp. 2007).

257. These "shoddy product" cases have involved situations where the marks were nearly identical and the plaintiff and defendant were competitors. *See, e.g.*, *Jordache Enters v. Hogg Wyld, Ltd.*, 828 F.2d 1482, 1492 (10th Cir. 1987). *See also* Jacoby, *supra* note 243, at 634-39.

been more likely to succeed in claims for the latter type of tarnishment.²⁵⁸

Many tarnishment claims arise from attempts at humor where defendants use the trademark in a parody or pun; a use that implicates both fair use and First Amendment concerns.²⁵⁹ The tarnishment analysis is fact-specific, but courts are more likely to find uses that are disgusting or vulgar or that associate the mark with obscenity, sexual activity or criminal behavior to be actionable as tarnishment.²⁶⁰ But, “tarnishment is not limited to seamy conduct.”²⁶¹ For instance, the Second Circuit found that a casino’s use of the NYSE mark in association with gambling services could constitute tarnishment.²⁶²

Neo’s use of Nike’s mark on his virtual sneakers is not a use that should tarnish the Nike mark. However, if Neo were to use Nike’s mark on a bed that allowed *Second Life* users (through their avatars) to engage in exotic forms of virtual sex, Nike could potentially prove tarnishment.²⁶³ The more legally interesting cases of tarnishment would likely involve uses of the mark where the virtual world user is poking fun at the mark or just using the mark during imaginary play. As discussed in the next section, these cases invoke First Amendment concerns and could qualify as a form of fair or protected use.

D. Player Defenses

Thus far in this section, we have concluded that trademark infringement via player activities in virtual worlds is possible. However, in our initial example of Neo and Trinity in the restaurant, we claimed that individuals might have the intuition that the realms of

258. *Deere & Co. v. MTD Prods., Inc.*, 41 F.3d 39, 43 (2d Cir. 1994) (noting the two traditional types of “tarnishment”).

259. *See infra* Part III.D.

260. *See, e.g.*, *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 206 (2d Cir. 1979) (pornographic film where actresses wear the uniforms of Dallas Cowboy Cheerleaders); *Gen. Elec. Co. v. Alumpa Coal Co.*, 205 U.S.P.Q. 1036 (D. Mass. 1979) (t-shirts and underwear with GENITAL ELECTRIC and the GE logo); *Anheuser-Busch, Inc. v. Andy’s Sportswear, Inc.*, 40 U.S.P.Q.2d 1542 (N.D. Cal. 1996) (BUTTWISER logo); *Gucci Shops, Inc. v. R.H. Macy & Co.*, 446 F. Supp. 838 (S.D.N.Y. 1977) (GUCCI GOO diaper bags).

261. *N.Y. Stock Exch., Inc. v. N.Y., N.Y. Hotel, LLC.*, 293 F.3d 550, 558 (2d Cir. 2002) (quoting *Hormel Foods Corp. v. Jim Henson Prods., Inc.*, 73 F.3d 497, 507 (2d Cir. 1996)).

262. *Id.*

263. One of the recent lawsuits concerning trademarks in *Second Life* was based on a complex “Sex Gen” bed. Complaint, *Eros, LLC v. John Doe*, No. 8:07-cv-01158-SCB-TGW (M.D. Fl. Filed July 3, 2007), available at <http://secondlife.reuters.com/media/SDOC1202.pdf>; Silvestrini, *supra* note 144, (“He said he sells about 1,000 Sex Gens a year for the equivalent of about \$40 each. As Alderman explained it, a Sex Gen is kind of a machine that manipulates avatars into various positions.”); Taney, *supra* note 144.

personal fantasy should be outside the realm of law. Nevertheless, within virtual worlds that feature user-generated content and legally “real” economies, trademark infringement and dilution appear to be a real possibility.

A question then might be whether users who would be otherwise liable for trademark infringement or dilution might have a legal basis to claim special immunities from liability. In other words, might there be some defenses that protect otherwise infringing uses of marks in the context of commercial and virtual activities? In the context of virtual worlds, the most promising defenses are the doctrines of trademark “fair use” and constitutional free speech guarantees.

In this section, we discuss how these defenses could apply in the context of player trademark infringement and dilution in virtual worlds. Unfortunately for players, we conclude that both of these defenses appear to offer fairly weak (if any) protection. It seems unlikely that these defenses would protect activities, such as Neo’s sale of virtual Nikes, that might be deemed infringing under the above analysis.

1. Fair Use

Unlike in copyright law where certain educational, minor and non-commercial uses are exempted from infringement liability,²⁶⁴ no general statutory definition of “fair use” is included in the Lanham Act as an exception to trademark infringement liability.²⁶⁵ In fact,

264. Copyright holders enjoy broad rights to prohibit others from copying, displaying, performing or otherwise exercising the exclusive statutory rights they are granted by federal law in relation to their works. *See* 17 U.S.C. § 106 (2000) (setting forth exclusive rights). These rights are limited only by “fair use” rights. *See* 17 U.S.C. § 107 (2000) (setting forth the copyright “fair use” test). Copyright protections (which apply generally to books, music and film) are commonly confused with trademark protections (which apply, as explained above, to indications of the source of goods and services). *See* Justin Hughes, *Size Matters (Or Should) In Copyright Law*, 74 *FORDHAM L. REV.* 575, 583-84 (2005) (noting the confusion that occurs when courts fail to recognize these distinctions). It is understandable then that individuals confused about the difference between trademark and copyright might expect trademark law to also include certain “fair use” rights that limit the powers of trademark holders.

265. As discussed *infra* Part III.D.2, the TDRA does have an explicit statutory fair use provision that applies to trademark dilution, but that provision does not clearly define the notion of fair use even in the context of dilution. *See* 15 U.S.C.A. § 1125(c)(3)(A) (West Supp. 2007). There is also a statutory defense that looks somewhat like a “fair use” defense to an assertion of trademark incontestability. *See* 15 U.S.C. § 1115(b)(4) (2000) (allowing a defense based on use of “a term or device which is descriptive of and used fairly and in good faith only to describe the goods or services of such party”).

until recently, it was not clear that “fair use” even existed as a substantial doctrine in trademark law.²⁶⁶

In 2004 in *KP Permanent Make-Up, Inc. v Lasting Impression I, Inc.*, the Supreme Court acknowledged, for the first time, that “fair use” was a viable defense in trademark law and that it was not simply another way to state that a claimant failed to meet the requirements of infringement.²⁶⁷

Although *KP Permanent* held out a potential larger role for “fair use” rights in trademark law, the “fair use” defense has historically been limited to situations where defendants have used descriptive language in ways that have not been intended to inform consumers about the source or origin of a product.²⁶⁸ Defendants used the mark to describe their own products, rather than to reference or to associate with the mark owner’s products.²⁶⁹ These trademark uses were deemed fair because, essentially, ordinary words were used to convey their ordinary meaning, instead of being used in their trademark sense.²⁷⁰

For instance, a museum might want to sell athletic wear bearing the image of the Nike of Samothrace. If the use of the term “Nike” was made in a good faith effort to sell this type of product (and not a bad faith effort to capitalize on the Nike brand or to mislead consumers), the museum should be entitled to use the word “Nike” in describing its athletic wear. This would be a traditional form of “fair use” in trademark law. According to *KP Permanent*, this type of use

266. Fair use was first acknowledged as a defense to trademark infringement in 2004 in *KP Permanent Make-Up, Inc. v Lasting Impression I, Inc.*, 543 U.S. 111 (2004), but has not been codified in the Lanham Act. The Federal Trademark Dilution Act, enacted in 1996, and its subsequent 2006 amendment, the Trademark Dilution Revision Act, both include fair use as a defense to trademark dilution. See *infra* Part III.D.

267. *KP Permanent*, 543 U.S. at 112.

268. See *WCVB-TV v. Boston Athletic Ass’n*, 926 F.2d 42, 46 (1st Cir. 1991) (“[T]he use of words for descriptive purposes is called a ‘fair use,’ and the law usually permits it even if the words themselves also constitute a trademark.”); *Cosmetically Sealed Indus. v. Cheeseborough-Pond’s USA Co.*, 125 F.3d 28, 30 (2d Cir. 1997) (fair use “permits others to use protected marks in descriptive ways, but not as marks identifying their own products”).

269. See *New Kids on the Block v. New Am. Publ’g, Inc.*, 971 F.2d 302, 308 (9th Cir. 1992) (describing “classic fair use [as a case] where the defendant has used the plaintiff’s mark to describe the defendant’s own product”).

270. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 28, cmt. c (1995); 2 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 11:45 (4th ed.); *KP Permanent*, 543 U.S. at 122 (noting that the Lanham Act gives “no indication that the [statute] was meant to deprive commercial speakers of the ordinary utility of descriptive words”).

might be fair even when it entails some likelihood of consumer confusion.²⁷¹

The Ninth Circuit also recognizes another variant of “fair use” in the trademark context: the so-called doctrine of “nominative fair use.”²⁷² Under this doctrine, articulated in *New Kids on the Block v. News America Publishing Inc.*, an infringer can escape liability in situations where it references the trademark to describe the mark owner’s product in order to legitimately sell its own products or services.²⁷³

In *New Kids*, the infringers were newspapers that had used the name of the then-popular pop band to conduct a poll that asked readers: “Who’s the best on the block?”²⁷⁴ Readers were offered a 900-number where they could pay to vote, and profits gained through the poll were allegedly given to charity.²⁷⁵ The court found that the newspapers’ use was nominative fair use because the rock group was not readily identifiable without the use of their mark; the newspapers only used so much of the mark as was reasonably necessary; and the newspapers did not suggest that the rock group sponsored or endorsed their poll.²⁷⁶

Because liability for infringement should not attach without the likelihood of confusion, it is questionable whether this type of fair use offers a substantive defense, or whether it simply reformulates in the negative the required showing of likelihood of confusion.²⁷⁷ So far, the Third Circuit is the only other circuit to expressly adopt a similar doctrine.²⁷⁸

In any event, to the extent that a coherent notion of fair use exists in trademark law, it would offer little defense to infringement liability

271. *KP Permanent*, 543 U.S. at 116-17. In fact, the Court heard this case because there was disagreement among the circuits regarding whether the defendant must show that there was no confusion; some circuits found this a necessary showing, while others did not. *Id.*

272. *New Kids on the Block*, 971 F. 2d at 308.

273. *Id.*

274. *Id.* at 304.

275. *Id.*

276. *Id.* at 308.

277. *See Brother Records v. Jardine*, 318 F.3d 900, 908 (9th Cir. 2003) (suggesting that when consumer confusion is likely, there is no “nominative fair use” defense available).

278. *See Century 21 Real Estate Corp. v. LendingTree Inc.*, 425 F.3d 211 (3d Cir. 2005) (adopting the defense generally but laying out a revised test); *Id.* at 233 (“The majority, stating that the Ninth Circuit is the only Court of Appeals to craft a test for nominative use, mildly rewords that test and recasts it as an affirmative defense.”) (Fisher, J., concurring in part and dissenting in part). *Cf. KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 115 (2004) (declining to address the issue of nominative fair use); *Universal Commc’n Sys. v. Lycos, Inc.*, 478 F.3d 413, 424 (1st Cir. 2007).

for players in virtual worlds. It would most likely not apply, at all, to any of our three virtual trademark lawsuit scenarios. Other circumstances (such as if Neo built a reproduction of a Greek temple and charged for admission to his “World of Nike”) might raise the possibility of a trademark fair use defense to infringement. However, players seeking to escape infringement liability in the scenarios we outlined above will likely need to look beyond fair use.

2. TDRA Fair Use

Unlike with infringement, the TDRA explicitly enumerates an exclusion from dilution liability for “any fair use,” which includes nominative and descriptive fair use and the facilitation of such fair use, provided that the player is not using the mark to designate the source of his or her own products.²⁷⁹ Specifically, the TDRA permits advertising comparisons²⁸⁰ and the “identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owner.”²⁸¹ Thus, fair use may provide a sustainable defense to dilution liability if the use were to occur in the context of “commentary.”

Like the rest of the TDRA, it is unclear how courts will manage to reconcile these statutory protections for parody and comment with an apparent concomitant extension of liability to uses that are deemed to “blur” and “tarnish” famous marks. For instance, if Neo were to claim that his sale of virtual sneakers for Lindens was a parody directed at revealing the lack of material substance in contemporary fashion, would a court find this convincing? What if Neo were to include, as a feature of the sneakers, an audio file that criticized Nike’s advertising practices or a link to a website that parodied the Nike website? What if the Nike sneakers were to automatically self-immolate after a month’s use—would this be a commentary or their quality or an attempt to tarnish the Nike mark?

At present, with sparse guidance on how to interpret the TDRA fair use provisions, one can only wonder what courts will do when presented with such questions.²⁸²

279. 15 U.S.C.A. § 1125(c)(3)(A) (West Supp. 2007).

280. 15 U.S.C.A. § 1125(c)(3)(A)(i).

281. 15 U.S.C.A. § 1125(c)(3)(A)(ii).

282. The Fourth Circuit has taken a stab, recently, at interpreting the fair use and parody provisions of the TDRA in a case involving “Chewy Vuitton” dog toys. See *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Cir. 2007). In that case, claims of both blurring and tarnishment were found to fail. *Id.* at 268-69. The opinion offers fairly broad protection to defendants who parody famous marks. “In short, as Haute Diggity Dog’s ‘Chewy

3. Free Speech

In a recent article, Judge Pierre N. Leval has argued that there should be no conflict between trademark law and the First Amendment.²⁸³ Judge Leval explains that trademark law has developed as a common law doctrine that has historically been attuned to the importance of free speech protections.²⁸⁴ After considering several well-known cases that find conflicts between trademark law and the protections of the First Amendment,²⁸⁵ Judge Leval argues that no conflict would have occurred if trademark law had been interpreted correctly.²⁸⁶ Judge Leval's approach would seem perfectly reasonable if trademark law today were limited to its traditional scope.

Because trademark law theoretically regulates only deceptive commercial speech and the Supreme Court has made clear that deceptive commercial speech can be banned outright,²⁸⁷ trademark law might well be interpreted as raising no significant conflict with free speech protection.²⁸⁸ As Judge Alex Kozinski put it: "Whatever [F]irst [A]mendment rights you may have in calling the brew you make in your bathtub 'Pepsi' are easily outweighed by the buyer's interest in not being fooled into buying it."²⁸⁹

While this approach is supported by traditional common law jurisprudence and by legacy Supreme Court opinions,²⁹⁰ few contemporary courts have endorsed the proposition that trademark law is categorically immune to conflicts with the First Amendment.²⁹¹

Vuiton' marks are a successful parody, we conclude that they will not blur the distinctiveness of the famous mark as a unique identifier of its source." *Id.* at 267. The court found no evidence that the parody tarnished the reputation of the Louis Vuitton mark. *Id.* at 269.

283. Pierre N. Leval, *Trademark: Champion of Free Speech*, 27 COLUM. J.L. & ARTS 187 (2004).

284. *Id.*

285. *E.g.* *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989); *Cliffs Notes, Inc. v. Bantam Doubleday Dell Publ'g Group, Inc.*, 886 F.2d 490 (2d Cir. 1989); *L.L. Bean, Inc. v. Drake Publishers, Inc.*, 811 F.2d 26 (1st Cir. 1987).

286. Leval, *supra* note 283, at 202-04.

287. *See Cent. Hudson Gas & Elec. Corp. v. Pub. Serv. Comm'n*, 447 U.S. 557 (1980).

288. *See* Rebecca Tushnet, *Trademark Law as Commercial Speech Regulation*, 58 S.C.L. REV. 737 (2007).

289. Alex Kozinski, *Trademarks Unplugged*, 68 N.Y.U. L. REV. 960, 973 (1993).

290. Tushnet, *supra* note 288, at 744-48.(summarizing the jurisprudence but concluding that the issue has received "inconsistent and shallow treatment").

291. *See, e.g., Coca-Cola Co. v. Gemini Rising, Inc.*, 346 F. Supp. 1183 (E.D.N.Y. 1972).

Instead, courts have adopted approaches that recognize potential conflicts between trademark law and the First Amendment.²⁹²

Because commercial speech, or speech that “proposes a commercial transaction,”²⁹³ enjoys a lesser degree of First Amendment protection,²⁹⁴ most decisions addressing free speech defenses to infringement have involved speech that was not purely advertising.²⁹⁵ Since the Lanham Act’s definition of “use in commerce” extends to expression falling outside the range of commercial speech, courts have had to examine how to balance the rights of trademark owners (and the interests of the public) against the claims of parties making use of trademarks.²⁹⁶ Many of these cases involved the assertion of trademark rights in relation to expressive works, such as music and films, which, despite the fact that they are produced in pursuit of profit, receive greater First Amendment protection than mere commercial speech.²⁹⁷

An early approach, which often produced results unfavorable to defendants, was to examine whether “alternative avenues” existed for the defendant to express ideas without using the plaintiff’s trademark.²⁹⁸ The Second Circuit used this test in *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*²⁹⁹ where it considered the defendant’s use of the Dallas Cowboy Cheerleader uniforms in the film *Debbie Does Dallas* and determined that “[b]ecause there are numerous ways in which defendants may comment on ‘sexuality in athletics’ without infringing plaintiff’s trademark, the district court

292. Tushnet, *supra* note 288, at 738-39; Margreth Barrett, *Domain Names, Trademarks and the First Amendment: Searching for Meaningful Boundaries*, 39 CONN. L. REV. 973, 993 (2007) (“[T]he trend appears to be away from reliance on a straight likelihood of confusion analysis in cases of noncommercial speech.”).

293. *Va. State Bd. of Pharmacy v. Va. Citizens Consumer Council, Inc.*, 425 U.S. 748, 762 (1976); *44 Liquormart, Inc. v. Rhode Island*, 517 U.S. 484 (1996) (plurality opinion).

294. Tushnet, *supra* note 288, at 737-38.

295. Eileen Hintz Rumfelt, *Political Speech: Priceless - Mastercard v. Nader and the Intersection of Intellectual Property and Free Speech*, 55 EMORY L. J. 389, 399-402 (2006) (discussing parodies and nominative fair use defenses to trademark infringement); Mark V.B. Partridge, *Trademark Parody and the First Amendment: Humor in the Eye of the Beholder*, 29 J. MARSHALL L. REV. 877, 882-89 (1996) (distinguishing between commercial and non-commercial speech and noting some relevant cases).

296. *Cliffs Notes, Inc. v. Bantam Doubleday Dell Publ'g Group, Inc.*, 886 F.2d 490, 494 (2d Cir. 1989); *Rogers v. Grimaldi*, 875 F.2d 994, 999 (2d Cir. 1989); Rumfelt, *supra* note 295, at 393-94 (discussing balancing test).

297. Tushnet, *supra* note 288, at 738-39.

298. *See Lloyd Corp. v. Tanner*, 407 U.S. 551, 567 (1972) (discussing the “adequate alternative avenues of communication” test in the context of leafleting at malls).

299. *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 206 (2d Cir. 1979) (extending *Lloyd Corp.* to apply in the context of trademark infringement).

did not encroach upon their first amendment rights in granting a preliminary injunction.”³⁰⁰

While other courts have endorsed the “alternative avenues” test set out in *Pussycat Cinema*,³⁰¹ ten years later the Second Circuit distinguished its own opinion on the basis that it contained “blatantly false advertising.”³⁰² In *Rogers v. Grimaldi*, the court stated that the existence of “alternative avenues of communication” was, on its own, an insufficient basis to completely avoid First Amendment considerations.³⁰³

In *Rogers*, the Second Circuit considered a claim by actress Ginger Rogers who alleged that a film entitled “Ginger and Fred” violated her trademark interest in her own name.³⁰⁴ As a matter of trademark doctrine, there was “nothing to the Lanham Act claim.”³⁰⁵ Nonetheless, the court still framed its decision against Rogers with the observation that “overextension of Lanham Act restrictions in the area of titles might intrude on First Amendment values” and therefore the court was required to “construe the Act narrowly.”³⁰⁶ This approach, which seeks to balance trademark and free speech interests, has been accepted by several other circuit courts.³⁰⁷

Finding the *Rogers* balance has become increasingly difficult by the expanding protections granted to trademark owners by statutory enactments and judicial doctrine.³⁰⁸ In particular, the enactment of federal protections against trademark dilution, which is not dependent on any evidence of consumer confusion or deception, raises serious concerns about the intersection of trademark and free speech.

300. *Id.*

301. Barrett, *supra* note 292, at 991 (discussing the adoption of the “alternative avenues” test).

302. *Rogers v. Grimaldi*, 875 F.2d 994, 999 (2d Cir. 1989).

303. *Id.*

304. *Id.* at 996.

305. *Id.* at 999.

306. *Id.* at 998.

307. *Cliff's Notes, Inc. v. Bantam Doubleday Dell Publ'g Group, Inc.*, 886 F.2d 490 (2d Cir. 1989) (describing the “the overall balancing approach of *Rogers*”); *L.L. Bean, Inc. v. Drake Publishers, Inc.*, 811 F.2d 26 (1st Cir. 1987); Barrett, *supra* note 292, at 1000; *Parks v. LaFace Records*, 329 F.3d 437, 450 (6th Cir. 2003) (“[W]e find [the *Rogers v. Grimaldi* test] the most appropriate method to balance the public interest in avoiding consumer confusion with the public interest in free expression.”).

308. Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1710-11 (1999).

Courts adopted ways to cabin the concept of dilution and reconcile it with the First Amendment.³⁰⁹ Now that Congress has attempted to reinvigorate the doctrine with the TDRA, courts will almost assuredly need to continue grappling with the doctrine. While some commentators are confident that the language of the TDRA will prevent conflicts with free speech,³¹⁰ only the development of the case law will confirm or reject these opinions.

Any potential “narrowing” or “balancing” of trademark rights with First Amendment interests is unlikely to offer players falling within our three virtual trademark lawsuit scenarios any significant protections. For example, if Neo advertises and sells Nike-branded sneakers to other players within *Second Life* and the purchasers believe that these products are endorsed and sponsored by the footwear company, it is hard to see how this usage raises any novel First Amendment questions. Indeed, it is conceivable that a court could classify Neo’s use of the Nike mark as commercial speech, but such a finding is not likely.

As with fair use, there could certainly be other uses of marks within virtual worlds that might lead a court to struggle with First Amendment issues. For instance, what if Neo created and sold admission to virtual spaces involving athletic competitions, and some of the figures in his virtual spaces wore Nike athletic gear? If trademark law were to prevent this type of creativity, it would seem to pit Neo’s interest in creative expression against trademark law. But, it is unclear that trademark doctrine would actually extend to prohibit this kind of expressive use, since the mark is used as part of a fabricated *tableau*.

In summary, it seems that neither fair use nor free speech offer any blanket protection that could immunize participants in virtual worlds from potential liability for trademark infringement. Otherwise infringing commercial use of a mark in a virtual world is unlikely to

309. *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 433 (2003) (“[A]ctual dilution must be established.”); *Mattel v. MCA Records*, 296 F.3d 894, 905-06 (9th Cir. 2002) (interpreting the federal dilution statute to apply only to “purely commercial” speech that proposes a commercial transaction).

310. Dale M. Cendali & Bonnie L. Schrieffer, *The Trademark Dilution Revision Act of 2006: A Welcome—and Needed—Change*, 105 MICH. L. REV. FIRST IMPRESSIONS 108, 108 (2006), <http://www.michiganlawreview.org/firstimpressions/vol105/cendali.pdf>.

Some have argued that the changes to the Federal Trademark Dilution Act (the ‘FTDA’) embodied in the recently enacted Trademark Dilution Revision Act of 2006 (the ‘TDRA’) threaten to infringe upon the right to free speech. This is simply not the case. The FTDA has always protected First Amendment rights, and the TDRA clarifies and strengthens those protections.

be recast as a fair use, and, generally speaking, deceptive speech is not protected by the First Amendment. Therefore, while some virtual world trademark uses could be influenced by these defensive doctrines, truly commercial activity that generates confusion or dilution of protected marks seems perfectly capable of leading to liability under existing trademark law.

IV. SECONDARY LIABILITY

If trademark infringement and dilution are viable claims within the virtual economies found in virtual worlds, this raises the question of whether a virtual world owner could potentially be held secondarily liable for its users' infringements. In theory, this is possible even if the virtual world owner were not a direct participant in the activity. There are four types of secondary liability claims that could be brought against virtual world owners: contributory³¹¹ and vicarious³¹² trademark infringement and contributory³¹³ and vicarious dilution.³¹⁴ Because vicarious infringement³¹⁵ and contributory and

311. Contributory trademark infringement is a common law doctrine derived from general tort law theories of unfair competition and joint tortfeasor liability and, though not expressly codified in the Lanham Act, has been recognized by courts since as early as 1890. See 3 GILSON, *supra* note 135, § 11.02[2][h][i][A] (2007); Société Anonyme Distillierie v. W. Distilling Co., 42 F. 96 (C.C.E.D. 1890) (finding liability where party "was intentionally instrumental" in causing the infringing sales).

312. Vicarious liability is based on common law principles of agency and joint enterprise. The doctrine was first endorsed by the Seventh Circuit in *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992) (applying the theory in situations where the parties are partners or "have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product").

313. In *Lockheed Martin v. Network Solutions*, the lower court inferred that, "like contributory infringement, contributory dilution requires a showing of inducement or supply. The defendant must have either induced another's conduct or continued to supply a product after the defendant knew or should have known that it was being used to dilute the plaintiff's trademark." *Lockheed Martin v. Network Solutions*, 175 F.R.D. 640, 645-46 (C.D. Cal. 1997) (citations omitted), *aff'd*, 194 F.3d 980 (9th Cir. 1999). *But see* *Google, Inc. v. Am. Blind & Wallpaper Factory, Inc.*, 74 U.S.P.Q.2d (BNA) 1385, 1394 n.28 (N.D. Cal. 2005) (noting that no appellate court or statute has established a cause of action for contributory dilution).

314. No federal or state court has defined the elements of vicarious dilution, however, John T. Cross, in his article, *Contributory and Vicarious Liability for Trademark Dilution*, suggested that vicarious dilution could occur in four situations:

First, a defendant who specifically orders or directs someone under his legal control to use a mark is liable for any resulting dilution. In addition to employers and principals, franchisors might be subject to vicarious liability under this standard. Second, joint tortfeasors should be vicariously liable for all acts of dilution contemplated by the parties in their agreement. Third, an employer should be vicariously liable for acts of her employees to the full extent contemplated by the Second Restatement of Agency. Finally, principals should

vicarious dilution³¹⁶ are less commonly alleged today than standard contributory infringement, we focus exclusively on contributory trademark infringement, which seems more applicable to the virtual world context.

It is important to stress that primary infringement liability is a necessary predicate for establishing secondary infringement liability.³¹⁷ One district court has already written an opinion on the issue of secondary trademark infringement liability in a virtual game world (*Marvel v. NCSoft*) and rejected the plaintiff's claims on the basis that the players had made no "use in commerce" of the marks.³¹⁸ As discussed above, player liability for direct infringements in virtual worlds does not seem impossible. In user-generated content worlds like *Second Life*, one could imagine that the "use in commerce" hurdle could be overcome in some instances.

In this section, we will explore whether a virtual world owner's somewhat ancillary involvement in virtual world commerce could lead to secondary trademark infringement liability. If direct trademark infringement is possible in virtual worlds, we conclude that a claim for contributory trademark infringement against the virtual world owner would also be possible.

be liable for acts of their agents performed in furtherance of the agency agreement and from which the principal derives a direct benefit.

John T. Cross, *Contributory and Vicarious Liability for Trademark Dilution*, 80 OR. L. REV. 625, 643 (2001).

315. Vicarious liability in the trademark context is (generally) construed as limited to situations where parties have a business partnership or principal-agent relationship. Mark Bartholomew & John Tehranian, *The Secret Life of Legal Doctrine: The Divergent Evolution of Secondary Liability in Trademark and Copyright Law*, 21 BERKELEY TECH. L.J. 1363, 1370 (2006) ("Absent a principal-agent relationship between the defendant and the direct infringer, the defendant cannot face exposure to vicarious liability."). Not all circuits have endorsed the theory of vicarious liability for trademark infringement. *See, e.g.*, *AT&T Co. v. Winback & Conserve Program, Inc.*, 42 F.3d 1421, 1432-33 (3d Cir. 1994) (declining to recognize any theory of secondary liability in trademark law other than the contributory liability test announced by the Supreme Court in *Inwood.*).

316. Only a handful of courts have acknowledged the possibility of contributory and vicarious dilution, and those decisions were not made in the context of the recent TDRA amendments to the Lanham Act. *See Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980 (9th Cir. 1999) (acknowledging the possibility of contributory dilution but noting that no case has ever been decided on that basis); *Acad. of Motion Picture Arts and Scis. v. Network Solutions Inc.*, 989 F. Supp. 1276 (C.D. Cal. 1997). For a general discussion, see Cross, *supra* note 314.

317. *See Cable/Home Commc'n Corp. v. Network Prods., Inc.*, 902 F.2d 829, 845 (11th Cir. 1990) ("Contributory infringement necessarily must follow a finding of direct or primary infringement."); 2 PAUL GOLDSTEIN, *COPYRIGHT* § 6.0 (2d ed. 1996) ("For a defendant to be held contributorily or vicariously liable, a direct infringement must have occurred.")

318. *Marvel Enters., Inc. v. NCSoft Corp.*, 74 U.S.P.Q.2d (BNA) 1303 (C.D. Cal. 2005).

A. Claim Feasibility

As many commentators have noted, with the growth of the Internet, it has become increasingly attractive for holders of intellectual property rights to bring suit not against direct infringers (who can often be hard to identify and reach) but instead to sue service providers and content hosting sites.³¹⁹ If successful, a lawsuit against a service provider can accomplish the valuable goal of ceasing infringing uses of multiple individual users without extensive individualized litigation.³²⁰

In response to this growing litigation trend, Congress enacted some limited immunity provisions for service providers.³²¹ Section 230 of the Communications Decency Act (“CDA”) provides “information service providers” with some significant protections from liability for hosting third-party defamatory speech that might otherwise give rise to claims of defamation, violations of rights of publicity and other state law claims.³²² The CDA also declares that it

319. Mark A. Lemley, *Rationalizing Internet Safe Harbors*, 6 J. TELECOMM. & HIGH TECH. L. 101 (2007); Bartholomew & Tehranian, *supra* note 315, at 1364. *But see* Columbia Ins. Co. v. Seescandy.com, 185 F.R.D. 573, 578 (N.D. Cal. 1999). In *Columbia Insurance*, the district court explained that suing an Internet service provider for contributory liability is “most often not productive” because the service provider either lacks the requisite knowledge or is otherwise immune from liability. *Id.* at 578 n.1. The district court’s opinion was referring to three different types of service provider secondary liability that stemmed from hosting defamatory statements as well as material that infringed both copyright and trademark law. *Id.*

320. In the ongoing litigation between Tiffany’s and Ebay, discussed further herein, Tiffany claimed to have litigated several hundred infringement claims against individual users. Technology and Marketing Law Blog, *Tiffany v. Ebay Post Trial Briefs*, http://blog.ericgoldman.org/archives/2007/12/tiffany_v_ebay.htm (Dec. 20, 2007, 7:45 PST).

321. Congress expressly provided that at least one of its goals in creating service provider immunities was to facilitate the expansion of the Internet; such expansion would be severely constrained if service providers feared secondary liability for the acts of their users. *See* S. Rep. No. 105-190, at 1-2 (1998) (stating that one purpose of the Digital Millennium Copyright Act was to “facilitate the robust development and world-wide expansion of electronic commerce, communications, research, development, and education in the digital age”). Congress explained that The Communications Decency Act furthered:

the policy of the United States—

- (1) to promote the continued development of the Internet and other interactive computer services and other interactive media [and]
- (2) to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation.

47 U.S.C. §§ 230(b)(1), (2) (2000).

322. 47 U.S.C. § 230.

shall have “no effect on intellectual property law.”³²³ Therefore, the CDA has no relevance to service providers who are faced with federal contributory trademark infringement claims.³²⁴

Congress partially addressed the exposure of service providers to intellectual property claims by the passage of the “safe harbor” provisions in the Digital Millennium Copyright Act (“DMCA”).³²⁵ The DMCA provides a “notice and takedown” procedure that lets service providers avoid liability for copyright infringement.³²⁶ The DMCA is not the DMTA, and, as its name implies, it only applies to matters of copyright law.³²⁷

Thus, in the case where a virtual world owner is charged with contributory trademark infringement by virtue of the direct infringement of a user, there is no statutory scheme in place to provide special immunities.³²⁸ Surprisingly, such immunities may not be necessary: most commentators have observed that secondary liability for trademark infringement has been much less favorable to plaintiffs than schemes from other areas of online tort and intellectual property law.³²⁹

323. 47 U.S.C. § 230(b)(2) (2000) (“Nothing in [the CDA] shall be construed to limit or expand any law pertaining to intellectual property.”); Lemley, *supra* note 319, at 103 (“The IP exemption from section 230 creates a gaping digital hole in Internet intermediary immunity.”).

324. *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409, 412 (S.D.N.Y. 2001) (holding that Section 230 does not apply in the context of contributory trademark infringement).

325. 17 U.S.C. § 512(c) (2000).

326. *Id.* See also *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146, 1174-82 (C.D. Cal. 2002) (discussing the service provider immunities in the DMCA in detail).

327. *IQ Group v. Wiesner Publ'g, Inc.*, 409 F. Supp. 2d 587, 592 (D. N.J. 2006) (refusing to turn the “DMCA into a species of mutant trademark/copyright law, blurring the boundaries between the law of trademarks and that of copyright [when there] is no evidence that Congress intended such an extreme outcome in enacting the DMCA”).

328. DMTA-like schemes have been proposed recently in student notes. See Lauren Troxclair, *Note: Search Engines and Internet Advertisers: Just One Click Away from Trademark Infringement?*, 62 WASH & LEE L. REV. 1365, 1404-06 (2005) (proposing a trademark notice procedure to be followed by search engines); Fara S. Sunderji, *Note, Protecting Online Auction Sites from the Contributory Trademark Liability Storm: A Legislative Solution to the Tiffany Inc. v. Ebay Inc. Problem*, 74 FORDHAM L. REV. 909, 941 (2005) (“[T]his Note proposes that Congress enact a safe harbor provision that protects online auction sites from contributory trademark liability if they comply with a three-part statute based on knowledge, financial benefit, and prompt take-down procedures.”).

329. See Bartholomew & Tehranian, *supra* note 315, at 1365 (“While recent years have witnessed a dramatic broadening of the scope of secondary liability principles with respect to copyright law, no such move has occurred in the trademark arena.”); *Cf.* Lemley, *supra* note 319, 115-16 (advocating that the secondary liability standards from trademark law should be applied broadly as a general form of Internet safe harbor for information hosts and service providers).

But, even if the trademark framework is more favorable to virtual world owners than other regimes, this does not mean that claimants will be unsuccessful. In the copyright infringement context, adverse judgments on the issue of secondary liability have resulted in the closure of well-known businesses.³³⁰ Thus, the potential for contributory trademark infringement liability is not something that virtual world owners can afford to ignore.

We have already seen one trademark holder, in the *Marvel* suit, seek to impose secondary liability for trademark infringement on the owner of a virtual world.³³¹ If virtual worlds continue to expand as they have over the past several years, we should expect to see more such suits in the future. In order to predict how these might play out, we need to look to the relevant case law.

B. Inwood

The doctrine of contributory infringement was first explained and endorsed by the Supreme Court in the case of *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*³³² *Inwood* involved a manufacturer that supplied a generic drug that resembled, but did not infringe, a non-generic and branded prescription drug sold by the plaintiff.³³³ Some pharmacists had marked the defendant's drug with

330. See *A & M Records v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001); *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, LTD.*, 545 U.S. 913 (2005). Napster was found liable for contributory copyright infringement. When its appeal failed, it was forced to take down its service to comply with the injunction prohibiting it from further facilitation of the trading of copyrighted material. It ultimately settled for \$26 million plus a \$10 million advance of future royalty fees. Bertelsmann, Inc., the company that funded Napster after its lawsuit and through its bankruptcy proceedings, recently reached a settlement agreement of \$150 million for its contributory copyright infringement suit stemming from its support of Napster. See *In re Napster, Inc. Copyright Litigation*, www.leibersettlement.com (last visited March 29, 2008). Grokster closed down its service and agreed to a \$50 million settlement. Xeni Jardin, *Grokster's End and the Future of File Sharing*, NAT'L PUB. RADIO, Nov. 8, 2005, <http://www.npr.org/templates/story/story.php?storyId=4994285>.

331. *Marvel Enters., Inc. v. NCSOFT, Corp.*, 74 U.S.P.Q.2d (BNA) 1303 (C.D. Cal. 2005).

332. *Inwood Labs, Inc. v. Ives Labs., Inc.* 456 U.S. 844, 854 (1982). Initially, secondary infringement liability could only be imposed if a party had intentionally induced trademark infringement. *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 530-31 (1924). This limited inducement standard was expressly expanded to include a "knowledge and means" standard in the early-1980's. See generally Jason Kessler, *Correcting the Standard for Contributory Trademark Liability Over the Internet*, 39 COLUM. J.L. & SOC. PROBS. 375, 380-81 (2006). This knowledge and means standard of contributory liability had been previously recognized by the lower courts, but *Inwood* was the first time that the United States Supreme Court acknowledged it. See e.g., *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946), *aff'd by*, 162 F.2d 280, 287 (1st Cir.).

333. *Inwood*, 456 U.S. at 849-51.

the plaintiff's brand before distributing it to prescribing doctors and patients.³³⁴

The Supreme Court stated that a party could be liable for contributory trademark infringement in two ways.³³⁵ First, that party might induce those in its supply chain to infringe a trademark.³³⁶ It could also be held liable for "continu[ing] to supply its products to [a party that] it knows[,] or has reason to know[,] is engaging in trademark infringement[.]"³³⁷ Relying on the factual findings of the district court regarding the pharmaceutical sales in question, the Court found that the defendant was not liable.³³⁸

The *Inwood* case, of course, involved tangible chattels, which are not found in virtual worlds. While (virtual) manufacturing supply chains for virtual products certainly exist,³³⁹ these manufacturer/distributor relationships do not describe the present relationship between virtual world owners and commercial sellers in user-generated content worlds. More often, the virtual world owner provides something that more closely resembles a space, a tool or a service. This raises the question: does *Inwood* apply to situations involving intangible services as well as to relationships involving tangible products?

The Supreme Court has not addressed this question. Certain language in the Court's 2004 opinion in *Dastar Corp. v. Twentieth Century Fox Film Corp.*³⁴⁰ suggests that tangibility may be more important to trademark law than most courts assume. In *Dastar*, the Supreme Court resolved a claim that involved what the Court saw as a conflict between an expired copyright interest and a claimed trademark interest. The Court stated that the trademark claims were properly limited to confusion over the identity of "the producer of the tangible product sold in the marketplace."³⁴¹

334. *Id.* at 849-50.

335. *Id.* at 853-54.

336. *Id.* at 854. Inducement in the context of virtual worlds is certainly a theoretical possibility, but it seems highly unlikely.

337. *Id.* The Court found no evidence suggesting that the manufacturer knew, or had reason to know, that the retailers were mislabeling and passing off the products as authentic. *Id.* at 854-55.

338. *Id.* at 854-55.

339. In fact, many game world economies involve complex supply chains where certain player avatars gather raw (virtual) materials, others use acquired skills to craft and improve those raw materials and still others market and distribute the final products.

340. *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003).

341. *Id.* at 31.

In the case of virtual worlds, many, if not all, virtual objects are protected by overlapping copyright and trademark interests. This raises the question of whether the intangibility and copyright protection of virtual properties may lead the Court to toss trademark plaintiffs out of court by reading in similar bright line barriers between copyright and trademark law.

In any event, the federal circuit court opinions, post-*Inwood*, do not limit contributory infringement liability to defendants who supply tangible products to infringers.³⁴² On several occasions, *Inwood* has been applied where the defendants owned and supervised physical spaces — making contributions of services rather than of tangible products.³⁴³

In the leading case of *Hard Rock Cafe Licensing Corporation v. Concession Services, Inc.*, the Seventh Circuit found that a flea market owner could be held liable where one of its vendors had sold counterfeit Hard Rock t-shirts from a rented booth.³⁴⁴ The Seventh Circuit struggled with the application of *Inwood*, given that the defendant had not provided materials but simply space and facilities.³⁴⁵ Ultimately, the court found contributory liability could be applied.³⁴⁶

The Seventh Circuit based its decision, in part, on tort law cases involving landlord/licensor liability for torts committed on real property, which assigned contributory liability to a landlord or licensor who knew, or had a reason to know, that its tenant/licensee was engaging in tortious behavior on its premises.³⁴⁷ Since this was analogous to the type of duty that the Supreme Court had endorsed in

342. See, e.g., *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143 (7th Cir. 1992); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996).

343. See generally Deborah J. Peckham, *The Internet Auction House and Secondary Liability: Will eBay Have to Answer to Grokster?*, 95 TRADEMARK REP. 977, 986-89 (2005) (collecting cases).

344. *Hard Rock Café*, 955 F.2d at 1146, 1150. Ultimately, the court remanded to the district court for a factual determination as to whether the flea market owner knew, or had reason to know, that the vendor was selling infringing goods.

345. *Id.* at 1148. The court explained that it was, at that time, unclear how *Inwood* applied “to people who d[is] not actually manufacture or distribute the good” ultimately palmed off but instead provided the facilities where infringement occurred. *Id.*

346. *Id.* at 1151.

347. *Id.* at 1148-49. The court noted that the parties did not agree on the relationship between the flea market owner and the primary infringer: the flea market owner claimed it was a landlord-tenant relationship, whereas Hard Rock characterized it as a licensor-licensee relationship. This distinction proved immaterial, since the same standard applied to both primary-to-secondary infringer relationships. *Id.* at 1149.

Inwood, the Seventh Circuit concluded that landlords and licensors should also be subject to the same knowledge and means standard.³⁴⁸

A few years later in *Fonovisa, Inc. v. Cherry Auction, Inc.*, the Ninth Circuit followed suit by adopting the *Hard Rock* “vicarious liability” reasoning when it found that a swap meet operator could be held liable when third-party vendors openly sold counterfeit recordings on its premises.³⁴⁹ Subsequent district court opinions have continued to apply the *Hard Rock* and *Fonovisa* expansion of *Inwood* to defendants who have allowed others to infringe trademarks within their proprietary spaces.³⁵⁰

This raises a familiar question to scholars of Internet law: is cyberspace a “place” such that the standards announced in *Hard Rock* should apply to it?³⁵¹ This question is further pressed by the fact that virtual worlds are not merely “cyberspatial” in the manner of websites or email but are actual simulations of three-dimensional spaces. Virtual worlds are technologies where cyberspatial references accurately reflect the way that users understand the environment.³⁵²

348. *Id.* The court did not agree with the trial court that this “reason to know” standard created a duty to prevent infringing behavior. *Id.* The trial court found that the flea market owner had been “willfully blind” to the tortious behavior of its vendors and failed “to take reasonable steps to detect or to prevent the sale of [infringing materials]” and imposed contributory infringement liability on that basis. *Id.* at 1148 (quoting the “Findings of Fact, Conclusions of Law” provided by the trial court).

349. *Fonovisa, Inc. v. Cherry Auction*, 76 F.3d 259, 265 (9th Cir. 1996). Unlike in *Hard Rock*, there was no doubt that the swap meet operator knew about the rampant infringement occurring on its property: the sheriff’s office had raided the swap meet and seized more than 38,000 counterfeit recordings and then notified the swap meet operator, in writing, about the continuing, post-raid sale of counterfeit materials. *Id.* at 261. Poignantly, the court explained: “a swap meet [operator] can[not] disregard its vendors’ blatant trademark infringement with impunity” and could be held liable because it “suppl[ied] the marketplace” where the counterfeit goods were sold. *Id.* at 265.

350. *See, e.g.*, *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 855 F. Supp. 648, 650 (S.D.N.Y. 1994) (finding a legally sufficient claim for trademark infringement against the owner of real property where the tenant-retailer sold infringing goods); *Habeeba’s Dance of the Arts, Ltd. v. Knoblauch*, 430 F. Supp. 2d 709, 714 (S.D. Ohio 2006) (finding a valid claim for trademark infringement against a rental facility when it hosted a dance recital with an infringing name).

351. For additional reading on this topic, see Julie E. Cohen, *Cyberspace as/and Space*, 107 COLUM. L. REV. 210, 214 (2007); Greg Lastowka, *Decoding Cyberproperty*, 40 IND. L. REV. 23 (2006); Dan Hunter, *Cyberspace as Place and the Tragedy of the Digital Anticommons*, 91 CALIF. L. REV. 439 (2003); Mark A. Lemley, *Place and Cyberspace*, 91 CALIF. L. REV. 521 (2003); Michael J. Madison, *Rights of Access and the Shape of the Internet*, 44 B.C. L. REV. 433 (2003); Dan L. Burk, *The Trouble with Trespass*, 4 J. SMALL & EMERGING BUS. L. 27 (2000).

352. The *Second Life* platform includes spatial devices such as stores, clubs, buildings and parks and, in many respects, purposely mimics real life, or a user’s “first life.” Linden Lab fostered this sense of “place” through how it structured its platform and by encouraging its users to build whatever they like on their “blank canvas” of land. *Second Life, Community: Land*,

The flea market in *Hard Rock* and the swap meet in *Fonovisa* are, in many ways, exactly the type of social space that, for instance, Linden Lab has created in *Second Life*. Linden Lab controls a virtual space where participants offer each other a conglomeration of random goods and services.³⁵³ Linden Lab charges admission fees for buyers and sellers and supervises its virtual land.³⁵⁴ While it may be a stretch, it would not seem impossible for a court to simply apply real property caselaw like *Hard Rock* and *Fonovisa* to a virtual space such as *Second Life*.³⁵⁵

C. Inwood Online

Most courts have, so far, taken a somewhat different approach in situations pertaining to websites and online auctions, which make it more likely that virtual worlds will be treated pursuant to these existing cases.³⁵⁶ One of the early cases applying *Inwood* online was *Lockheed Martin Corp. v. Network Solutions, Inc.*³⁵⁷

In *Lockheed*, the Ninth Circuit interpreted *Hard Rock* and *Fonovisa* to stand for the notion that the “supplies a product” component of the *Inwood* test should be replaced with “direct control and monitoring of the instrumentality” when the alleged secondary infringer provided a service rather than a product.³⁵⁸ Therefore, under this extension, an online service provider would be liable for

<http://secondlife.com/community/land.php> (last visited March 29, 2008). Linden promotes the hodgepodge of in-world businesses by providing Classifieds and a Showcase of current hot spots. Second Life, Community: Classifieds, <http://secondlife.com/community/classifieds.php> (last visited March 29, 2008); Second Life, Second Life Showcase, <http://secondlife.com/showcase/> (last visited March 29, 2008).

353. See *supra* Part II.C (discussing the in-world format of *Second Life*).

354. See *supra* Part II.C (discussing the different types of *Second Life* membership accounts and land ownership fees and services).

355. Second Life, Community: Classifieds & Second Life, Showcase, <http://secondlife.com/community/classifieds.php> and <http://secondlife.com/showcase/> (last visited March 29, 2008).; Cf. Sunderji, *supra* note 328, at 932:

Tiffany could also argue that the tort law analogy from *Hard Rock Cafe* applies even though eBay’s premises are virtual. eBay, like a traditional landlord, maintains self-contained premises to which it has permitted individual sellers to enter. Therefore, it too should be responsible for the torts committed by those permitted entry onto its property.

356. Cf. Orin S. Kerr, *The Problem of Perspective in Internet Law*, 91 GEO. L.J. 357 (2003) (suggesting that courts should adopt a “physical” rather than “virtual” perspective on Internet law issues).

357. *Lockheed Martin Corp v. Network Solutions*, 194 F.3d 980, 984 (9th Cir. 1999).

358. . *Id.* at 984. The court found that a domain name registrar was not contributorily liable where its customers used its service to register a domain name that infringed on an unconstested service mark. *Id.* at 983, 987.

contributory infringement liability if it directly controlled and monitored the instrumentality where the alleged infringement occurred.

The *Lockheed* Court found that the defendant's domain name routing service did not entail the necessary control and monitoring to establish liability where the users had used the service to register infringing domain names.³⁵⁹ First, the court explained that the infringement had actually occurred through the use of the plaintiff's mark on a website, not through the use of the defendant's service (the publication of routing tables).³⁶⁰ Second, it was not feasible for the service provider to monitor its users' activities because this would require the onerous task of "monitor[ing] the Internet."³⁶¹ Such an expectation was, according to the court, far less reasonable than requiring a landlord to monitor a tenant's use of a specific plot of property.³⁶²

Notably, the *Lockheed* opinion expressly rejected the application of real property-based theories in the context of Internet-based services.³⁶³ But, other courts have been less explicitly hostile toward this analogy.³⁶⁴

The *Lockheed* court also contrasted the role of a domain name registrar with that of an Internet service provider (ISP) and opined that an ISP's role in facilitating trademark infringement was more similar to the flea market and swap meet operators' roles because the ISP provided "actual storage space and communications for [the]

359. *Id.* at 984-85.

360. *Id.* at 985. The court equated the registrar's role in domain name routing to that of the United States Postal Service by explaining that "[the registrar] does not supply the [infringing] domain-name combination any more than the Postal Service supplies a street address by performing the routine service of routing mail." *Id.* at 984-85. See also *Size, Inc. v. Network Solutions, Inc.*, 255 F. Supp. 2d 568, 573 (E.D. Va. 2003) (following *Lockheed* and finding that Network Solutions was a "routing service" and not liable for the third-party registration of an infringing domain name).

361. *Lockheed*, 194 F.3d at 985.

362. *Id.* at 985.

363. *Id.* at 985.

364. See *Columbia Ins. Co. v. Seescandy.com*, 185 F.R.D. 573, 578 n.1 (N.D. Cal.1999) (analogizing the relationship between an internet service provider and its user to "renting from a landlord who makes available offices in an office complex"); *Ford Motor Co. v. Greatdomains.com, Inc.*, 177 F. Supp. 2d 635, 646-47 (E.D. Mich. 2001) (referring to a domain name registrar as a "cyber-landlord" after considering whether to apply the "flea market" analysis from *Hard Rock* and *Fonovisa*"); 4 MCCARTHY, *supra* note 268, § 25:20 ("The issue is whether online auction sites which host some sellers who sell infringing and/or counterfeit goods, are liable for infringement. The principles of the landlord cases could be applied.").

infringing material.”³⁶⁵ This registrar/ISP distinction was picked up a couple years later by the Southern District of New York in *Gucci America, Inc. v. Hall & Associates*.³⁶⁶ In *Gucci*, an ISP provided website hosting services to a customer that sold fake Gucci products on its website.³⁶⁷ Relying in part on the *Lockheed* registrar/ISP comparison, the district court found that a valid contributory infringement claim could be made against an ISP due to its hosting of trademark-infringing content.³⁶⁸

Since virtual worlds and Internet service providers offer analogous types of services, it is possible that courts will apply the reasoning of *Gucci* to the context of virtual worlds. As described in the earlier case of *Columbia Insurance Company v. Seescandy.com*, decided in the Northern District of California, the basic services provided by ISPs can be divided into two categories of accounts: access and presence.³⁶⁹ The *Seescandy.com* court explained that access accounts consisted of services such as Internet access and email, whereas “presence” accounts allowed users to “rent space and services” from service providers.³⁷⁰

Virtual world accounts can be similarly categorized. In *Second Life*, for instance, the software permits “access” to the user-generated content of others, the virtual business market and the social experience of chat and avatar co-presence. Using *Second Life* also entails “presence” on Linden’s servers by an avatar or by purchasing and developing virtual land. The major difference between virtual world platforms and Internet service provider platforms is the technology used: virtual worlds use dynamic, three-dimensional simulated environments instead of more static, two-dimensional websites. Thus, fitting virtual worlds into the existing (albeit rather

365. *Lockheed*, 985 F. Supp. at 962.

366. *Gucci Am. v. Hall & Assoc.*, 135 F. Supp. 2d 409, 410-11 (S.D.N.Y. 2001).

367. *Id.*

368. *Id.* at 416. The court also rejected the ISP’s assertion that it was immune from contributory infringement liability pursuant to the Communications Decency Act of 1996, 47 U.S.C. § 230. *Gucci*, 135 F. Supp. 2d at 412-15.

369. *Columbia Ins.*, 185 F.R.D. at 578 n.1.

370. The court stated:

Access services consist of an account through which the client can access the Internet and send e-mail. A presence account generally includes hard drive space that permits the client to have a webpage or file transfer site. Persons who wish to run a site at their own domain, rather than at the domain of their service provider, can either make the significant investment in computer hardware, networking hardware, and high-speed access necessary to make their domains available on the Internet or can rent space and services from a service provider.

unclear) “online service provider” box, as defined in *Lockheed*, is probably a much easier task than creating a new “virtual” service category that is somewhat closer to the brick-and-mortar than to digital.

It is important to note that the *Lockheed* test applied by the Ninth Circuit is not applicable in all jurisdictions.³⁷¹ However, if we assume that virtual worlds will be treated pursuant to the contributory infringement standards envisioned in the Ninth Circuit, then the recent case of *Perfect 10, Inc. v. Visa International Service Association*, offers the applicable standard.³⁷² The standard, under *Perfect 10*, is whether the virtual world has “[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff’s mark.”³⁷³

At this point, determining control and monitoring would depend on the facts. The case law in this area is not highly developed and those jurisdictions which have pronounced on the issues have tended to eschew clean categorical distinctions.³⁷⁴ Additionally, many cases where contributory infringement claims were brought under the *Lockheed* test have failed.³⁷⁵

Yet, the typical virtual world owner likely has a greater degree of control over the virtual world environment than the service provider in *Lockheed*. Certainly, infringement could not occur in virtual worlds if owners did not provide the access, storage space and virtual

371. As discussed above, the United States Supreme Court has not yet adopted a national standard.

372. *Perfect 10, Inc. v. Visa Int’l Serv. Ass’n.*, 494 F.3d 788 (9th Cir. 2007).

373. *Id.* at 807.

374. *See, e.g., id.* (finding that a credit card payment processing service lacked the requisite degree of control and monitoring over the primary infringer websites that used its service); *Fare Deals, Ltd. v. World Choice Travel.com, Inc.*, 180 F. Supp. 2d 678, 689-90 (D. Md. 2001) (finding that a web-based hotel reservation booker lacked the necessary degree of control and monitoring over an affiliate’s website); *Ford Motor Co. v. Great Domains.com, Inc.*, 177 F. Supp. 2d 635, 647 (E.D. Mich. 2001) (declining to extend contributory trademark infringement to a cybersquatting, domain name auction site); *Acad. of Motion Pictures Arts and Scis. v. Network Solutions, Inc.*, 989 F. Supp. 1276, 1280 (C.D. Cal. 1997) (finding a domain name register not liable for contributory trademark infringement because it lacked actual knowledge that the suspect domain names were involved in infringing activities, since there had not yet been a determination as to whether there was direct infringement). *But see* Gov’t Employees Ins. Co. v. Google, Inc., 330 F. Supp. 2d 700, 704 (D. Va. 2004) (finding that the claim that an Internet search engine, which sold advertising linked to trademarks, monitored and controlled the third-party advertisements was enough to support a claim for contributory trademark infringement).

375. *See Perfect 10*, 494 F.3d at 807; Peckham, *supra* note 343, at 986-89, 994, 1003.

currency, of some form, that can be converted into real money.³⁷⁶ In fact, the control of virtual world owners seems to surpass even that of the ISP in *Gucci*³⁷⁷ in that virtual owners not only provide the instrumentality of infringement (the service) but also host the commercial marketplace itself.³⁷⁸ Thus, it appears likely that a virtual world owner could have the requisite degree of control necessary to establish liability under *Lockheed*.

D. The Requirement of Knowledge & "Precautionary Measures"

While the flea market cases seem to suggest that landlords can be liable for activities occurring on their property, it should be emphasized that the *Inwood* test does not simply extend liability based on facilitation.³⁷⁹ Under *Inwood*, a defendant should know, or have reason to know, that there is direct trademark infringement.³⁸⁰

In the case of *Academy of Motion Pictures Arts and Sciences v. Network Solutions, Inc.*, the district court refused to find knowledge of infringement where a domain name registrar simply offered its service "to individuals and companies who may participate in infringing activity" by registering trademarked names.³⁸¹ The court explained that the registrar could not possibly know of the infringement, since there had "yet to be a determination as to whether or not the domain names . . . infringe[d] the Lanham Act."³⁸²

This requirement, carried over, could provide a fairly strong shield for many virtual world owners.³⁸³ In many virtual worlds, the owner may be unaware of specific acts of trademark infringement or even be confused (understandably) about the standards for trademark infringement in virtual spaces.

376. See e.g., *Perfect 10*, 494 F.3d at 807; *Fare Deals*, 180 F. Supp. 2d at 689; *Ford Motor*, 177 F. Supp. 2d at 645; *Acad. of Motion Pictures*, 989 F. Supp. at 1280. See generally Peckham, *supra* note 343, at 986-89, 994, 1003.

377. *Gucci America v. Hall & Assoc.*, 135 F. Supp. 2d 409, 410 (S.D.N.Y. 2001).

378. But see *Perfect 10*, 494 F.3d at 807 (finding that a credit card payment processor's ability to stop processing payments to websites with infringing content did not, "without more," constitute direct control but failed to define "more").

379. See *supra* Part II (discussing in-world commercial marketplaces).

380. See *Perfect 10*, 494 F.3d at 807.

381. *Acad. of Motion Pictures*, 989 F. Supp. at 1280.

382. *Id.*

383. Interestingly, the allegedly infringing domain names at issue in *Academy of Motion Pictures* were theoscars.net, academy-awards.net and similar combinations of the trademarks OSCARS and ACADEMY AWARDS. *Id.* at 1278. The trademarks were registered, well-known and hardly appear unprotectible.

An additional defense might exist if a virtual world owner were able to convince a court to apply the protections related to “innocent infringement” by printers, publishers and broadcasters.³⁸⁴ The exception applies to “paid advertising matter” in the context of “electronic communication” and limits the remedies available injunctive relief in the case of “innocent infringers.”³⁸⁵ While this provision may not seem a perfect fit for infringement in virtual worlds, it was applied, by one court, to the activities of the online auction eBay.³⁸⁶ The potential scope of the provision has been largely untested online, but, if virtual world owners could avoid damages via secondary liability by establishing that they were “innocent” publishers of “paid advertising matter,” this would constitute a significant reduction in the severity of their risks.

It should be noted that courts may differ about whether specific virtual world owners are innocent.³⁸⁷ Presumably, the virtual world owner would not be innocent if it had a “reason to know” of specific acts of infringement.³⁸⁸ The Seventh and Ninth Circuits have already found that “willful blindness,”³⁸⁹ or “suspect[ing] wrongdoing and deliberately fail[ing] to investigate,”³⁹⁰ has established the requisite knowledge of trademark infringement required for a finding of liability.³⁹¹ This shows that the determination of what constitutes sufficient knowledge can be quite flexible.

384. 15 U.S.C. § 1114(2) (2000).

385. 15 U.S.C. § 1114(2)(B).

386. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082 (C.D. Cal. 2001).

387. Lemley, *supra* note 319, at 101-07 (noting that it is not clear what constitutes “innocent” infringement in the Lanham Act); *Cf. Hendrickson*, 165 F. Supp. 2d at 1095 (premising the determination that eBay was “innocent” on the finding that eBay had “no affirmative duty to monitor its own website for potential trade dress violation and Plaintiff had failed to put eBay on notice that particular advertisements violated his Lanham Act rights before filing suit.”).

388. Courts look to whether “a reasonable person in the defendant’s position would realize either that [it] had created a situation” that would likely result in infringement or that it “was dealing with a customer whom [it] should know would be peculiarly likely to use [its] product wrongfully.” *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946), *aff’d*, 162 F.2d 280 (1st Cir. 1947); *Power Test Petrol. Distribs., Inc. v. Manhattan & Queens Fuel Corp.*, 556 F. Supp. 392, 394 (E.D.N.Y. 1982).

389. Willful blindness is affectionately known as the “Ostrich Rule.” a nod the way that ostriches like to stick their heads in the sand to avoid danger.. (The editors at Wikipedia inform us that no one has observed an ostrich doing this in recent history. *See* Wikipedia, *Ostrich*, <http://en.wikipedia.org/wiki/Ostrich> (as of May 5, 2008, 12:37 GMT)).

390. *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992) (citing *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir. 1989)).

391. *See Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996). *See also Cartier Int’l B.V. v. Ben-Menachem*, No. 06 Civ. 391 (RWS), 2007 U.S. Dist. LEXIS 95366, at

While the “reason to know” standard “does not impose any duty to seek out and prevent violations[.]”³⁹² it does trigger a reactive duty where a defendant should reasonably suspect infringement. Under the *Inwood* standard, once a supplier has a reason to know of the direct infringement, it should institute “precautionary measures”³⁹³ and can avoid secondary liability only by implementing “effective measures to prevent infringing uses.”³⁹⁴

For example, the Ninth Circuit analyzed the effectiveness of a manufacturer’s remedial measure (affixing a source-identifying label) in *Sealy, Inc. v. Easy Living, Inc.*³⁹⁵ The court found this remedial measure inadequate because the label could not easily be seen and was often covered up when the products were displayed by retailers.³⁹⁶

The *Sealy* case was not an online case, but, instead, a case involving the more traditional manufacturer-distributor relationship found in *Inwood*. It is not clear what constitutes an “effective measure” in the online service provider context. The current case of *Tiffany, Inc. v. eBay, Inc.*, being litigated in the Southern District of New York, may shed some light on this topic.³⁹⁷

The eBay service seems like a better (though still not exact) analogy for the services provided by virtual world owners than the aforementioned “traditional” *Inwood* relationship. The eBay service differs from virtual world services in that neither the products nor sellers on eBay are being simulated in a three-dimensional space, but it resembles a virtual world (at least one like *Second Life*) in that the business economy of the website is premised on facilitating a diverse and user-generated “flea market” of buyers and sellers engaging in commerce. Both *eBay* and *Second Life* seem analogous, systemically, to the bazaar economies at issue in *Hard Rock*³⁹⁸ and *Fonovisa*.³⁹⁹

*32-33 (S.D.N.Y. January 3, 2008) (confirming the application of willful blindness to contributory trademark infringement); *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146, 1188-89 (C.D. Cal. 2002) (same).

392. *Hard Rock*, 955 F.2d at 1149.

393. *Coca-Cola*, 64 F. Supp. at 989.

394. *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1382 (9th Cir. 1984). In *Sealy*, a bedding manufacturer billed its product, to its retailers, as a “matching foundation” for the Sealy product. *Id.*

395. *Id.*

396. *Id.*

397. *Tiffany, Inc., v. eBay, Inc.*, No. 04 Civ. 4607 (RJS) (S.D.N.Y. filed Jan 18, 2004). See also Katie Hafner, *Tiffany and eBay in Fight Over Fakes*, N.Y. TIMES, Nov. 27, 2007, at C9.

398. *Hard Rock Cafe Licensing Corp. v. Concession Servs*, 955 F.2d 1143 (7th Cir. 1992).

399. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996).

In the *Tiffany* case, Tiffany is suing eBay for trademark infringement due to eBay's alleged facilitation (by way of its auction system) of its users' sales of counterfeit Tiffany products.⁴⁰⁰ The dispute between Tiffany and eBay has been ongoing since at least 2003 when Tiffany discovered a so-called "rat's nest" of sales of counterfeit goods in eBay's auctions.⁴⁰¹ Thus, Tiffany has a well-developed record of evidence dating back to when it began using eBay's infringement complaint process.⁴⁰² According to Tiffany, it has brought hundreds of individual enforcement actions and filed hundreds of thousands of trademark infringement complaints with eBay—but the "rat's nest" of infringement remains.⁴⁰³

In the *Tiffany* case, eBay seems fully aware that trademark infringement and counterfeiting is occurring in its online auction.⁴⁰⁴ It also seems to have substantial control over the instrumentality of infringement.⁴⁰⁵ The case then seems to boil down to one point: is eBay's remedial program⁴⁰⁶ enough to excuse it from being held liable for the acts of infringement that occur on its auction site?⁴⁰⁷

If trademark infringement is fairly commonplace in a given virtual world, similar questions may need to be asked... and answered. For example, monitoring user activity in a virtual world, like *Second Life*, is certainly technologically feasible, but requiring Linden to actively ferret out all trademark infringement would seem tantamount to "monitor[ing] the Internet," a task the *Lockheed* court found unreasonable.⁴⁰⁸ At what point do the cases that state that a service provider, in the online context, has no affirmative obligation

400. *Tiffany (NJ), Inc., v. eBay, Inc.*, No. 04-4607 (S.D.N.Y. 2004). *See also* Hafner, *supra* note 397.

401. *Id.* In its post-trial brief, Tiffany's refers to the eBay auction system as a "rat's nest" of infringement. Plaintiffs' Post-Trial Memorandum at 1-2, *Tiffany, Inc. v. eBay*, No. 04 Civ. 4607 (RJS) (Dec. 7, 2007). For more information regarding Tiffany's investigation efforts or either party's legal arguments, see the post trial briefs, http://blog.ericgoldman.org/archives/2007/12/tiffany_v_ebay.htm.

402. *See* Plaintiffs' Post-Trial Memorandum at 12, *Tiffany, Inc. v. eBay*, No. 04 Civ. 4607 (RJS) (Dec. 7, 2007).

403. *Id.*

404. *See id.* at 10.

405. *See id.* at 16.

406. eBay protects intellectual property through its Verified Rights Owner (VeRO) Program, which permits users to report auction listings that infringe their rights. eBay, *How eBay Protects Intellectual Property (VeRO)*, <http://pages.ebay.com/help/tp/programs-vero-ov.html> (last visited Mar. 4, 2008).

407. *See* Hafner, *supra* note 397.

408. *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 985 (9th Cir. 1999).

to monitor for infringement⁴⁰⁹ conflict with cases that require those who are aware of the risk of infringement, in the offline context, to take precautionary measures⁴¹⁰ to prevent infringement from occurring?

E. Considering Second Life

As we explained in Part II, activities amounting to actionable trademark infringement seem likely to occur with more frequency in virtual worlds that feature more user-generated content, less game-play and economies that are more closely integrated with real economies. Because user-generated virtual worlds seem more likely to host directly infringing content, they also seem more likely to raise the potential for contributory liability.

The December 2007 issue of WIPO Magazine (produced by the World Intellectual Property Organization) features a cover story on trademark infringement in *Second Life* and states that: “Avatars can, for example, purchase from “enterprising” residents virtual NIKE shoes bearing the distinctive Swoosh Design . . . notwithstanding that Nike . . . may not have consented to the creation and sale of the virtual property exploiting their trademarks.”⁴¹¹ Because trademark owners concerned about infringement in virtual worlds may see Linden Lab as a prime target for suit, we would like to briefly discuss how trademarks seem to be policed at present in *Second Life*.⁴¹²

Linden Lab has taken some steps with respect to trademark infringement, as demonstrated by its own statements. Like almost all online businesses, Linden has formulated and posted policies and contractual terms it applies to the use of its services.⁴¹³ Currently,

409. See, e.g., *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082 (C.D. Cal. 2001).

410. See, e.g., *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1382 (9th Cir. 1984).

411. See Rector et al., *supra* note 1, at 13.

412. It should go without saying that our discussion here is merely academic and exploratory. Readers with specific questions about trademark infringement in *Second Life* should seek advice of counsel.

413. Service regulation and policy enforcement by a compilation of governing agreements, similar to those provided by Linden Lab, is typical in virtual worlds. Andrew Janowich, *EULAW: The Complete Web of Corporate Rule-Making in Virtual Worlds*, 8 TUL. J. TECH. & INTELL. PROP. 1, 5-6 (2006) (providing the survey results of a study of the governing agreements from forty-eight virtual worlds). This method of service management has been likened to the creation of a private law -- and even to framing a constitution -- whereby operators, like Linden, “govern” their virtual worlds. *Id.* at 5; Julian Dibbell, *OWNED! Intellectual Property in the Age of eBayers, Gold Farmers, and Other Enemies of the Virtual State or, How I Learned To Stop Worrying and Love the End-User License Agreement*, <http://www.juliandibbell.com/texts/owned.html> (last visited Feb. 26, 2008) (posting of a paper presented at the “State of Play” conference, New York University Law School, Nov. 2003).

Linden's Terms of Service (TOS)⁴¹⁴ and Knowledge Base⁴¹⁵ touch upon trademark law issues.⁴¹⁶

The TOS makes mention of trademark rights in Section 2.3, where Linden forbids a user from selecting an account name that "violates any trademark right" and states that "Linden Lab reserves the right to delete or change any Account Name for any reason or no reason."⁴¹⁷ Section 2.3 also, like the terms of service of most online business, purports to shift all legal responsibility for potential infringement to the user: "You [, meaning the user,] are fully responsible for all activities conducted through your Account or under your Account Name."⁴¹⁸ Section 3.2 expressly prohibits trademark infringement while informing the user that he or she is solely responsible for understanding how trademark law operates in *Second Life*.⁴¹⁹

The Knowledge Base provides some further information about trademark infringement. Under its "Trademark Guidelines" section, there is a document entitled "Trademarks and Copyright in Second Life."⁴²⁰ This explains to users that trademark infringement in *Second Life* could have serious legal repercussions "in real world courts of law" and that "nothing about [an infringer's] use of *Second Life* will

Whether they are described as a body of private law, a virtual world constitution or a mere private contract, these agreements constitute the link between real world laws and fantasy play. Janowich, *supra* note 413, at 5. Virtual world operators use these documents to define the bounds of user rights, to enumerate both the acceptable uses of their service and the consequences for unacceptable use and to disclose (or more appropriately disclaim) what, if any, legal liability the virtual world operator would incur on account of its users' potentially unlawful or tortious uses.

414. *Second Life*, Terms of Service, *supra* note 118.

415. *Second Life*, Support, <http://support.secondlife.com/ics/support/security.asp> (last visited Feb. 11, 2008).

416. We should note that apart from these documents and scattered news reports, we are not aware of the details of how Linden approaches trademark law in *Second Life*.

417. *Second Life*, Terms of Service, *supra* note 118. We note that, if avatar/account names in *Second Life* cannot violate trademark rights, there is no reason for this language.

418. *Id.*

419. Section 3.2 provides, in relevant part:

You further understand and agree that: (i) you are solely responsible for understanding all copyright, patent, trademark, trade secret and other intellectual property or other laws that may apply to your Content hereunder; (ii) you are solely responsible for, and Linden Lab will have no liability in connection with, the legal consequences of any actions or failures to act on your part while using the Service, including without limitation any legal consequences relating to your intellectual property rights.

Id.

420. *Second Life*, Support, *supra* note 415.

shield” him or her from said liability.⁴²¹ It goes on to state that: “Linden staff generally removes content that uses trademarks without apparent authorization, with or without giving notice to the object owner.”⁴²² The “Trademarks and Copyright” document also notes that residents may file an abuse report to notify Linden Lab of another user’s potentially unauthorized use of a mark.⁴²³

From the standpoint of protecting Linden from a potential lawsuit, the TOS and Knowledge Base, have limitations. While Linden could potentially gain a contractual indemnification from the primary infringer, this will not shield it from liability.⁴²⁴ Even if indemnity were effective,⁴²⁵ it would not guarantee that Linden could avoid the threat of injunctive relief or even damages.⁴²⁶

The Linden policy also seems to indicate that an infringement-based “Abuse Report” can be filed only within the world.⁴²⁷ This means that a non-user would need to create a *Second Life* account (and assent to Linden’s contractual requirements) in order to report an infringement. Even if the report is filed, Linden does not make clear what it will do in response to a report.

421. Second Life, Knowledge Base, available via guest login, <https://secure-web10.secondlife.com/community/support.php> (last visited Feb. 11, 2008).

422. Second Life: Knowledge Base,, available via guest login, <https://secure-web10.secondlife.com/community/support.php> (last visited Feb. 11, 2008) To determine whether a mark is trademarked, Linden suggests performing a search on the US Patent & Trademark website and provides the relevant directions to do so. *Id.*

423. Second Life: Knowledge Base,, available via guest login,, <https://secure-web10.secondlife.com/community/support.php> (last visited Feb. 11, 2008).

424. Following Linden Lab’s Terms of Service, the laws of the State of California would apply when determining whether the relevant TOS sections constitute legitimate indemnity clauses. Second Life, Terms of Service, *supra* note 118, § 7.1. Under California law, the right to indemnity and the construction of indemnity contracts is controlled, in part, by statute. Cal. Civ. Code § 2778 (West 2007).

425. For instance, applying California law to Linden’s indemnification, in that jurisdiction an agreement providing for indemnification against one’s own negligence is valid only if it is clear and explicit, and such agreement will be strictly construed against the indemnitee (in this case, Linden). *Goldman v. Ecco-Phoenix Elec. Corp.*, 396 P.2d 377, 379 (Cal. 1964). In fact, “failure to state an attempted exculpatory or indemnity [clause] in plain, unambiguous and clear terminology will result in an interpretation that the clause was not intended to exempt the actor from liability for his own negligence.” *Delta Air Lines, Inc. v. Douglas Aircraft Co.*, 47 Cal. Rptr. 518, 521 (Cal. Dist. Ct. App. 1965).

426. All successful plaintiffs (in a trademark infringement suit) can seek injunctive relief. In the case of registered marks, the plaintiff can also seek: the defendant’s profits, any damages sustained by the plaintiff and the costs of the litigation. 15 U.S.C. § 1117(a)(2000). These damages can be tripled if there is a showing of bad faith. *Id.* § 1117(b).

427. Second Life, Abuse Reporting, <https://support.secondlife.com/ics/support/default.asp?deptID=4417&task=knowledge&questionID=3989> (last visited Feb. 11, 2008).

The “reason to know” cases, discussed above, raise some interesting questions with regard to whether Linden Lab’s anti-infringement policy is enough to insulate it from liability or whether it simply establishes liability. Applying the applicable standards, a reasonable virtual world operator, like Linden, should realize that it had created a service that could be used to engage in trademark infringement. Linden provides development tools that allow users substantial freedom in creating “virtual” trademarks; fosters an in-world business market; and manages the currency exchange that permits users to translate play money into real cash.

In addition, Linden markets *Second Life* as an imaginary world where anything is possible—a virtual invitation for users to engage in behavior not permitted in their “first life.” The user base may well consist of some individuals, like Neo and Trinity, who are either engaging in fantasy play and/or trying to make a little extra money by operating a virtual business. Because most users will probably consider their activities a form of “play,” they may well not suspect that, for example, the reproduction and sale (for Lindens) of a virtual Coke could raise any significant legal issues. Linden does not do much to alter this situation. It simply tells users to educate themselves about the law.

As discussed above with respect to the *Tiffany* case, even if Linden complies to some extent with requests to remove infringing materials, it is not clear that these measures will be deemed sufficient to avoid the threat of contributory liability. Linden seems to acknowledge that trademark infringement occurs in its governing agreements. This raises the question of whether the “Abuse Report” and Linden’s response are adequate remedial measures.

To answer this question, a court would need evidence regarding Linden’s procedures for responding to reports; any curative steps (such as removing infringing content); any action against the infringer (such as account suspension); and statistics on the number of complaints as compared to Linden’s responses. This information is not, presently, publicly available, and, without it, Linden’s knowledge of infringement cannot accurately be assessed.⁴²⁸

As noted at the beginning of this section, meeting the “direct control and monitoring” and “reason to know” thresholds still would

428. For example, a court might find that Linden was willfully blind if the aforementioned evidence showed a pattern of numerous complaints without a response. On the other hand, if Linden swiftly responded to trademark owner complaints (by removing the infringing content and suspending the infringer’s account), this might suffice to avoid liability.

not necessarily foreclose Linden's ability to escape secondary liability. If Linden demonstrates that there is no direct infringement, it cannot be found liable for contributory trademark liability.

V. CONCLUSIONS

A beachside cabana in *Second Life*, framed by palm trees. Neo and Trinity are sitting on a bench.

Trinity: NEO, WTS Nikes PLZ?

Neo: No, Trin, I do not want to sell you any more Nikes. I read something in WIPO magazine that scared me. I deleted my inventory.

Trinity: OMG! LOL!

Neo: Yep. So much for my attempt to critique the evanescence and immateriality of 21st consumer culture. . . and make some Lindens while I was at it.

In this article, we have made the case that, even though virtual worlds may seem like mere fantasy games, they may, in some cases, be environments where the requirements of common law and statutory trademark infringement can be met. Perhaps this is not surprising. Trademark lawsuits found their way onto the Internet many years ago—virtual worlds may simply be the next zones for the expansion of trademark law online.

The traditional rationale of trademark law—the need to reward producer investments in popular goods and the need to prevent consumer deception—would seem to apply in virtual worlds as well as it does anywhere else. Yet trademark law has, at times, been deployed by plaintiffs in ways that have posed threats to expressive freedoms both offline and online. As the *Marvel v. NCSoft* case demonstrated, these kinds of abuses of trademark law could potentially occur with respect to virtual worlds as well.⁴²⁹

This concerns us. It would be very unfortunate if the fear of direct or secondary liability for trademark infringement led virtual world creators to limit the creative powers they grant to users. It would also be unfortunate if participants erred toward “safer” practices with respect to expressive uses of trademarks. Virtual

429. *Marvel Enterprises, Inc. v. NCSoft, Corp.*, 74 U.S.P.Q.2d (BNA) 1303 (C.D. Cal. 2005).

worlds, and especially user-generated virtual worlds, seem to provide their primary value to their users as zones of free fantasy and free play.⁴³⁰

If designers and participants self-censor their use of trademarks for fear of incurring liability, much value might be lost in the movement (which seems to be already occurring) toward more sanitized and less free virtual environments. We hope that the first courts applying trademark law will bear this concern in mind.

While virtual worlds cannot avoid the reach of trademark law by virtue of being “only computer games,” maybe there is something to this claim. Like computer games, virtual worlds offer value to participants insofar as they offer liminal and compelling virtual spaces on the border between reality and fantasy.⁴³¹

Perhaps the key question we must ask, looking toward the future, is whether trademark law—and law generally—is prepared to shield some aspects of these new, economically real, digital fantasies from potential liability.

430. See Balkin, *supra* note 27.

431. See generally TAYLOR, *supra* note 77 (providing an ethnography of player culture in *Everquest*).