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INTELLECTUAL PROPERTY

Second Life raises novel IP issues

Among them is whether use of a trademark exclusively in a virtual world can be ‘use in commerce.’

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THE ADULT entertainment industry is responsible for bringing many of the seminal cases that have shaped intellectual property law on the Internet, from Playboy Enterprises Inc. giving rise to the “initial interest confusion” test for trademark infringement, to Perfect 10 shaping the contours of search engine liability. And now a company named Eros LLC is seeking to join their ranks.

Eros claims to be one of the most successful merchants doing business within the virtual world platform known as Second Life. Second Life is perhaps the most closely observed virtual world in the United States. Virtual worlds generally allow online participants to create a persona (known as an “avatar”) and interact with other avatars within a persistent and shared virtual environment hosted by the game developer. Avatars generally have attributes (such as strength or aptitude and other customized player-crafted characteristics), skills (such as the ability to fly) and possessions (such as housing), all of which constitute “virtual assets” that players can create, purchase, barter or otherwise accumulate and improve over time.

Eros sells adult-themed virtual assets in Second Life, including the SexGen Platinum Base Unit and the SexGen Platinum+Diamond Base. Both of these items are software code applications designed to facilitate sexual connections

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between avatars, or “residents” as they are known in Second Life. The items are bought and sold using Linden Dollars—a virtual currency that can be traded for “real world” currency through online exchanges. Eros sells the items on a “no-copy” basis, meaning that Second Life residents can transfer them to other Second Life residents honoring a type of first-sale doctrine, but Second Life residents are not permitted to make copies of the items.

In an amended complaint filed at the end of October in the U.S. District Court for the Middle District of Florida, Eros claims that the named defendant (and unnamed John Does) has been making and selling numerous unauthorized copies of the

SexGen items to other Second Life residents in violation of Eros’ exclusive rights under copyright. *Eros LLC v. Leatherwood*, No. 8:07-CV-01158 (M.D. Fla. filed Oct. 24, 2007). Compounding the alleged injury, and causing Eros to include a Lanham Act count in its complaint, Eros claims that the named defendant uses the SexGen brand to misrepresent that his items have been authorized by Eros.

If this were the “real” world, the Eros lawsuit would be an uneventful case of software piracy and reverse passing off. But this isn’t the “real” world; all of the activities giving rise to this lawsuit occurred in Second Life. As such, its implications are worth noting.

To support its copyright claim, Eros must fundamentally show that it owns the copyright in the items allegedly being infringed, and that the defendant has violated at least one of the exclusive rights granted to Eros under 17 U.S.C. 106. In many of the most popular virtual worlds, Eros would have a difficult time establishing the threshold element of its claim because the terms of service that govern and control most virtual worlds either reserve all intellectual property rights to the game operator or do not specifically discuss who owns the virtual assets that

can be acquired in-game.

But the terms of service governing Second Life are different. In the terms of service governing Second Life, Linden Research Inc., which created and operates Second Life, allows its residents to retain any intellectual property rights that attach to the digital content they create, including avatar characters, clothing, scripts,

Terms of service let Second Life residents retain IP rights.

textures, objects and designs. As Linden proclaims on the site itself, “This right is enforceable and applicable both in-world and offline, both for non-profit and commercial ventures. You create it, you own it—and it’s yours to do with as you please.”

Is it a ‘use in commerce’?

That same intellectual property ownership concept helps Eros support its Lanham Act claim, and earlier this year Eros filed an application to obtain federal trademark registration for “SexGen” with the U.S. Patent and Trademark Office. But the SexGen name has apparently not been used (by Eros or the named defendant, at least) outside the confines of Second Life or in connection with any real-world goods or services. As a result, the court will need to determine whether Eros’ virtual assets constitute “goods” within the meaning of the Lanham Act, and whether the use of the SexGen name wholly within the confines of Second Life constitutes a “use in commerce” sufficient to support a Lanham Act claim. See, e.g., *1-800 Contacts Inc. v. WhenU.Com Inc.*, 414 F.3d 400 (2d Cir. 2005) (explaining that “use” must be decided as a threshold matter because no amount

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of consumer confusion is actionable under the Lanham Act absent the “use” of a trademark).

If Eros is able to persuade the court that selling virtual assets for Linden Dollars in Second Life constitutes a “use in commerce,” the same reasoning could provoke manufacturers to abbreviate the time and energy involved in bringing a trademarked product to market by introducing and testing their trademarked products in Second Life first, before they are introduced into the real world. It could also prompt additional suits, not only against the various John Doe avatars who are passing their virtual assets off as someone else’s, but also against Linden Research itself as trademark owners are forced to reasonably enforce their rights in Second Life or risk losing them in the real world.

Linden has already been sued at least once, though that was for its own actions, not those of its Second Life residents. See *Bragg v. Linden Research Inc.*, 487 F. Supp. 2d 593 (E.D. Pa. 2007) (holding that a Second Life resident could proceed on his claims that Linden Research expropriated his property by freezing his account). If Linden were sued for the conduct of its Second Life residents, such a suit would likely resemble or be closely analogous to the several high-profile lawsuits that have been brought against social networking sites and other Web site operators whose users have posted allegedly infringing user-generated content (UGC), with avatars and other virtual assets constituting the UGC in the context of Second Life. Recent court decisions interpreting the Communications Decency Act (CDA) and the Digital Millennium Copyright Act (DMCA) are helping draw the lines between situations when Web site operators like Linden Research can rest easy, and when they can’t.

Safe harbors

The DMCA, 17 U.S.C. 512, provides Web site operators with statutory safe harbors against a copyright infringement claim for content that third parties post on their Web sites. To qualify for the safe harbors, the online service must adopt and reasonably implement notice and takedown procedures that allow copyright owners to send a notice of infringing content and get it taken down. In addition, the protection extends only to third-party content, not to content that the Web site operator is responsible in whole or in part for creating or developing. In that instance, the Web site operator is a content provider unable to invoke the safe harbor.

Section 230 of the CDA, 47 U.S.C. 230(c), offers robust protection to Web site operators against claims arising out of UGC. Section 230 provides that “[n]o provider of an interactive computer service shall be treated as the pub-

lisher or speaker of any information provided by another information content provider.” 47 U.S.C. 230(c)(e)(3). The touchstone of § 230(c) is that interactive computer services are immune from liability for content created by third parties.

Court held immunity applied only against state law IP claims.

Illustrating the broad scope of immunity offered by § 230, a federal district court held earlier this year that neither notice nor delay in removing content will bar a Web site operator from raising a CDA immunity defense. *Eckert v. Microsoft Corp.*, No. 06-11888, 2007 WL 496692, at *3 (E.D. Mich. Feb. 13, 2007). The statements at issue in that case were personal attacks on an individual’s moral character. In granting a defendant’s motion to dismiss, the U.S. District Court for the Eastern District of Michigan held that the mere fact that a Web site operator had received notice that defamatory statements were on its servers was not enough to strip that defendant of its §230 immunity defense. The district court also held that the defendant was entitled to an immunity defense under the CDA despite a delay in removing the offensive material.

Similarly, in February of this year, another federal district court held that MySpace Inc. was immune under the CDA from injuries stemming from content posted to its site. *Doe v. MySpace Inc.*, 474 F. Supp. 2d 843 (W.D. Texas 2007). The case was brought by a mother whose daughter was victimized by an online predator she “met” on MySpace (the child obtained the account by lying to MySpace about her age). The court found that the CDA protects interactive computer services from liability, not only for content posted to the site, but also for personal injuries stemming from such content.

Some IP claims trump immunity

But the CDA is not without limits. The first limit: Interactive computer services are not immune for publishing materials that they are responsible, in whole or in part, for creating or developing. That principle arises from the plain language of § 230 itself.

The second limit of the CDA: Courts are directed to construe the immunity created by the CDA in a manner that would neither “limit [n]or expand any law pertaining to intellectual property.” *Perfect 10 v. CCBill*, 488 F.3d 1102

(9th Cir. 2007), quoting § 230(e)(2) of the CDA. Although it would be reasonable to construe this language as simply clarifying that the CDA did not create a new intellectual property right or limit any intellectual property rights that were already recognized under existing law, the courts that have addressed the issue thus far have viewed this language as substantive, as opposed to merely clarifying. As a result, the CDA does not clothe service providers in immunity from claims under “any law pertaining to intellectual property.” The 9th U.S. Circuit Court of Appeals interpreted what this means at the end of May in the closely-followed case of *Perfect 10 v. CCBill*.

In that case, a content publisher (Perfect 10) brought claims against a Web-hosting and payment service provider (CCBill), claiming that the defendant had violated copyright, trademark and state right of publicity laws. At issue was the scope of the intellectual property exception to CDA immunity. The court held that the CDA offered immunity only against state law “intellectual property” claims (which includes publicity claims), but not federal intellectual property claims. Perfect 10 has filed a petition for a writ of certiorari to the U.S. Supreme Court, but unless and until the Supreme Court decides differently, the takeaway in the 9th Circuit is that the CDA offers immunity against state law intellectual property claims, but federal copyright and trademark infringement claims can stand (though the DMCA, discussed above, offers protection against copyright claims). But see *Universal Communications Systems Inc. v. Lyco, Inc.*, 478 F.3d 413 (1st Cir. 2007) (holding that a Florida state trademark law claim was properly dismissed as a matter of trademark law but was not barred by the CDA because such a claim falls within the intellectual property exception to CDA immunity set forth in 230(e)(2)).

Although the CDA and DMCA would offer robust protection to Linden Research and other Web site operators that allow UGC to be posted on their sites, recent cases have shown there are limits to how much a Web site operator can rely on those protections. As virtual worlds like Second Life become even more mainstream, the number of lawsuits can be expected to multiply, and the contours of the risks and liabilities and corresponding protections offered under the DMCA and CDA will continue to be drawn by the courts. **NLJ**