

Protect IP in Online Worlds to Avoid Virtual Nightmares

by *Douglas R. Wolf*

Given the increasing popularity of virtual worlds as a place for business transactions, companies that want to participate but aren't ready to create their own presence in this new marketplace may still be able to generate revenue and protect their intellectual property with the right kind of licensing agreement.

But first they must understand the differences—and similarities—regarding licensing and infringement issues in the virtual world versus the physical world.

Originators of these virtual worlds have essentially provided a platform on which users can create characters and objects for interaction with other users. Linden Lab created Second Life (SL) which, like others, is free to join and claims nearly 10 million "residents".

In these virtual worlds, residents create and sell images (objects) for "virtual currency" which can be converted into real-life currency. Millions of dollars are spent on a daily basis in these worlds. The currency in Second Life is called "Linden dollars." The ability to convert Linden dollars into real money is the linchpin to this economy for residents.

Linden Lab provides that all copyrights and trademarks in the images created by its users remain with the users. Linden Lab permits transfer and copying of those objects only with the creator's permission. This becomes one of the important drivers to the SL economy. Since the residents can create objects and be certain they are not copied but still can be transferred, buying and selling become commonplace.

There are many real world companies which have an active presence "in-world", through which they sell or promote goods and services. Toyota, for example, made headlines when it launched its Scion in SL first. Usage of real-life trademarks by residents who are not the real-life owners,

however, is becoming a problem. While this may seem like the early days of virtual worlds, establishing boundaries can be critical to avoid a future problem trying to rein in infringers.

We advise our clients to start with standard license arrangements, since the intellectual property rights and concepts overlap whether it is real world or virtual world.

Know Your Licensee

As more companies create an online presence, control of the brand and image becomes more important. Getting to know your licensee is critical. Remember, they are delivering product information to potential customers, and their interaction could be the first impression that customer receives.

Supply Graphics

Be sure to provide the quality and the type of graphics you want the licensee to have. This will allow you to spot infringements more readily. Moreover, if your real-world products are subject to other licenses, such as from third-party graphic artists, controlling what is used by the licensee protects the rights of these other parties.

Exclusivity

While you may have a desire to license the whole project out, there are many ways to divide up SL. Do not assume that a resident/licensee is all things for your whole line. There are different channels of trade even within a virtual world

Tarnishment

Consider the environment in which the products are sold. Your licensee should not sell your product in a location with unsuitable material. You may not want your product sold in a store where the store next door (in easy viewing) is selling objectionable material.

Enforcement

The licensee should have a responsibility to the property owner to make the licensor aware of any infringement. An additional obligation of periodic, pro-active searching should also be considered as a requirement. Active residents are far better than the real-life property owners in periodically searching for infringements.

Marking Product

While the product for sale probably has the brand already on it, additional marking of the object's SL profile may be worthwhile. Since names are unique in Second Life, it is possible to label something as "Genuine" or "Real" in combination with the name of the authorized dealer. In addition to marking, the images sold should not be available for resale.

Royalty Rates

Unauthorized residents often argue that use of the graphics is merely advertising for the



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company and royalty rates should not be charged. Whether this is true or not depends on strategy. Minimum pricing should also be a consideration, as well as the number of units the licensee may create and/or sell.

Payment/Reports

If payment is part of the license arrangement, detailed reports should be provided. While all transactions are in Linden dollars, there is consideration of the conversion rates, conversion process, and otherwise transfer of money in Second Life. On

top of these logistic and economic issues, the question of real-life tax implications also weighs.

Keeping up with the number of issues in virtual worlds is mind-boggling. In the end, addressing these virtual world issues is best done sooner rather than later. As these worlds continue to grow, infringements and other intellectual property matters are also moving at a rapid pace. Getting protection under control at the earlier stages will help prevent cleaning up problems later on.