

TRADEMARK ARBITRATION: A FIRST RATE CHANGE FOR A SECOND LIFE FUTURE

By Boris Shapiro¹

Introduction

Since the origins of recorded history, people have been using marks to indicate the source of their goods. In fact, the etching of a potter's mark in 3500 B.C., the blacksmith's branding of a sword in the Roman Empire, and the modern mass-branding of goods serve the same purpose: all three identify the source of the product on which they are found. In recognizing the importance of trademarks, Congress enacted the Lanham Act to protect an owner's trademark when it was used in commerce.² Traditionally, parties who sought to enforce their rights against real world infringers have relied on litigation when self-help remedies were unavailing. In the 21st century, however, a new type of business owner was born. His storefront window could not be seen in any mall or shopping area; his place of business could not be constrained by pesky laws of gravity; and his identity, although individualized, could easily be altered with a little imagination and a few left mouse-clicks. He was an inhabitant of Second Life, an online world at the forefront of virtual commerce, and his existence rendered litigation as dated as the 3500 B.C. mark on the potter's jar.

It is the thesis of this note that in the context of Second Life (and future user-generated worlds), litigation should not be used to settle matters dealing with the infringement of real-world marks by virtual-world inhabitants. Rather, Congress must amend the Lanham Act to require compulsory and binding arbitration in situations where a Terms of Service Agreement (TOS) does not provide the real world trademark holder with a remedy.

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² The Lanham Act is found in Title 15, Chapter 22 of the U.S. Code and contains the federal statutes governing trademark law in the United States.

Section I of this paper will bring the reader up to speed on the intricacies of trademark law under the Lanham Act. Section II will introduce the reader to a brave new world known as Second Life and explore the business opportunities that it offers. Section III will divulge the problem of trademark infringement within Second Life and explore how the Terms of Service Agreement can and does address the problem. Section IV explores Linden Lab's option to remain neutral and presents a situation where the Terms of Service Agreement will not protect the real-world company from infringement within Second Life. Section V explores the weaknesses of litigation and details why it does not adequately address the needs of courts, the real-world companies and Second Life business owners. Section VI introduces the reader to Alternative Dispute Resolution (ADR) and explores the advantages offered by arbitration in situations where conflicts cannot be resolved by the Terms of Service Agreement. Finally, Section VII proposes that in light of the benefits provided by arbitration, Congress should amend the Lanham Act to require compulsory and binding arbitration.

As you read the following sections, ask yourself the following: Can traditional litigation adequately address the interests and concerns of courts, real-world companies (claimants), and Second Life business owners (defendants)?

I Trademark Law

The underlying goal of trademark law is to prevent the unauthorized use of trademarks found in the course of commerce.³ Today, trademark law is thought to serve two primary purposes. First, it prevents the deception of consumers⁴; and second, it protects what is called the *goodwill* of the trademark owner.⁵ The contemporary Lanham Act, which sets forth federal trademark law in the United States, was enacted with these goals in mind and sets out to protect both registered and unregistered trademarks.⁶

To raise a *prima facie* case for trademark infringement, a claimant must establish that not only was the infringing mark *used in commerce*⁷, but that such use would lead to a *likelihood of confusion*⁸ as to the source of the goods.⁹ A defendant, however, is not without remedies of his

³ The Lanham Act defines a trademark as “any word, name, symbol or device, or any combination thereof ... [that is] used by a person...in commerce ... to identify and distinguish his or her goods ... from those manufactured or sold by others and to indicate the source of the goods[.]” (Emphasis added) 15 U.S.C. § 1127 (2000).

⁴ See Anne Gilson Lalonde, *Gilson on Trademarks* § 1.03[2] (2007). Inter alia, trademark law protects the deception of consumers against products manufactured by counterfeiters and passed off as genuine goods. *Id.*

⁵ *Id.*

⁶ In general, registration of a mark on the principal register provides greater protection for the trademark owner. For instance, a registered trademark is entitled nationwide protection from the date of application, and after five years of continuous use may become incontestable (section 1065). While unregistered marks do not enjoy such benefits, they are nevertheless protected under section 1125 of the Lanham Act.

⁷ The Lanham Act defines commerce very broadly. In fact, the word “commerce” encompasses “all commerce which may lawfully be regulated by Congress”. 15 U.S.C. § 1127 (2000).

⁸ *Polaroid Corp v. Polarad Elec. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961), *cert. denied*, 368 U.S. 820 (1961). The Second Circuit enumerated eight factors to be used in determining whether confusion between goods is likely:

- 1) The strength of the plaintiff’s mark;
- 2) The degree of similarity between plaintiff’s and defendant’s marks;
- 3) The proximity of the products;
- 4) The likelihood that plaintiff will bridge the gap;
- 5) Evidence of actual confusion;
- 6) Defendant’s good faith in adopting the mark;
- 7) The quality of defendant’s product;
- 8) The sophistication of the buyers

own. Notwithstanding his ability to counter evidence of *use in commerce* and *likelihood of confusion*, the defendant may also present a handful of valid defenses, including fair use and abandonment.¹⁰

Traditionally, litigation was the sword most often wielded by claimants seeking to enforce their trademark rights against infringing parties. However, with the recent growth of the Internet and its associated technologies, new and unforeseen challenges have surrounded trademark protection across the United States. At the forefront of this intellectual property revolution is Second Life, a virtual community that has brought trademark rights into the 21st century.

II Second Life

Second Life, a creation of Linden Lab, is a *user-generated* world at the frontier of online gaming.¹¹ Second Life, however, is not a traditional online multi-player game with winners, losers, points and levels. Rather, Second Life is a virtual landscape where people live their lives in a fashion quite similar to real life. Whether you wish to visit a friend's house, shop for virtual

These factors are non-exclusive and depending on the facts of the case, a court is entitled to weigh some factors heavier than others. *Id.*

⁹ Any person who shall, without the consent of the registrant... use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion...shall be subjected to the provisions of this Act. 15 U.S.C. § 1114 (2000).

¹⁰ 15 U.S.C § 1115 (2000).

¹¹ “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.” Candidus Dougherty & Greg Lastowka, *Virtual Trademarks*, 24 Santa Clara Computer & High Tech. L.J. 749, 768 (2008).

sneakers or even go to a dance club, your virtual experience awaits. *Residents*¹² are not only afforded great freedom in their actions, but they are also vested with the power to bring figments of their imagination into reality.¹³ By taking advantage of the tools provided to the residents, the users of Second Life are able to create virtual products for their own entertainment and the entertainment of others. Whether those products are clothes, accessories, or even forms of transportation, the biggest obstacle in creating virtual products is the sophistication of the user and his mastery of Second Life's three dimensional modeling tool and scripting language.¹⁴

The amount of content generation that occurs regularly in Second Life is astonishing. 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.”¹⁵

While Linden Lab technically retains ownership of everything on its servers (including user accounts and creations)¹⁶, it grants its users the right to retain intellectual property rights with

¹² ‘Resident’ is a term coined by Second Life to refer to a person’s in-game character within Second Life. Second Life, What is Second Life?, <http://secondlife.com/whatis/avatar.php> (last visited October 2008).

¹³ In fact, Linden Lab publicly promotes its environment as created entirely by its users. Second Life, What is Second Life?, <http://secondlife.com/whatis/> (last visited October 2008).

¹⁴ See Betsy Book, *Virtual World Business Brands: Entrepreneurship and Identity in Massively Multiplayer Online Gaming Environments*, 12 (June 2005). In this note, the author focuses on *Preen* and Cubey Terra, two established brands within the world of Second Life. Through the creativity and mastery of the scripting language, the brand owners were successful in creating unique products of their own. The former focused on high quality clothing while the latter mastered virtual vehicles.

¹⁵ Cory Ondrejka, *Collapsing Geography: Second Life, Innovation, and the Future of National Power*, 2 Innovations: Tech., Governance, Globalization, 35, (2007).

¹⁶ Second Life, Terms of Service, <http://secondlife.com/corporate/tos.php> (last visited October 2008). § 3.3 of Second Life’s Terms of Service states, “You agree that even though you may retain certain copyright or other intellectual property rights with respect to Content you create while using the Service, *you do not own the account* you use to access the Service, *nor do you own any data Linden Lab stores on Linden Lab servers* (including without limitation any data representing or embodying any or all of your Content). Your intellectual property rights

respect to the content created. Linden Lab's Terms of Service Agreement (TOS) states that, “Linden Lab acknowledges and agrees that, subject to the terms and conditions of this Agreement, you will retain any and all applicable copyright and other intellectual property rights with respect to any Content you create using the Service, to the extent you have such rights under applicable law.”¹⁷ To date, Linden Lab is the only virtual world provider to expressly vest its users with a right to the intellectual property that they create while using the virtual world platform.¹⁸

In addition to granting its users the right to retain intellectual property rights, Linden Lab has created a monetary exchange system that allows the unrestricted interchangeability of fictional currency, the Linden dollar, between in-game residents.¹⁹ Residents use Linden dollars to facilitate in-game transactions for land and goods created by others. This, however, is merely the tip of the commercial iceberg envisioned by Linden Lab. In fact, Second Life’s system of currency interchangeability allows two-way conversions of real world and in-game currency.²⁰ This means that not only can you exchange American dollars for in-game Linden dollars, but you can also exchange Linden dollars back to American dollars. “The real currency aspect of the Second Life economy means that product exchanges between Second Life users are made for

do not confer any rights of access to the Service or any rights to data stored by or on behalf of Linden Lab.” (emphasis added).

¹⁷ *Id.* at § 3.2.

¹⁸ Dougherty, *supra* note 12, at 769.

¹⁹ .Second Life, *supra* note 17 at § 1.5.

²⁰ See Second Life ,Currency Exchange, <http://secondlife.com/whatis/currency.php>. (last visited October 2008). Over the past few years, the in-game currency has maintained a fairly stable rate of approximately 250 Linden dollars to the U.S. dollar. *Id.*

real consideration—a distinction that pushes Second Life business transactions into the legal definition of commerce.”²¹

Supporting Second Life’s virtual economy is its quickly growing community of entrepreneurs and business-minded opportunists.²² As of October 2008, over 61,000 business owners (with positive monthly Linden dollar flow) were operating within Second Life and over 22 million commercial transactions took place therein. In October alone, over 400 thousand customers were spending money in-world.²³ In fact, business is so good that people are turning to Second Life as either a secondary or a primary source of income.²⁴ In 2006, the top 10 individual entrepreneurs within Second Life earned approximately \$200,000 (U.S. dollars) per year.²⁵ In the same year, Second Life welcomed its first millionaire by the name of Ailin Graef. In Second Life, Ms. Graef is a virtual land baroness by the name of Anshe Young. “[Her] achievement is all the more remarkable because the fortune was developed over a period of two and half years from an initial investment of \$9.95 for a Second Life account.”²⁶ This, however,

²¹ Dougherty , *supra* note 12, at 771. Thus, Second Life users risk actual loss and can potentially realize substantial gain through their virtual transactions. *Id.*

²² See Second Life, Economic Statistics, http://secondlife.com/whatis/economy_stats.php. (last visited October 2008). Second Life has over 16 million residents, with over a million logged-in during the last 60 days alone. *Id.*

²³ *Id.*

²⁴ John W. Crittenden, Real I.P., Virtual Worlds –Issues in *Litigating Trademark and Unfair Competition Cases in Second Life and Life Spaces*, SN053 ALI-ABA 239 (2008). According to one report, in July 2007, nearly 900 people earned at least \$1,000 per month from their activities in Second Life. William Marra, *Want to Make Money in Second Life? It's Harder Than You Think*, <http://abcnews.go.com/Technology/Story?id=3527537&page=1> (last visited October 2008).

²⁵ Maxim Kelly, *Get a Second Life*, <http://www.enn.ie/article/9853686.html> (last visited October 2008).

²⁶ Rob Hof, *Second Life’s First Millionaire*, http://www.businessweek.com/the_thread/techbeat/archives/2006/11/second_lifes_fi.html (last visited October 2008). “[Anshe] achieved her fortune by beginning with small scale purchases of virtual real estate which she then subdivided and developed with landscaping and themed architectural builds for rental and resale. Her operations have since grown to include the development and sale of properties for large scale real world corporations, and have

is merely the beginning of the virtual revolution. According to Mitch Kapur, Linden Lab's Chairman of the Board, "it'll take around 15 more years for virtual environments to move from the technology margins to the mainstream."²⁷

The success of entrepreneurs like Ailin Graef, as well as statements similar to those provided by Mr. Kapur should and in fact have caught the attention of the corporate ear. Adidas, Coca-Cola, Dell, Disney, General Motors, and Reebok are only some of the names that have decided to plug into the Second Life experience.²⁸ But just like in the real world, the allure of making money causes legal issues to arise. Vastly different from the real world, however, is that other than the TOS to which all Second Life users must assent to in order to set up an account, there is no *virtual law* in the virtual world.

While most believe Second Life to be the next frontier for commerce and intellectual property, others see it as little more than the *wild-wild-west* of the 21st century. In their eyes, "misappropriation of major corporations' trademarks in Second Life is so ubiquitous, so safe, and so immensely profitable, that it has become a wholly transparent part of Second Life's bustling commercial landscape."²⁹ While entirely ignoring Second Life's legitimate value is too pessimistic, the underlying validity of their concerns cannot be dismissed. In fact, according to Benjamin Duranske of the website *Virtually Blind*, an estimated 1.4 million transactions a year

led to a real life 'spin off' corporation called Anshe Chung Studios, which develops immersive 3D environments for applications ranging from education to business conferring and product prototyping." *Id.*

²⁷ China Martens, *WORLD BEAT: ID Malleability Creates Virtual-World Issues*, <http://www.itworld.com/070627id> (last visited October 2008). Mr. Kapur added, "We're not even at the DOS era, we're still in the terminal emulation era." *Id.*

²⁸ Leonard T. Naura, Daniel A. Feurstein, Kristin M. Bohl & Claude W. Roxborough III, *No Man Is An Island, Not Even In A Virtual World*, 943 PLI/Pat 523, 536 ,548(2008). Even President-elect Barack Obama has a campaign office within Second Life. *Id.* at 548.

²⁹ Benjamin Durankse, *Rampant Trademark Infringement in Second Life Costs Millions, Undermines Future Enforcement*, <http://virtuallyblind.com/2007/05/04/trademark-infringement-vws> (last visited October 2008).

involve unauthorized use of trademarks, for a projected total of over 2 million U.S. dollars.³⁰ Further, as of May 2007, at least 16 stores advertised *Ferrari* cars, 40 stores advertised *Rolex* and *Chanel* watches, 50 stores carried *Gucci* and *Oakley* sunglasses, and over 150 stores sold *Nike* footwear.³¹ And while Nike, Inc. may have taken its name from the Greek goddess of victory³², the free appropriation of their trademarks is more akin to admitting *de-feet*.

III In-game infringement and the TOS

Should real world trademark owners care that residents are making a few bucks off their goodwill? While it may be argued that companies do care, but simply do not know about such activities; it is more likely that they believe they have bigger fish to fry than the Minnows in Second Life. So why should a company care right now? Two reasons; one is legal, and the other is practical. In light of the former, trademark law requires that companies holding trademarks actively enforce those trademarks in the event of infringement.³³ “[F]ailure to do so can ultimately result in loss of registration for the marks.”³⁴ The second concern, however, is more practical. Even though a company may have no present desire or intention to enter Second Life, it nevertheless should prudently protect the option.

³⁰ *Id.*

³¹ *Id.*

³² Nike, http://www.nikebiz.com/company_overview/facts.html (last visited April 2009).

³³ *See* 15 U.S.C. §§ 1064, 1127.

³⁴ Duranske, *supra* note 30. “A trademark owner’s failure to prosecute known infringers of a mark may result in a finding of abandonment of trademark rights.” “Moreover, the more trademark dilution is tolerated by a company, the harder is it to later argue that any particular infringer should be enjoined.” *Id.*

A number of companies have taken these concerns to heart and chosen to err on the side of caution. When high-end office furniture maker Herman Miller discovered that Second Life residents were selling virtual replicas of its famous ‘AERON’ chair, it opened its own in-game store and, for a limited time, offered to exchange knock offs for its own authentic version at no charge.³⁵ Then it sent cease and desist demands to the infringers.³⁶ Coca-Cola took a different approach to residents creating clothing and accessories bearing its trademark; it gave them limited ‘permission’ to carry on with their activities.³⁷

It is not, however, as if Linden Lab is oblivious to trademark infringement or simply does not care. Such a presumptuous statement cannot be further from the truth. When it comes down to it, policing Second Life simply exceeds the resources available to Linden Lab. This, however, does not mean that companies like Nike are without a remedy. Although real-world companies may not be parties to the TOS, they are nevertheless contemplated therein. Under section 4.1 entitled ‘Conduct by Users of Second Life’, the TOS states that residents agree not to “take any action or upload, post, e-mail or otherwise transmit Content that infringes or violates any third party rights.”³⁸ In conjunction, the TOS states that “Linden Lab has the right at any time for any reason or no reason to suspend or terminate your Account, terminate this Agreement, and/or

³⁵ *Preferred Seating: Herman Miller Offers Aerons to Residents... Ultimatums to Infringers*, <http://nwn.blogs.com/nwn/2007/10/preferred-seati.html> (last visited October 2008).

³⁶ *Id.* “[W]e’ve contacted those parties and informed them of our trade dress protections, copyrights and trademarks they are infringing, asking politely but firmly that they cease and desist[.]” *Id.*

³⁷ Crittenden, *supra* note 25 at 244. “We contacted Coca-Cola to inquire and were told that they are allowing products with their trademark in SL, under certain conditions....They pointed out that they did not want anything overtly sexual or violent in content ... Technically they haven’t ‘released’ their trademark, but they have given SL residents permission to use it”; Adam Reuters, *Coca-Cola Gives Away its Trademark in SL?*, <http://secondlife.reuters.com/stories/2007/06/28/coca-cola-gives-away-its-trademark-in-sl> (last visited October 2008).

³⁸ Second Life, *supra* note 17 at § 4.1.

refuse any and all current or future use of the Service without notice or liability to you.”³⁹

Perhaps most troubling to infringers, Linden Lab also reserves the right to “halt, suspend, discontinue, or reverse” any currency transaction at its sole discretion.⁴⁰

While the TOS theoretically protects third party trademark rights from in-game infringers, the only entity that can realistically pull the trigger is Linden Lab. After all, as far as the TOS is concerned, enforcing third party rights is entirely under its own discretion.⁴¹ While skeptics may doubt Linden Lab’s integrity, according to a website called *Orient Lodge*, Linden Lab has taken a surprisingly proactive role in protecting third party trademark rights.⁴²

Linden Lab, however, may not be equally proactive in all instances of alleged trademark infringement. While Linden Lab has demonstrated a willingness to cooperate with real-world companies in instances of blatant trademark infringement, it nevertheless may be hesitant to interfere with residents who have, in good faith, built their businesses from the *prim*⁴³ up. ‘AIMEE WEBER STUDIO & Design’⁴⁴, ‘Erros LLC’ and ‘The Syndicate’ are only three of a myriad number of businesses that have legitimate infrastructures not created upon the notion of

³⁹ *Id.* at § 2.6.

⁴⁰ *Id.* at § 1.5.

⁴¹ *Id.* at § 2.6.

⁴² Aldon Hynes, *Trademark Issues in Second Life*, <http://www.orient-lodge.com/node/2583> (last visited October 2008). As explained by the blogger, the head of a prominent company in Second Life received an email from Linden Lab notifying it that Linden Lab had received notification of in-game trademark infringement by third party counsel. In accordance with its policy to respect the rights of both Second Life residents and trademark owners, Linden Lab asked the in-game company to remove all trademark infringing content within 48 hours or it would proceed to terminate all accounts related to the infringing activity. *Id.*

⁴³ In Second Life, the term ‘prim’ designates a basic building block which is used in the creation of content. *What are prims in Second Life?*, [http:// www.vtoreality.com/what-are-prims-in-second-life/12/](http://www.vtoreality.com/what-are-prims-in-second-life/12/) (last visited April 2009).

⁴⁴ See Crittenden, *supra* note 25 at 245. “Alissa Laroche (Second Life name “Aimee Weber”) has filed applications to register her logo and the design of her avatar for the services of “content creation for virtual worlds and 3-D platforms.” In November 2007 the PTO allowed registration of her logo, AIMEE WEBER STUDIO & Design, No. 77110295, and her avatar design, No. 77110299, upon proof of use of the marks.” *Id.*

intentional trademark infringement.⁴⁵ In fact, businesses such as these comprise the backbone of Second Life's flourishing economy. It is in the context of such a conflict of interest that Linden Lab's statement that it "has the right, but not the obligation to remove any content"⁴⁶ makes most sense.

IV No TOS for you!

Linden Lab certainly has *the right* to administer its own vigilante justice by the power it vests in itself under the TOS. But is it in the best interest of Linden Lab to get involved? The answer is both yes and no. In a case where trademark infringement is blatant and obvious, as in the case of an in-game vendor selling Rolex watches, Linden Lab should get involved. For one, the TOS expressly prohibits such behavior, and perhaps as importantly, Linden Lab has an interest in Rolex one day partaking in the Second Life experience.

But what should Linden Lab make of alleged infringement that does not appear to be intentional, blatant and obvious? For instance, let us imagine that a business owner creates a trademark in the name *P.O.D.* P.O.D. specializes in virtual electronics that not only look good, but also perform virtual functions. Over the years P.O.D. builds a favorable reputation for its goods and is seeing generous profits from residents' investments in its products. One day, however, Apple Inc. learns about P.O.D. and is particularly troubled by the idea that P.O.D. is infringing on its IPOD trademark. In particular, Apple points to a virtual mobile music player that residents are purchasing from P.O.D. called a *walk-POD*. Apple's counsel promptly contacts Linden Lab and asks it to remove all traces of the *walk-POD*, along with the business known as

⁴⁵ *Id.*

⁴⁶ Second Life, *supra* note 17 at § 5.3.

P.O.D. in general.⁴⁷ In a situation such as this, it is in the best interest of Linden Lab to forego interfering with the in-game user's rights and allow Apple Inc. to seek its own remedy.

For one, Linden Lab may not be familiar enough with the intricacies of trademark law to ascertain whether the complaining party has established a prima facie case for trademark infringement or dilution. An in-game user may feel duped by Linden Lab's arbitrary decision to take matters into its own hands and deny the user the fruits of his labor.⁴⁸ Second, Linden Lab would need to allocate a tremendous quantity of resources for it to effectively investigate all allegations against its users. Linden Lab does not, nor would it desire to hire personnel qualified to competently weigh the evidence as between the two parties. Third, it is in the interest of Linden Lab to maintain status as a neutral party in all but the most egregious cases of trademark infringement. Linden Lab, as a service provider, has placed itself in a sensitive position where it must balance the interests of the resident as well as third parties. While real world corporations have for the most part shied away from the opportunities Second Life offers, according to Linden Lab, it is only a matter of time before its reach extends into the mainstream.⁴⁹ In light of this revelation, Linden Lab has a vested interest in earning the trust of real-world companies that may

⁴⁷ "Even if the product you make doesn't look, smell, feel, or do anything remotely close to what an iPod does, and even if consumers can't buy it on the shelves in a store, that apparently doesn't mean Apple won't release its legal dogs on you if the name of your product includes the letters P-O-D." The allegedly infringing device was a digital device called a 'PROFIT POD' which had nothing to do with the 'IPOD', did not compete in the same market as the 'IPOD', and no reasonable person could or would have confused it for an 'IPOD'. Nevertheless, Apple was concerned that the application for and use of the 'PROFIT POD' mark infringed its trademark rights and diluted Apple's famous 'IPOD' brand. According to Apple, its policy is to "aggressively police [its trademark rights in order to protect itself and its consumers." David Berlind, *Use "POD" in Your Trademark, Get Sued. Has Apple Gone Too Far?* <http://blogs.zdnet.com/BTL/?p=3482> (last visited October 2008).

⁴⁸ If Linden Lab were to ever act arbitrarily in its 'sole discretion', it may be vulnerable to a claim that it did not comply with its general obligation of good faith and fair dealing. The Restatement Second of Contract states, "Every contract imposes upon each party a duty of good faith and fair dealing in its performance and its enforcement." Restatement (Second) of Contracts, § 205 (1979).

⁴⁹ China Martens, *WORLD BEAT: ID Malleability Creates Virtual-World Issues*, <http://www.itworld.com/070627id> (last visited October 2008).

one day invest in the Linden dollar and join the Second Life community. On the other hand, in-game entrepreneurs are the ones who currently fuel the tanks of the Second Life economy. By turning a blind eye to them, Linden Lab would be committing a virtual and financial *hari-kari*.

In situations where Linden Lab is unwilling to single-handedly enforce trademark protection under the TOS, the most logical recourse for a real-world company is to bring a trademark infringement claim under the Lanham Act. However, though litigation retains a certain nostalgic appeal, in reality it is counter-intuitive to the interests of the courts, real-world companies, and especially in-game business owners.

V

Litigation: A Path Not Wisely Traveled

As former Chief Justice Warren E. Burger said in 1984 to the American Bar Association, “For many claims, trial by adversarial contest must in time go the way of the ancient trial by battle of blood. Our system is too costly, too painful, too destructive, [and] too inefficient for a truly civilized people.”⁵⁰ To put Justice Burger’s revelation in perspective, however, we must first come to grips with the three parties whose interests are at stake in traditional litigation. In no particular order, the parties are the courts, the real-world companies, and the in-game business owners. Although litigation may have adequately served the two former parties in the past, the introduction of the in-game business owner has added a *third dimension* that tips the scales in favor of arbitration. This section will explore the interest of all three parties in light of this change, and propose that litigation is no longer desirable in the context of inter-world trademark disputes.

⁵⁰ Speech, Feb. 28, 1984 to the American Bar Association, reported at 52 U.S.L.W. 2471.

As previous sections have highlighted, Linden Lab has swept ashore a sea of business-minded individuals who view Second Life as a secondary if not a primary source of income. Unlike intentional infringers, however, these individuals have a legitimate vested interest in the success of their business and its accompanying trademarks. Indeed, some have gone as far as registering their trademarks on the federal register.⁵¹ If asked to cease and desist, these business owners are expected to stand their ground. And if sued, they are not expected to allow a default judgment to be entered against them. Or will they? While in-game users may have a legitimate belief that their business practices do not infringe real world trademarks, they must nevertheless factor the costs of litigation into the equation⁵². Furthermore, faced with uncertainties such as the length of a trial⁵³, the amount of discovery required, the success of winning on the merits and the likelihood of appeal, the in-game business owner may feel defeated before stepping into the court-house. Notwithstanding the strength of his case, he will feel powerless in the face of an opponent with potentially unlimited time and resources. For the average in-game business owner, adequate representation of his claim lies in a quicker and more cost-effective alternative to litigation.

The *little guy*, however, is not the only one who has much to lose from the pursuit of traditional litigation. First and foremost, the number of potential infringers in a virtual world is arguably infinite. Startup costs for virtual businesses are nominal, and creating virtual sneakers

⁵¹ E.g., Crittenden, *supra* note 25 at 245; Benjamin Durankse, *Linden Lab, Avatar 'Victor Vezina,' Philip Rosedale, and Mitch Kapor Sued Over SLART Trademark*, <http://virtuallyblind.com/2008/09/02/minsky-linden-lab-complaint> (September 2, 2008). (Richard Minsky has successfully registered the trademark 'SLART').

⁵² American corporations spend over \$80 billion in legal costs annually. In general, trial, if necessary, would be very expensive and time consuming. Charles P. Lickson, *The Use of Alternative Dispute Resolution in Intellectual Property, Technology-Related or Innovation-Based Disputes*, 55 Am. Jur. Trials 483 (2008).

⁵³ According to court documents, Federal court cases take an average of 23.2 months from filing to disposition. <http://www.uscourts.gov/library/statisticalreports.html> (last visited April 2009).

requires far fewer resources and expertise than creating actual sneakers. For this very reason, anyone who owns a computer with an Internet connection has the tools to infringe upon a trademark. By pursuing these potential infringers through traditional channels, real-world companies are opening themselves up to negative public opinion. In our politically correct times, the last thing a real-world company needs is a reputation as a corporate bully. Further, though only a minority of cases may go to trial⁵⁴, the constant filing of complaints is costly and will nevertheless attract the attention of media and public alike.

Perhaps most troubling for real-world companies is that the outcome of the litigation is essentially out of their hands. They have little say in which judge will preside over their case and have limited say in jury selection. While the company may present evidence in its favor, how the evidence is weighed and understood is entirely in the hands of the judge and jury. Where issues in intellectual property cases are technically confusing and require expertise, in the hands of a non-technical judge or jury, disaster is a possibility.⁵⁵ “This realization is driven home when you are waiting for the jury to return a verdict or a judge to announce a decision. At that moment, it is crystal clear the outcome can go either way and you might lose.”⁵⁶

⁵⁴ Lickson, *supra* note 52 at § 70. “It has been reported that only 3 to 4 percent of the 18 million civil cases filed in state courts each year go to trial.” *Id.*

⁵⁵ See Lickson, *supra* note 52 at § 65.

“While there will always be some cases where the dispute requires immediate court action, almost everyone agrees, including the legal profession, that traditional litigation may not be able to handle all of the technology-oriented cases that arise these days. It is probably fair to say that whenever a technology-related issue is at the heart of a legal dispute, appropriate and low-risk disposition requires that those involved in dispute resolution possess some technical knowledge about the subject matter of the dispute.” *Id.*

See generally Whelan Assocs., Inc. v. Jaslow Dental Lab., Inc., 797 F.2d 1222 (3d.Cir.1986) (Controversial copyright decision which amended copyright law to apply the ‘look and feel’ concept of copyright protection to software programs. According to a number of commentators, the decision was attributed to the court’s lack of sophistication in the field of software. *Id.* at §64.

⁵⁶ Janet Stidman Eveleth, *Settling Disputes Without Litigation*, 34 -MDBJ 2, 8 (2001).

As a side note, it is important to acknowledge that real-world companies are not all limitless in time and resources. As technology like Second Life enters the mainstream, more localized businesses may be affected and seek remedies through the legal system. For these types of real-world companies, a quicker and more cost-effective alternative to litigation is desirable as well.

Finally, we come to the interests of the courts themselves. Undeniably, today's court calendars are already congested with cases⁵⁷. Allowing litigation of inter-world trademark-infringement disputes would add further insult to injury. Not only is the quantity of virtual infringers potentially unlimited, but they are also easier to track down than their real world counterparts. One must simply type *Nike* into the Second Life classifieds to uncover all stores that sell Nike apparel.⁵⁸ Combined, these factors will increase the amount of complaints filed and further burden an already backlogged court docket. Finally, even if only a small percentage of these cases go to trial, the courts may wish to abstain from entertaining cases requiring technology-oriented decisions. A judge who is unfamiliar with an underlying technology may feel unqualified to render a decision, even after reviewing all the evidence. In such instances, the courts will prefer to err on the side of caution and leave such decisions in the hands of professionals more qualified to render a fair and knowledgeable decision.

⁵⁷ See Lickson, *supra* note 52 at § 1.

⁵⁸ Durankse, *supra* note 30.

VI

No need to fear, arbitration is here

To sue or not to sue, that is the question. Whether 'tis nobler in mind to ignore the troubles of litigation, or to amend the Lanham Act at once and by requiring arbitration end them?

Among legal practitioners alternative dispute resolution (ADR) is a term that describes a variety of practices designed to resolve legal disputes without the need to pursue traditional avenues of litigation.⁵⁹ The importance of ADR was recognized on the federal level as early as 1925 when the Federal Arbitration Act was originally enacted, and since then other statutes have dealt with parties' rights to final and private resolution of civil disputes.⁶⁰ Today, ADR is receiving ever-increasing interest in the legal community because of congested court calendars as well as the perception that it is a quicker, more cost-effective, less risky and far less traumatic alternative to litigation.⁶¹ In fact, in the business world, more companies are using ADR as a matter of corporate policy.⁶²

While ADR encompasses a wide array of mechanisms, this paper will focus exclusively on arbitration, the most widely used form of ADR⁶³. "In fact, it has been said that arbitration 'has now been placed on an equal footing with litigation'"⁶⁴ If broken down to its most basic elements, arbitration is a private trial. Unlike a trial, however, arbitration is not impeded by rules

⁵⁹ Lickson, *supra* note 53 at § 1.

⁶⁰ 9 U.S.C., § 1 et seq.. <http://www.adr.org/sp.asp?id=29568>. Further, it is the author's proposal that the Lanham Act is precisely the type of statute that will benefit from the incorporation of ADR into one or more provisions.

⁶¹ See Lickson, *supra* note 52 at § 1.

⁶² *Id.* at § 4. Mr. Lickson surveyed various law firms and learned that a number of them had used ADR in cases involving intellectual property disputes. Among them was trademark infringement as well as other trademark, service mark and trade dress issues. The majority responded that they were pleased with the results. *Id.* at § 7.

⁶³ *Id.* at § 16.

⁶⁴ *Id.* (Citing American Bar Association, Commercial Arbitration for the 1990's (1991)).

of evidence. Nevertheless, in arbitration a neutral third party (the arbitrator) reviews presentations from both sides and makes a decision based on the evidence presented.⁶⁵ Such presentations may include documents related to the dispute as well as witness testimony. The arbitrator's decision may or may not be binding.⁶⁶ If the decision is binding, however, it generally is final and cannot be appealed.⁶⁷

This, in turn, brings us to the first advantage of arbitration: control of the outcome. By choosing the provider⁶⁸ and ultimately the arbitrator as well, the parties retain far greater control of the outcome than they would retain by surrendering their fate to a judge or jury. By selecting a neutral arbitrator who is technology-oriented, is well versed in trademark law⁶⁹, and has a thorough understanding of Second Life, the parties will not feel as if they are about to roll the dice in Vegas. To the contrary, the parties will be confident that the decision to be rendered will be based on coherent fact analysis by a qualified third party. Further, in trademark infringement litigation, parties often submit consumer surveys as proof of *actual confusion*. Some surveys, however, while convincing to judge and jury, are nothing more than a facade.⁷⁰ Although such surveys are given much weight, they are liable to be biased, misleading and are as light as a

⁶⁵ See Lickson, *supra* note 52 at § 16.

⁶⁶ *Id.*

⁶⁷ *Id.*

⁶⁸ Alternative dispute resolution is available from a variety of sources. Among them, the American Arbitration Association (AAA) is the major referral source for arbitration in the U.S. *Id.* at § 56.

⁶⁹ The arbitrator could be an intellectual property attorney with a specialty in trademark law. An understanding of economics and market factors may also come in handy.

⁷⁰ See *Mutual of Omaha Insurance Co. v. Novak*, 836 F.2d 397, 403-06 (8th Cir. 1987) (Heaney, J., dissenting) (Survey should have been given little if any evidentiary weight due to its fundamentally flawed and blatantly suggestive nature).

feather. A qualified arbitrator can appropriately limit, streamline, and generally put suspicious surveys into perspective.⁷¹

According to a survey conducted by the American Intellectual Property Law Association in 2001, the average cost of a trademark infringement suit through trial was over \$500,000.⁷² While arbitration is not cheap per se, it is nevertheless a cheaper and more cost-effective alternative to litigation.⁷³ Cost savings occur in a number of ways. First, the time during which the dispute is pending can be shortened. As a result, costs associated with prolonged litigation can be minimized and business down time can be shortened.⁷⁴ Second, trademark litigation is often plagued by extensive discovery. An arbitrator can save both time and money by limiting the scope of discovery, as agreed to by parties looking to minimize financial costs.⁷⁵ Third, a trial is procedurally restrained and governed by the rules of evidence. The result is a painstaking process surrounded by opportunities for delay.⁷⁶ Such delay not only affects a business' down time, but also hikes up costs associated with prolonged trials such as the costs of retaining legal counsel.⁷⁷ Finally, trademark litigation is frequently more complicated and difficult to

⁷¹ Scott H. Blackmand & Rebecca M. Mcneill, *Alternative Dispute Resolution in Commercial Intellectual Property Disputes*, 47 Am. U.L. Rev. 1709, 1727 (1998).

⁷² Kevin M. Lemley, *I'll Make Him an Offer He Can't Refuse: A Proposed Model for Alternative Dispute Resolution in Intellectual Property Disputes*, 37 Akron L. Rev. 287, 311 (2004) (citing Fetzer-Kraus, Inc., AIPLA Report of Economic Survey 84-90 (2001)).

⁷³ See Lickson, *supra* note 52 at § 68. "One well-known national ADR provider estimates that between 1990 and 1993, panelists resolved disputes involving \$6.7 billion, with legal costs savings in excess of \$187 million, for an average of \$425,000 per company." *Id.*

⁷⁴ Michael H. Diamant & Elizabeth M. Zoller, *Strategies for Mediation, Arbitration, and Other Forms of Alternative Dispute Resolution*, SJ055 ALI-ABR 131, 134 (2004). ADR also saves time by allowing parties to commence arbitration immediately without having to wait months or years to appear on a court docket.

⁷⁵ Lickson, *supra* note 52 at § 68.

⁷⁶ Lemley, *supra* note 72 at 311.

⁷⁷ *Id.*

comprehend than other types of litigation. It requires an understanding of complicated legal rules in addition to consumer perception, surveys and market data. As a result, parties spend an inordinate amount of resources *teaching* the judge and jury. Most if not all of these expenses can be avoided by relying on a qualified arbitrator already privy to the intricacies of trademark infringement.⁷⁸ In sum, arbitration cuts the fat associated with traditional litigation and allows the parties to focus their time and resources in a more cost-effective fashion.

Finally, arbitration is a confidential process.⁷⁹ And in this regard, arbitration is analogous to Vegas. After all, *what happens in Vegas stays in Vegas*. This means that real-world companies can avoid a reputation of being a corporate bully while protecting their trademark rights as aggressively as they see fit. If a company wishes to turn a blind eye to Second Life infringement, it may do so. However, if it wishes to relentlessly pursue all potential infringers, it may do so without the fear of a public backlash.

While the advantages of arbitration are certainly profound, to dismiss its potential disadvantages would be a disservice to the reader. For one, in the case of binding arbitration, there is no general appellate review. While this may seem daunting at first, it is but a minor inconvenience. In fact, the lack of an appellate review is a built-in cost-saving mechanism.⁸⁰

Another important factor to consider is that, depending upon governing law, an arbitrator may not be able to third parties, such as witnesses or experts, to participate in arbitration.⁸¹ However, where there is a will there is a way. If a witness is essential to a party's claim, the

⁷⁸ Blackmand, *supra* note 71.

⁷⁹ Lickson, *supra* note 52 at §71.

⁸⁰ Lemley, *supra* note 72 at 311. With the unforgiving costs and consequences of a trademark infringement suit, the losing party often appeals, which further adds to the costs and duration of the dispute. *Id.*

⁸¹ See *Hull Municipal Lighting Plant v. Massachusetts Municipal Wholesale Electric Co.*, 609 N.E.2d 460 (Mass. 1993).

party can provide the witness with incentives to participate.⁸² Further, although expert witnesses may be important in a trial setting, the selection of a qualified arbitrator will deem most expert witnesses superfluous in the context of arbitration.

Critics may also point to the fact that arbitration does not allow for the claimant to seek a preliminary injunction while the case is pending.⁸³ While this is certainly important in the greater scheme of trademark infringement, in the case of Second Life, any potential damage to the claimant's trademark is confined to a narrow and isolated market. Furthermore, taking into consideration that arbitration is more expedient than litigation, the potential for substantial damages is dubious.

Finally, and perhaps most importantly, the confidential nature of an arbitration process may undermine the claimant's intentions to send a deterring message to future infringers.⁸⁴ While it is difficult to dismiss this factor entirely, it is likely that favorable arbitration decisions will persuade Linden Lab to exercise greater discretion in punishing potential infringers under the TOS. This is especially true if the particular infringed trademark has been successfully arbitrated in the past. Further, nothing impedes Linden Lab from announcing in Second Life that an infringer has been punished. As such, if the third party cannot deliver the deterring message itself, Linden Lab will.⁸⁵

⁸² These incentives can, but do not necessarily have to be monetary.

⁸³ See Thomas J. Speiss & Stephen M. Levine, *An Analysis of the Factors That Determine When and How to Resolve a Trademark Dispute*, 11 Rich .J.L. & Tech. 1, 2 (2004).

⁸⁴ Diamant, *supra* note 74 at 134.

⁸⁵ If a third party decides to join Second Life, nothing is stopping it from notifying users of its prior victories. While it will not be in the interest of the company to 'spam' Second Life, announcements on its land will do the job adequately.

VII

Change: It's not just a political slogan

In light of the benefits which arbitration offers, Congress should amend the Lanham Act to provide for binding and compulsory arbitration in situations where real-world companies allege trademark infringement against inhabitants of Second Life (and future user-generated worlds).⁸⁶ While some may see such an amendment as a bit drastic, this is the only way to ensure that the needs of all parties, especially the in-game business owner, are met. First and foremost, arbitration clauses in the TOS will not be effective because they do not bind third parties. Further, while some corporate policies encourage the use of arbitration, uncertainty lies as to what extent it will be followed. Companies may still file complaints with the court even if they have no intentions on pursuing litigation. Such an action may simply be a strong-hand tactic to intimidate the business owner into complying with their demands. Others with more money may simply wish to drag the business owner through the grinder and effectively cripple his finances. Where reliability and uniformity of application is paramount, amending the Lanham Act is the only sure way to guarantee the benefits that arbitration has to offer.

While the details and intricacies of such an amendment are outside the scope of this paper, a brief overlook is nevertheless warranted. First and foremost, Congress should limit arbitration to one arbitrator unless otherwise agreed upon by both parties. If cost savings is paramount, a panel of one arbitrator will suffice. However, if both parties agree that there is too much at stake, an option to reserve a panel of three arbitrators should be available.⁸⁷ The provision may

⁸⁶ Since Linden Lab is at the frontier of this revolution, the provision as it currently stands is limited in scope to the residents of Second Life. Notwithstanding, it is foreseeable that in the near future this provision will extend to other virtual worlds that follow in Second Life's footsteps.

⁸⁷ It is also foreseeable that the provision could allow the parties to opt out of arbitration altogether in favor of litigation or another form of alternative dispute resolution. Where both parties agree on litigation, it is arguable that their interests outweigh the interest of the courts.

also address the question of where the arbitration should take place. At the very least, a party should have the option to hold the arbitration through video chat if it is unable to accommodate for travel time and expenses. Finally, the provision could allow otherwise absentee parties to provide the arbitrator with evidence through channels such as fax, email, or regular mail. Parties with a larger interest in the outcome, however, will likely forego such options in lieu of in-person delivery and presentation of the evidence.

Conclusion

The world of trademark law calls for a dispute resolution mechanism as fast-paced and efficient as the evolution of the underlying technology and ideas that are the subject of the disputes. In situations where a TOS is insufficient, arbitration is far better suited to address the needs of the courts, the real-world companies and especially the in-game business owners. By opening our eyes to the present, we can prepare for our Second Life future; and by accepting our arbitrated future, we can stop living in our litigated past.