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# Hot Licensing Issues in the Video Game Industry

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The video game industry has come a long way from the days when *Pong* was played in wood paneled and shag carpeted rec rooms. Last year, the US video gaming industry generated \$18 billion in revenue, a 43 percent increase from the previous year, and by all indications, it continues to grow.<sup>1</sup> US computer and video game software sales were \$8.64 billion last year—nearly tripling industry software sales since 1996.<sup>2</sup> Both the industry and the games themselves are more sophisticated than anyone could have imagined in the early 1980s when *Asteroids* and *Space Invaders* ruled the arcade. With the amount of money at stake, licensing in the video game industry is a crucial component to the industry's continued success.

Licensing is a major component to video game development, publishing, and distribution. This article focuses on hot licensing issues facing the video game industry, namely on securing the rights to use third parties' intellectual property in a game, and drafting an effective, enforceable End User License Agreement (EULA) to keep the peace between and among players and the provider.

## Securing Third Party Intellectual Property Rights

Before financing, developers, publishers, and other financial backers will be well-advised to ensure that the necessary licenses are in place and/or insist on deal terms that accurately reflect the degree of risk that they are undertaking for unauthorized games that are "inspired" by material from other media. It is not uncommon for a novel, movie or television program to provide the inspiration for a video game. To name a few, such games include *The Godfather*, *Reservoir Dogs*, *Scarface*, *24*, *From Russia With Love*, and *Harry Potter*. In fact, it has become almost standard practice for a popular novel, movie or television series to cross-market a video game. Licensing is a prophylactic measure to minimize exposure to litigation. While even the most artfully drafted license cannot ensure that the creation, development and marketing of a video game will be a "litigation-free" event, savvy drafting can dramatically minimize risk.

The guiding principle that the video game developer/publisher should employ is that virtually everything that appears in the video game which is not the independent, original creation of the video game developer, will likely need to be licensed. As early as the development stage, developers/publishers should draft licenses that cover the use of third party's intellectual property (IP) in advertisements and on packaging and point-of-purchase signage. For example, assume that a developer obtained the rights to use a celebrity's likeness in a video game in 2006, but waited until 2008, a few months before the game launches, to obtain the rights to use the celebrity's likeness in an advertisement for the game. If that celebrity's career has taken off in the interim, then the rate the celebrity can command for a commercial endorsement might be several multiples of the publisher's entire promotional budget.

Before considerable sums are expended, set forth below is a list of situations where the developer/publisher most likely needs to obtain a license from a third party to use its intellectual property.

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## Game Uses an Actual Person, Living or Dead

Using the image or an actual person, living or dead, in a video game will most likely require that the game developer obtain the rights to that individual's name, image, and likeness. Although a motion picture studio may have granted the rights to exploit the film in which the actor's performance is embodied, the actor may not have granted the rights that will allow the game developer to use the individual actor's name or likeness in the game.<sup>3</sup> Indeed, the original agreement between the actor and the movie studio may be silent on such use. Accordingly, if a depiction of a character still somewhat resembles the actor's physical appearance, a license to use the copyrighted film and the characters featured therein may not protect a developer from being sued by the actor for violations of his right of publicity and related false endorsement claims under the US Trademark Act. In some cases, an actor may not wish to participate in the video game adaptation of the film. Without the actor's permission to use his likeness, a savvy developer must take great pains, with possible risk to the marketability of the game, to ensure that the video game version of the actor's character does not resemble the physical likeness of the actor. For example, Electronic Arts (EA) could not obtain Al Pacino's consent and therefore the central character, Michael Corleone, in EA's *The Godfather* game neither looks nor sounds like Al Pacino.<sup>4</sup> Even if an actor has died, their estate may own and control the deceased's right of publicity.<sup>5</sup> For example, the registered owner of all rights to the comedy troupe known as "The Three Stooges" successfully brought a right of publicity action against a commercial artist, Gary Saderup, who created a drawing of "The Three Stooges" for t-shirts.<sup>6</sup>

Moreover, even assuming that you are able to secure a license from the actor (or his estate), it will need to provide for the character doing new things that are not featured in the underlying, original work. For example, if the developer desires the creative control to modify the actor's image or voice, the license should specifically contemplate such modification and use of the individual's image and likeness. Assuming that the game developer has sufficient bargaining power, he will also want to include the following terms:

1. Permission to use the celebrity's name and likeness, including voice, aliases, mannerisms, and biographical information;
2. The celebrity waives the right to take any legal action against the developer for any claim of defamation; and any violation of any right of publicity or privacy,

3. If a celebrity requires creative approvals, the developer should try to limit the amount of times he has to resubmit materials for approval after which approval is deemed granted.

## Game Is Based on an Existing Literary Work

An existing literary work, whether a book, comic book, stage play, or screenplay, or the underlying narrative, theme, plot, or characters, may form the basis for a developer's creation of a video game. Unless the underlying work has entered the public domain, a determination not easily made by a non-lawyer, the developer will need to acquire a license to use the work from the copyright owner.<sup>7</sup> The developer should also determine whether any rights in the work have been previously granted to a third party. For example, rights in a published novel will likely be subject to a publishing agreement whereby the author granted rights to the publisher. If the novel has already been adapted into a movie or television series, it is likely that the publisher granted these rights to a third party movie or television producer. In cases where the rights in the underlying literary work have already been granted to a third party for the exploitation in an audiovisual work, the author may no longer be in control of those rights. Thus, the developer may need to acquire the audiovisual rights from the film studio.

Accordingly, the developer needs to be aware of all the rights it may need to secure before addressing whether the costs of obtaining licenses from multiple parties are in line with budgetary constraints. The costs of failing to obtain the necessary licenses to exploit others' IP can be ruinous. It is essential to the successful development of a video game to identify the risks and costs associated with using an existing literary work before investing resources.

While basing a game on a popular movie or television show can deliver a built-in audience, the tradeoff can be that the developer loses creative control. Thus, if you have sufficient negotiating leverage, obtaining the right to alter events and characters from the original work is critical. For example, in *The Godfather*, the player can play at least two separate games, only one of which tracks the plotline of the actual novel or film. The other game takes the player through a new storyline in which the player as Michael Corleone interacts with other characters in an original way. The license must specifically permit for this derivative storyline. Moreover, any material in a derivative work that is not contained in the underlying work may be copyrightable as a new work.<sup>8</sup> The license should spell out which party owns the rights to derivative works.

Indeed, the rights owner of the derivative storyline in a game may be in a position to license the storyline to the owner of the film rights who wants to produce a movie sequel based on the new storyline in the game.

### **Game Is Based on an Historical Event**

If a developer uses the protected expression in a book or film about D-Day, such as *Saving Private Ryan*, then a license to use the copyrighted material will be necessary. However, facts about a battle (or for that matter, historical facts generally) are not copyrightable and are in the public domain for all to use.<sup>9</sup> When a developer consults a variety of sources describing a famous battle, care must be exercised to not use the expression of facts such as copying original scenes or dialogue from a film like *Patton*. In addition, a fictionalized version of the Battle of Leros, such as the 1957 novel *The Guns of Navarone* and the 1961 film adaptation of the novel, may take artistic license with the underlying facts. Any fictionalized expression is protected and requires permission to use.

### **Game Is Set in a Major City with Distinctive Buildings or Landmarks**

For the last decade, building owners of distinctive buildings such as the I. M. Pei designed Rock and Roll Hall of Fame and Museum in Cleveland have attempted to exercise control over the ways images of their buildings are used.<sup>10</sup> Although Las Vegas has been the setting for many seminal movies such as *Leaving Las Vegas*, *Diamonds Are Forever*, and *Ocean's Eleven*, Las Vegas officials and casino owners considered bringing trademark infringement actions against Ubisoft because its *Tom Clancy's Rainbow Six Vegas* featured versions of Vegas landmarks such as the replica Eiffel Tower at the Paris Las Vegas Hotel and Casino and the Bellagio Lake<sup>11</sup> as a backdrop to terrorists' attacks on casinos.<sup>12</sup> Arguments can be made, however, that video games qualify as an "artistic work" entitled to First Amendment protection.<sup>13</sup> For example, a district court in California recently held that Rockstar Games' use of a strip club's trademark and trade dress in the creation of its virtual strip club entitled the "Pig Pen" (based on the Play Pen Gentlemen's Club in east downtown Los Angeles) was protected by the First Amendment.<sup>14</sup> Therefore, the use of third party's building and related signage may be protected under the First Amendment if the use of the trademark bears some artistic relevance to the game and does not explicitly mislead as to the source or content of the game.<sup>15</sup>

However, use of copyrighted works of art in a game may not be protected as fair use under the US Copyright Act.<sup>16</sup> A recent fair use case involving a famous

appropriation artist's use of a fashion photographer's photograph of a woman's legs in a "collage" painting may provide some insight. In *Blanch v. Koons*,<sup>17</sup> Jeff Koons, a celebrity artist who often uses pre-existing images in his work, argued that incorporating a copyrighted photograph of a woman's legs wearing diamond Gucci sandals in his painting "Niagara" constituted fair use. Mr. Koons' fair use defense was successful because he claimed that he copied the image of the legs and sandals from Andrea Blanch's "Silk Sandals" photograph, which was from a photo essay on metallic makeup for *Allure Magazine*, to comment on the "social and aesthetic consequences of mass media."<sup>18</sup> In "Niagara," the image of the legs and sandals are superimposed over a surreal landscape of giant doughnuts and pastries.<sup>19</sup> As an appropriation artist, Mr. Koons often takes images from mass media and consumer advertising to use in the creation of his works. Arguably Mr. Koons' fair use defense was successful because it is well-established that he intends to challenge the way we think about popular culture by re-contextualizing popular culture images in his work. It is uncertain whether a court would extend this "master artist" fair use defense to a game developer.<sup>20</sup> This issue is not necessarily an academic exercise. Recently, an artist sued EA for allegedly using a digital version of his copyrighted painting "Freedom" in the game *Freedom Fighters*.<sup>21</sup>

### **Game Is Based on Professional Sports League and Players**

Generally, a developer will have to obtain the rights from the respective league, e.g., the NFL, MLB, NCAA, FIFA, et al., to base a game on that league. Although providing a football game that exploits the NFL's intellectual property will automatically "sell itself", the developer will necessarily sacrifice a degree of creative control. For example, the NFL would most likely not allow a developer to include players throwing beer on fans, punching referees, or taking cheap shots after the whistle. 2K Sports, however, created a football title that has been incredibly successful without using licensed NFL intellectual property. 2K Sports' *All-Pro Football 2K8* features NFL legends such as Jerry Rice and Johnny Unitas, but it does not have a license from the NFL. Instead, 2K Sports obtained licenses to use the 240 former NFL players' likeness for a football video game that allows users to build their own personal dream teams.<sup>22</sup> Importantly, *All-Pro Football 2K8* does not use any NFL logos, team names or uniforms in the game. Because *All-Pro Football 2K8* is not licensed by the NFL, the game allows for so-called horse collar tackles, bringing a ball carrier down by grabbing the back of his shoulder pads or jersey collar

from behind and throwing him down on the ground, which are illegal tackles in the NFL.

With respect to games that are licensed by professional sports leagues such as the Major League Baseball (MLB), it may be the case that the players' union has the right to grant rights for products or services where a group of players are featured.<sup>23</sup> If this is the case, a developer can acquire the rights for the players with one license as opposed to obtaining a consent agreement from each individual player. However, a developer must be aware of any individual players who may have opted out of their union group licensing program. If a player has opted out of such a program, then a developer will need to obtain the player's individual consent. Barry Bonds is reported to be the first player to opt out of the union's group licensing program, choosing to pursue his own licensing opportunities.<sup>24</sup> While it is commonly assumed that Barry Bonds' statistics (and the statistics of every player) are in the public domain for anyone to use, including fantasy sport games,<sup>25</sup> a federal court of appeals recently addressed whether a fantasy sport games can use a given player's name in connection with such commercial endeavors as fantasy baseball leagues.<sup>26</sup> In 2005, CBC, a provider of fantasy sports games, operating fantasy sport games for *USA Today*, *MSNBC*, and *The Sporting News*, filed a complaint for declaratory relief after receiving an e-mail from MLB, stating that the use of players' names in the operation of fantasy baseball leagues required a license from the MLB.<sup>27</sup> CBC sought a declaration that it had the right to use, without a license, players' names and their statistics in connection with its fantasy baseball games.<sup>28</sup> On October 16, 2007, the US Court of Appeals for the Eighth Circuit ruled that "CBC's first amendment rights in offering its fantasy baseball products supersede the players' right of publicity."<sup>29</sup> This is a major ruling for the video game industry. However, it remains to be seen if "celebrity look-alike" avatars, digital characters used in virtual reality games such as *Second Life*, will be protected by the First Amendment.<sup>30</sup> In *Saderup*, the California Supreme Court set forth the following test to determine whether the celebrity's right of publicity should yield to the artist's First Amendment rights:

When artistic expression takes the form of a literal depiction or imitation of a celebrity for commercial gain, directly trespassing on the right of publicity without adding significant expression beyond that trespass, the state law interest in protecting the fruits of artistic labor outweighs the expressive interests of the imitative artist.

On the other hand, when a work contains significant transformative elements, it is not only especially worthy of First Amendment protection, but it is also less likely to interfere with the economic interest protected by the right of publicity.... Accordingly, First Amendment protection of such works outweighs whatever interest the state may have in enforcing the right of publicity.<sup>31</sup>

The *Saderup* test betrays a bias for "high art" because critically acclaimed art such as Andy Warhol's celebrity portraits will likely be protected; however, a pedestrian commercial artist's charcoal literal rendering of a celebrity's likeness is not worthy of robust First Amendment protection.<sup>32</sup> Nonetheless, in *Kirby v. Sega of America, Inc.*,<sup>33</sup> the court held that Sega's use of a character in *Space Channel 5* who resembled the lead singer of Deee-Lite was protected under the First Amendment because Sega's character was more than a literal depiction of Ms. Kirby, also known as Lady Kier.<sup>34</sup> The character, Ulala, was based in part on an anime depiction of a "space-age reporter in the 25th Century" and had a different dancing style than Ms. Kirby.<sup>35</sup> Applying the *Saderup* test, the court ruled that the character was sufficiently transformative and therefore was protected by the First Amendment, noting that "[v]ideo games are expressive works entitled to as much First Amendment protection as the most profound literature."<sup>36</sup>

## Game Uses Existing Musical Works

If a developer wants to use copyrighted music in the game, he will have to obtain synchronization rights (so-called synchronization rights because the music is synchronized with the audiovisual work).<sup>37</sup> Generally, synchronization rights are licensed by the music publisher. However, a garden variety synchronization license may not allow the developer to exploit the music across all platforms or in television advertisements. Accordingly, it may be advisable to obtain a broad license that allows the developer to exploit the music in perpetuity for all media.<sup>38</sup> Licensing fees, however, can be costly.<sup>39</sup> For example, it was reported that *CSI: Crime Scene Investigation's* use of The Who's "Won't Get Fooled Again" in its opening credits easily costs six-figures annually.<sup>40</sup> Nonetheless, the costs were worth it for Rockstar Games' *Grand Theft Auto: Vice City (GTA: Vice City)*, which has sold 6.8 million units.<sup>41</sup> Undoubtedly, its award-winning soundtrack, featuring a large, thoughtfully-selected collection of 80s popular music, helped establish *GTA: Vice City* as one of the best selling video games of all time. While cruising in stolen cars, the player can enjoy fictional

in-car radio stations such as "Wave 103," which plays new wave classics such as "I Ran (So Far Away)" by A Flock Of Seagulls and "(Keep Feeling) Fascination" by The Human League. Because *GTA: Vice City* is set in 1986, the radio stations, complete with DJ chatter and spoof advertisements, evoke the era as much as drug lords in pastel suits and white loafers.

## In-Game Product Placement

In the case of authorized product placement, the license agreement between a product sponsor and the developer should address whether the product sponsor has ownership rights in the various trademark and copyright material appearing in the game. The agreement should clearly articulate the degree of creative control the developer is allowed in integrating the product sponsor's products and logos into the game. Using popular brands in a video game can add a desirable quality of verisimilitude to the player's experience, but without a license to use these brands (or a colorable imitation thereof), the publisher risks being sued by a company who does not appreciate having its brands referenced in the video game.<sup>42</sup> Without a license, developers can offer amusing parody or spoof ads such as *GTA: Vice City's* radio advertisement for the fictional law firm of D'Leo and Thurax and its unforgettable telephone number "1-866-9SHADEE" and the fictional product "Giggle Cream," a "tragic" dessert responsible for the deaths of 23 people.

## Drafting Strategies for an Effective, Enforceable EULA in Virtual Worlds

Another important licensing consideration for many games is the EULA. EULAs are particularly important when the player and the provider have an ongoing relationship such in a virtual world type game. A virtual world is a computer-based simulated environment designed so that its users can inhabit the world, and interact with each other within that world, through individual avatars, a user's three-dimensional representation of himself. This virtual world is usually represented in the form of two or three-dimensional graphical representations of humanoids (or other graphical or text-based avatars). Some, but not all, virtual worlds allow for multiple users.

The virtual world being computer-simulated typically appears similar to the real world, with real world rules such as gravity, topography, locomotion, real-time actions, and communication. Until recently, communication has been allowed by text only. But

inhabitants of a virtual world can now communicate through real-time voice communication. This type of virtual world in some games is now most common in massively multiplayer online games (so-called MMOGs) (e.g., *Active Worlds*, *There*, and *Second Life*) as well as what might be termed virtual environments which may include some gaming (e.g., *Entropia Universe*, *The Sims Online*, *Red Light Center*, *Kaneva*, and *Weblo*), as well as massively multiplayer online role-playing games (e.g., *EverQuest*, *Ultima Online*, *Lineage*, *World of Warcraft*, and *Guild Wars*).

Before taking up residence in a virtual world, users will be asked to sign a EULA. A EULA is a contract between the provider of the virtual world and the players that allows the user to take part only after agreeing to certain terms and restrictions. The purpose of a EULA in a virtual world is essentially to ensure that all users follow the rules. The EULA puts legal authority, and repercussions, behind the rules and sets the penalty for their violation. Although virtual world providers may not feel the need for legally sanctioned recourse if a user uses foul language, they want the option to take legal action against users who penetrate the server, delete virtual world content or crash the entire virtual world. The EULA also serves the provider by making it clear to the users that the provider is in charge, and sets all the rules, and that the user accepts those rules on condition of entering the world.

In the way that a license agreement should be drafted with a suspicious eye that sees potential lawsuits everywhere, a EULA should be drafted with the worst user imaginable. The EULA is not written with the user who follows all the rules in mind, it is written with the user who causes unrestrained havoc, either technically or socially or both, within the virtual world, only to vanish without a trace and resurface again under a new identity. In some ways, the EULA is a doomsday document that plans for the worst case scenario. Finding the proper balance in a EULA between providing sufficient protection and notice for the provider, and one that will not scare off paying users, can be a delicate balance.

As indicated, the EULA is a contract between the provider and the players. Because the players freely agree to its terms upon signing up, they generally should be held to those terms.<sup>43</sup> In return, the provider grants the player a limited license to copy the underlying software and content. The underlying software and content, which the provider developed, is part of the intellectual property of the provider. The EULA therefore licenses the player to use that software and content for purposes of enjoying the virtual world. The EULA will also grant the player a limited license to connect to the servers for the purpose of

playing within the virtual world. The EULA therefore sets the terms by which the player may sign on to the provider's servers. Without the EULA to grant players these rights, it would, of course, be a violation for them to copy the software and log on to the provider's servers. The violation could be copyright infringement or a violation of the Computer Fraud and Abuse Act. Violations of this nature may give an aggrieved developer legal recourse in federal court. Without a written EULA, however, a court will likely find an implied-license between the provider and an offending player. This implied license is unlikely to be overly solicitous of the provider's position. The written EULA is therefore a chance for the developer to set the terms they desire at the outset of the relationship.

Like all contracts, however, not all terms in the EULA may be accepted by a court of law as being fully operative. For instance, it is generally assumed that clauses in a EULA that forbid hacking into servers or deploying rogue software are acceptable. EULAs are generally enforceable unless their terms are objectionable, *i.e.*, if the terms are illegal or unconscionable such as charging a late fee of \$10,000 when a user is a day late in paying her monthly subscription fee.

Nonetheless, a federal district court in Pennsylvania recently held that a clause compelling arbitration in *Second Life's* Terms of Service (TOS) was unconscionable. The operators of *Second Life*, Linden Research, distinguished itself in the market place by offering users the opportunity to own virtual property that they created in *Second Life* such as virtual clothing and virtual real estate. Players purchase virtual property with the in-game currency, "lindens."<sup>44</sup> However, Linden and third parties such as Ebay, offer currency exchanges where players trade lindens for US dollars.<sup>45</sup> In the *Second Life* virtual economy, members sell everything from virtual clothing to cars to real estate.<sup>46</sup> Total *Second Life* transactions for November 2006 were \$20 million.<sup>47</sup> US Circuit Judge Richard A. Posner, who has lectured in *Second Life*, noted that if Linden wants members to invest in *Second Life*, then it is in their interest to provide due process.<sup>48</sup> Judge Posner mused that an "international law of virtual worlds" will emerge as an analogue to international maritime law.<sup>49</sup>

While users may own virtual land in the game, under the TOS, *Second Life* retained the right to freeze a user's account and confiscate the virtual property at its sole discretion, including upon a "mere" suspicion of fraud. The *Bragg* Court held that Linden could not compel Mr. Bragg to arbitrate his dispute because the TOS "provide[d] Linden with a variety of one-sided remedies to resolve disputes, while forcing its customers to arbitrate any disputes with Linden....When a

dispute arose, Linden exercised its option to use self-help by freezing Bragg's account, retaining funds that Linden alone determined were subject to dispute, and then telling Bragg that he could resolve the dispute by initiating a costly arbitration process."<sup>50</sup>

In *Bragg*, the estimated costs of arbitration were approximately \$17,000 to \$27,000 to be shared by the parties, which would result in Mr. Bragg advancing at least \$3,750 at the outset of arbitration.<sup>51</sup> The underlying dispute in *Bragg* concerned Mr. Bragg's acquisition of a virtual land plot for \$300.<sup>52</sup> Linden took the virtual land plot from Mr. Bragg because it believed that it had been acquired improperly though an "exploit," *e.g.*, taking advantage of an in-game vulnerability.<sup>53</sup> Linden also confiscated all of Mr. Bragg's virtual property and currency in his account by freezing that account.<sup>54</sup>

Although *Bragg* is only one decision by a federal court in Eastern District of Pennsylvania applying California law in determining whether the arbitration clause was enforceable, there are important drafting lessons to be learned from it. First, providers should clearly label an arbitration clause with titles such as "BINDING ARBITRATION."<sup>55</sup> In general, the more "one-sided" or "harsh" a clause is, the more notice of the clause will be necessary.<sup>56</sup> Second, providers should list the estimated costs of arbitration in the arbitration clause. Third, providers should exercise a degree of restraint in drafting excessively one-sided arbitration clauses, perhaps by providing users with a cost-free means of resolving disputes with the provider before resorting to arbitration. Fourth, Linden's business decision to grant users property rights to virtual property in the game created a situation where more was at stake for the player.<sup>57</sup> While it is one thing to cancel a user's account upon a suspicion of untoward conduct, it is a significantly different matter to seize a user's virtual and real currency and then compel the user to spend several thousand dollars to arbitrate the underlying dispute in the provider's backyard.

A good EULA also should contain the basic terms laying out the roadmap of the legal process in case of a violation. These terms are not exclusive to a EULA but may be found in virtually any other contract or license. Such terms will dictate how and where the provider can sue and be sued, and the remedies that can be sought and the interpretation of the EULA itself.

Choice of law and the related forum selection clause are among those basic legal terms that should be included in any EULA. As long as the provider's choice of law clause is reasonable, it will likely be upheld by the court. The provider will therefore want to utilize a choice of law that is convenient, predictable and well-developed. The same essentially

holds true with respect to the forum selection clause. In general, the provider will choose its own forum for matters of convenience and "home court" advantage. In addition, each of the provider's selections should be "exclusive."

In addition, the EULA should contain an integration clause so that a court will only look to the terms provided in the EULA in adjudicating a dispute. The EULA should also contain a standard severability clause so that a single unenforceable term does not invalidate the entire EULA. The provider may also add a term capping its potential damages in the event of a breach. This will limit the monetary recovery a player can obtain under any circumstances. Finally, the EULA should also contain terms giving the provider a right to both injunctive relief as well as attorney fees.

In addition to these standard end-user terms, the EULA should also contain a variety of business terms which will further protect the provider. The most obvious, and maybe the most important, is that the "player agrees to pay." This term will further set the details of the payment, including information such as subscription length, billing intervals, and any additional charges for extra-content. The EULA should also include a term whereby the provider may terminate the player's account at anytime. This "fail-safe" term secures players' acknowledgement that their account may be terminated without notice. This will be useful to the provider in instances where the player violates any of the provisions particular to EULAs discussed below. Finally, an important standard business term to be included in a EULA is the notification that the provider may take legal action to enforce the EULA against the player.

Of course, the virtual world is not the real world and so, in addition to the real world terms, there are a great variety of terms that are uniquely valuable to the EULA which governs in the virtual world. These terms will vary in application from the social sphere to the technical security sphere to the conduct sphere to the provider's freedom of action sphere. In fact, due to the nature of the environment of the virtual world, these terms may be practically limitless.

With regard to security, the provider will want a term whereby players agree to keep their account secure. This may take the form of instructing the player on how to maintain an adequate password, instructing them not to let anyone else use their account. Part of this term will be the developer's right to terminate the account, and all related accounts, if the player is found to be in violation. The EULA should also contain terms that prohibit the player from hacking either the server or the software used to operate the virtual world. It should be made clear that

either such act is illegal and a player found in violation may face civil and/or criminal penalties.

The provider's EULA should also contain a term to the effect that the player understands that engaging in the virtual world may harm the player's computer. This will cover the provider in cases where "buggy" software damages a player's computer. This term indicates that the player accepts such a risk. Further, the EULA should contain a term whereby the provider acknowledges that the virtual world game may harm the player's health. Potential harm to the player's health may include problems with eyesight, carpal tunnel syndrome or other adverse effects, and should warn of possible exacerbation of preexisting medical conditions.

The EULA should also make clear that the provider retains all intellectual property rights not expressly granted to the player and all rights to any intellectual property created by the player while playing the game. As noted, *Second Life* grants users' full intellectual property protection for digital content they create or own in the game.<sup>58</sup>

While some MMOGs elect to forbid their subscribers from selling any virtual assets created in the respective game for "real money", disgruntled users recently brought a class action against the operator of *World of Warcraft*, Internet Gaming Entertainment, Ltd. (IGE), for its alleged business practice of "gold-farming."<sup>59</sup> Gold farming is the practice of using inexpensive third-world labor to collect resources and "gold" (the in-game currency of *World of Warcraft*) and selling the currency and other resources to users for US dollars. The crux of the plaintiffs' dispute is that IGE's gold farming grossly devalues the in-game currency held by players who abide by the EULA and Terms of Use Agreement and do not sell "gold" for US dollars.<sup>60</sup> In *World of Warcraft*, subscribers earn gold by performing tasks or making goods to sell to other players. Plaintiffs contend that if IGE is selling gold for US dollars, then their enjoyment of the game is diminished because the gold that they earned is devalued by the infusion of gold used by players who purchase gold from IGE.<sup>61</sup> Accordingly, to be competitive with users who buy gold, users who earn gold have to spend more time earning gold. Plaintiffs' argument is an interesting resurrection of the "sweat of the brow" doctrine.<sup>62</sup> Due to the legal uncertainty surrounding the sale of in-game property, Ebay no longer allows the auction of virtual items from games such as *World of Warcraft*.<sup>63</sup> Ebay, however, permits auctions of *Second Life* virtual items because the *Second Life* members own the property rights to their virtual items.<sup>64</sup>

Like the real world, the virtual world is populated by people who adhere to various degrees of personal

conduct.<sup>65</sup> One of the major functions of the EULA is to govern the conduct of the players and dictate the rules of the virtual society. The EULA is the provider's chance to set the parameters for a virtual utopia of social intercourse. For instance, the EULA should contain a term whereby the player agrees not to take advantage of "bugs" or "cheats" in the virtual world.<sup>66</sup> This term prevents a mischievous player who figures out that hitting a certain random set of keys at a particular time will result in her character having special powers. One danger of such a term is that if it is too specific and actually tells the player which bugs not to exploit, it is likely to encourage the very behavior it seeks to avoid. Such a term should therefore be kept relatively general.

The player should also be forbidden from engaging in "griefing." Griefing can take many forms from the use of obscenity to hogging preferred locations within the virtual world to helping enemies other players are trying to stop. An anti-griefing clause is therefore simply a clause that tells the player that they are obligated to be nice to other players. It is probably to the provider's advantage to provide a list of possible griefing conduct, but also explicitly reserve the right to categorize any objectionable conduct as griefing.

As demonstrated above, a EULA is part license, part contract, and part social compact. The EULA protects the provider's intellectual property by making clear to the player that they may use such property, whether in the form of software, copyright, trademarks, or patents, only with the provider's express permission. The EULA also sets out the terms which allow the

provider to maintain the virtual world as a going business concern by setting out terms of payment and the limits of liability. Finally, the EULA will set the terms by which the players can acceptably interact within the virtual world.<sup>67</sup>

Licensing is a critical element of the continued success of the game industry, which is a booming multi-billion dollar industry. Game revenue figures for the first weekend a video game is released often rival box office receipts for the opening weekend of a blockbuster film. For example, within the first 24 hours of its US release, *Halo 3* generated \$170 million in sales, crushing the opening day box office receipts for *Spiderman 3*, which were a comparatively meager \$59 million.<sup>68</sup> Whether the video game is based on Tupak Shakur<sup>69</sup> or *The Godfather*, the ability to use intellectual property owned by a third party can greatly increase the appeal and marketability of a video game. However, it remains uncertain the degree of First Amendment protection a game will be afforded when it uses third party IP without a license. It is likely that the future will bring many actions where a court will have to balance the First Amendment rights of a video game developer against a celebrity's right to publicity or a company's trademark and copyright rights. In the world of virtual communities, it is equally difficult to predict whether courts will recognize users' rights in virtual property. In light of this ever-shifting, uncertain legal environment that virtual world game providers, publishers and developers face, investing resources in savvy licensing is the only course of action that will ensure many profitable returns in the near and distant future.

1. James Brightman, "NPD: U.S. Video Game Industry Totals \$17.94 Billion, Halo 3 Tops All." *Game Daily*, January 17, 2008 available at <http://www.gamedaily.com/articles/news/npd-us-video-game-industry-totals-1794-billion-halo-3-tops-all/19119/?biz=1GameDaily>.

2. *Id.*

3. George Wendt and John Ratzenberger, who played the beloved characters Norm Peterson and Cliff Clavin, respectively, on the television show *Cheers*, sued a company that made robotic figures of Norm and Cliff for its licensed Cheers themed airport bars. Although Host International, the company that built the robotic figures to resemble Norm and Cliff, had obtained a license to use the copyrighted Cheers series and characters in the creation of the Cheers bars, it failed to obtain either actor's permission to use his likeness. *Wendt v. Host Int'l, Inc.*, 125 F.3d 806 (9th Cir. 1997) (holding that trial court erred in its determination that the robots did not resemble the actors). Wendt and Ratzenberger did not argue that they had rights in the characters of "Norm" and "Cliff." Instead, they argued that the robots possessed commercial value because of their resemblance to the actors themselves. The panel majority agreed and held that "while it is true that appellants' fame arose in large part through their participation in Cheers, an actor or actress does not lose the right to control the commercial exploitation of his or her likeness by portraying a fictional character." *Wendt*, 125 F.3d at 811. The panel majority's holding undercuts the copyright's holder ability to make or license derivative works based on its characters, such as action figures or a video game based on the copyrighted television series.

4. Douglass C. Perry, "The Godfather: The Game," *IGN.COM*, March 21, 2006, available at <http://xbox.ign.com/articles/697/697341p1.html>.

Interestingly, Mr. Pacino gave his consent to appear in Vivendi Universal's Scarface game.

5. "The overwhelming majority rule of the courts that have considered the question (under either statute or common law) is that the right of publicity is descendible property and has an unconditional postmortem duration. At the time of this update, a total of 19 states recognize a post mortem right of publicity: 14 by statute and 5 by common law." 5 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 28:45 (4th ed. 2007).

6. *Comedy III Productions, Inc. v. Saderup*, 25 Cal. 4th 387 (2001).

7. Game developers should be aware when copying an original work that is in the public domain to be diligent whether there are copyrighted derivative works based on the original. Also, a derivative work may be in the public domain while the original underlying work is still copyright protected. Accordingly, copying the derivative work may subject a developer to a copyright infringement action by the copyright owner of the original work. 17 U.S.C. § 101 defines a derivative work as "a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a 'derivative work.'"

8. *See id.*

9. *A.A. Hoehling v. Universal City Studios, Inc.*, 618 F.2d 972 (2d Cir.), cert. denied, 449 U.S. 841 (1980) ("the scope of copyright in historical accounts is narrow indeed, embracing no more than the author's

- original expression of particular facts and theories already in the public domain.”); see also *Feist Publications v. Rural Telephone Service Co. Inc.*, 499 U.S. 340, 349 (1991) (holding that facts are not copyrightable); *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 556 (1985) (noting that “copyright’s ‘idea/expression dichotomy strike[s] a definitional balance between the First Amendment and the Copyright Act by permitting free communication of facts while still protecting an author’s expression.”) (internal citation omitted).
10. *Rock and Roll Hall of Fame and Museum, Inc. v. Gentile Prods.*, 134 F.3d 749 (6th Cir. 1998) (holding that commercial photograph of the museum did not constitute trademark infringement because plaintiff failed to show that the design of the building indicated a single source of origin or sponsorship); but see *New York Stock Exchange, Inc. v. New York, New York Hotel, LLC*, 293 F.3d 550 (holding that the New York Stock Exchange’s façade displaying its name is an inherently distinctive mark).
  11. However, the sign for the Bellagio was altered to “Villagio” in the game.
  12. Chris Jones, “Terror on the Strip,” *Las Vegas Review-Journal*, July 8, 2006.
  13. *Video Software Dealers Ass’n v. Schwarzenegger*, 401 F. Supp.2d 1034, 1044 (N.D. Cal. 2005).
  14. *E.S.S. Entertainment 2000, Inc. v. Rock Star Videos, Inc.*, 444 F. Supp.2d 1012 (C.D. Cal. 2006) (granting defendants summary judgment on all infringement and unfair competition claims because use of plaintiff strip club’s trademark and trade dress was protected by the First Amendment).
  15. *Id.*
  16. Section 107 sets forth four factors to be considered when determining whether or not a particular use is fair:
    1. The purpose and character of the use, including whether such use is of commercial nature or is for nonprofit educational purposes;
    2. The nature of the copyrighted work;
    3. Amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
    4. The effect of the use upon the potential market for or value of the copyrighted work.
  17. *Blanch v. Koons*, 467 F.3d 244 (2d Cir. 2006).
  18. *Id.* at 253 (holding Koons’ use of the copyrighted photograph was fair use because Koons said that “[b]y juxtaposing women’s legs [from “Silk Sandals”] against a backdrop of food and landscape...’ he intended to ‘comment on the ways in which some of our most basic appetites—for food, play, and sex—are mediated by popular images.’”).
  19. Judge Stanton quipped that “[o]ne of the sandals dangles saucily from her toes.” *Blanch v. Koons*, 396 F. Supp. 2d 476, 478 (S.D.N.Y. 2005).
  20. *Ringgold v. Black Entertainment Television, Inc.*, 126 F.3d 70, 79 (2d Cir. 1997) (holding that a poster of Plaintiff’s painting used as set decoration on a television program did not constitute a transformative use under Section 107).
  21. *Pape v. Electronic Arts, Inc.*, No. 07-CV-5760 (S.D.N.Y., complaint filed May 18, 2007).
  22. Dana Ford, O.J. Simpson Ordered to Pay Goldmans Over Game, Reuters News, August 7, 2007, available at <http://www.reuters.com/article/entertainmentNews/idUSN0723300520070807>. Mr. Simpson was ordered by a California court to pay all proceedings for licensing his name and likeness in the All-Pro Football 2K8 game to the Goldman family to satisfy the \$33.5 million judgment against Mr. Simpson.
  23. *Topp’s Chewing Gum, Inc. v. Major League Baseball Players Association*, 641 F. Supp. 1179, 1182 (S.D.N.Y. 1986) (“In 1966, the MLBPA [Major League Baseball Players’ Association] began to license the publicity rights of its members for use on a group basis as one of its activities. The MLBPA derives its ability to license baseball players’ publicity rights from so-called Commercial Authorization Agreements signed by every major league baseball player. In those agreements, each player grants to the MLBPA the exclusive right to use his picture, name, and signature with other players on a group basis for a term of three years.”)
  24. Darren Rovell, “Bonds Will Be Individually Licensed,” *ESPN.COM*, Nov. 17, 2003, available at <http://sports.espn.go.com/mlb/news/story?id=1661883>.
  25. *National Basketball Assoc. v. Motorola, Inc.*, 105 F.3d 841 (2d Cir. 1997) (ruling that “purely factual information which any patron of an NBA game could acquire from the arena without any involvement from the director, cameramen, or others who contribute to the originality of a broadcast” was in the public domain).
  26. *C.B.C. Distribution and Marketing Inc. v. Major League Baseball Advanced Media, L.P.*, No. 4:05-cv-00252-MLM (E.D. Mo., complaint filed Feb. 7, 2005).
  27. *Id.*
  28. *Id.*; *C.B.C. Distribution and Marketing Inc. v. Major League Baseball Advanced Media, L.P.*, Nos. 06-3357/06-3358, 2007 U.S. App. LEXIS 24192 (8th Cir. October 16, 2007) (upholding summary judgment in favor of plaintiff).
  29. *Id.* at \*17.
  30. Benjamin Duranske, “Celebrity Look-Alike Avatars and the Right of Publicity,” *VirtuallyBlind.com*, March 3, 2007, available at <http://virtuallyblind.com/2007/03/03/celebrity-lookalike-avatars-and-the-right-of-publicity>.
  31. *Saderup*, 25 Cal. 4th at 405 (footnote and citations omitted).
  32. *Id.* at 408-09 (“The silkscreens of Andy Warhol, for example, have as their subjects the images of such celebrities as Marilyn Monroe, Elizabeth Taylor, and Elvis Presley. Through distortion and the careful manipulation of context, Warhol was able to convey a message that went beyond the commercial exploitation of celebrity images and became a form of ironic social comment on the dehumanization of celebrity itself.”)
  33. *Kirby v. Sega of Am., Inc.*, 50 Cal. Rptr.3d 607 (Cal. App. Dep’t Super. Ct. 2006).
  34. *Id.* at 616.
  35. *Id.*
  36. *Id.* at 615 (citing *Interactive Digital Software v. St. Louis County*, 329 F.3d 954, 956-958 (8th Cir. 2003); *Video Software Dealers Ass’n v. Maleng*, 325 F. Supp. 2d 1180, 1184-1185 (W.D. Wash. 2004)).
  37. *Electronic Arts (EA) was sued for infringement by the copyright owners of the song “Terminal Intensity” which was used as background music for some menu selection screens. Omar Santana d/b/a Tricked Out Recordings and Oh Oh Boy Music v. Electronic Arts Inc.*, No. 98 Civ. 4350 (S.D.N.Y., complaint filed June 22, 1998).
  38. Bryan Reesman, “The Song Doesn’t Remain The Same,” *The Hollywood Reporter*, November 15, 2005, available at [http://www.hollywoodreporter.com/hr/search/article\\_display.jsp?vnu\\_content\\_id=1001525959](http://www.hollywoodreporter.com/hr/search/article_display.jsp?vnu_content_id=1001525959) (noting that the release of a DVD reissue of the television show *WKRP in Cincinnati*, which used a great deal of classic rock, has been hamstrung by the costs of obtaining the rights to the music. Television synchronization licenses generally only cover the original broadcast and renegotiating the licenses for the DVD reissue is an expensive, daunting task).
  39. *Id.*
  40. *Id.*
  41. NPD Group, available at <http://www.npd.com>.
  42. In addition to *E.S.S. Entertainment 2000, Inc. v. Rock Star Videos, Inc.*, 444 F. Supp.2d 1012 (C.D. Cal. 2006) *supra*, *Electronic Arts, Inc.* was recently sued by *Bell Helicopter Textron Inc.* for EA’s alleged use of Bell’s helicopter in games such as *Battlefield Vietnam*. *Bell Helicopter Textron Inc. v. Electronic Arts, Inc.*, No. 4:2006cv00841 (N.D. Tex., complaint filed Dec. 4, 2006).
  43. *Pro CD v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (holding that shrink-wrap licenses were enforceable).
  44. Benjamin Duranske, “Two Experts Suggest Virtual World Profits May Be Taxable Even Before Conversion to Real World Cash,” *Virtuallyblind.com*, October 23, 2007, available at <http://virtuallyblind.com/2007/10/23/tax-virtual-profits-in-world/> (noting that while it is understood that profits made from running a virtual business on Second Life are taxable, it remains unclear when these are profits are taxable. Tax scholars have opined that these profits may be taxable even before they are converted to “real” currency). Accordingly, providers of virtual reality games that allow players to buy and sell virtual property should include a provision in the EULA stating that players agree to comply with all applicable domestic and international laws, statutes, ordinances and regulations regarding all applicable taxes.
  45. *Id.* at 596.
  46. Alan Sipress, “Where Real Money Meets Virtual Reality, the Jury is Still Out,” *Washington Post*, Dec. 26, 2006, at A1.
  47. *Id.*
  48. *Id.*
  49. *Id.*
  50. In lieu of appealing the decision, the parties announced that they settled the matter, restoring Mr. Bragg’s Second Life account. Official Linden Lab Blog, available at <http://blog.secondlife.com/2007/10/04/resolution-of-lawsuit/>.
  51. *Id.* at 609.
  52. *Id.* at 598.
  53. *Id.* at 597.
  54. *Id.*
  55. *Boghos v. Certain Underwriters at Lloyd’s of London*, 115 F.3d 68, 70 (Cal. 2005) (holding arbitration clause was enforceable where it was in bolded font and contained heading “BINDING ARBITRATION”).
  56. *Bragg* at 605.
  57. *Id.* at 606. Because Second Life was the first and only virtual world to grant users rights in virtual land, the court held that it could not claim that users could simply subscribe to a different game if they objected to the arbitration clause. The court stated that “[t]here was no ‘reasonably available market alternatives [to defeat] a claim of adhesiveness.’” *Id.* (citing *Dean Witter Reynolds, Inc. v. Superior Court*, 259 Cal. Rptr. 789, 795 (Ct. App. 1989) (“finding no procedural unconscionability because there were other financial institutions that offered competing IRAs which lacked the challenged provision”)).

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58. *Id.* at 595-596.
59. *Hernandez v. Internet Gaming Entertainment, Ltd.*, No. 1:07cv21403 (S.D. Fla., complaint filed June 1, 2007).
60. *Id.*; *see also* MDY Industries, LLC v. Blizzard Entertainment, Inc., No. CV 06-2555 (D. Ariz., complaint filed October 25, 2006) (Blizzard Entertainment and Vivendi Games allege that MDY's "WoWGliders" software destroys the integrity of the game by allowing players to exploit the World of Warcraft code so players can "artificially increase their standing and level without actual human participation"). In this action, Blizzard and Vivendi claim that MDY is liable for contributory and vicarious copyright infringement because when players use unauthorized third party software such as WoWGliders they violate the EULA and Terms of Use (TOU). Players are only allowed to make copies of the World of Warcraft software if they comply with the EULA and TOU. Therefore, because MDY knows that the use of WoWGliders is prohibited by the EULA and TOU and MDY financially benefits from the sale of WoWGliders, Blizzard and Vivendi argue that it is liable for the players' infringing acts.
61. *Id.*
62. *International News Service v. Associated Press*, 248 U.S. 215 (1918) (noting that "...taking material that has been acquired by complainant as the result of organization and the expenditure of labor, skill, and money, and which is salable by complainant for money, and that defendant in appropriating it and selling it as its own is endeavoring to reap where it has not sown.")
63. Alex Pham, "Ebay Bans Auctions of Virtual Treasures," *Los Angeles Times*, Feb. 3, 2007, at C1.
64. *Id.*
65. Jack M. Balkin, "Virtual Liberty: Freedom to Design and Freedom to Play in Virtual Worlds," 90 *Va. L. Rev.* 2043, 2045, n. 5 (2004) ("For example, a company called Blacksnow Interactive came up with an ingenious way to make money off of virtual worlds. It went to Mexico and hired unskilled laborers to play Dark Age of Camelot around the clock, collecting virtual assets which Blacksnow then sold on eBay. After Mythic Interactive, the owners of Dark Age of Camelot, tried to put a stop to Blacksnow's business model on the grounds that it violated Mythic's intellectual property rights, Blacksnow sued Mythic for engaging in unfair business practices.")
66. *Id.* at 2051 (noting that "the designer needs to make judgment calls about whether players are acting in accordance with the spirit of the game").
67. *Id.* at 2049 n.14.
68. Ryan Geddes, "Halo 3 Racks Up Record Sales," *IGN.Com*, Sept. 26, 2007, available at <http://xbox360.ign.com/articles/823/823255p1.html>.
69. Lea Goldman and Jake Paine, "Top Earning Dead Celebrities," *Forbes.com*, Oct. 29, 2007, available at [http://www.forbes.com/2007/10/26/top-dead-celebrity-biz-media-deadcelebs07-cz\\_lg\\_1029celeb.html](http://www.forbes.com/2007/10/26/top-dead-celebrity-biz-media-deadcelebs07-cz_lg_1029celeb.html) (reporting that a Tupac biopic, videogame and Broadway show are in development).