

September 2021

# VIDEO GAMING / E-GAMING LAW UPDATE

Also in this issue:

- 1 Main Quest
- 3 Strategy Guide
- 3 Patch Notes
- 5 Side Quests
- 7 Contacts

## Main Quest

## 'Mint' Conditions: NFTs and Video Games

Over the course of the past year, nonfungible tokens (NFTs) have transformed from a relatively niche product for those in the cryptocurrency sector to an increasingly common way for creators and rights holders to market digital goods. Between high-profile NFT-related projects and a slew of entertainment companies, sports leagues, music labels and video game developers getting involved, 2021 has seen a massive rise in the popularity of the burgeoning industry.

An NFT is a digital certificate of certain rights — typically ownership rights — associated with an asset that is made secure and immutable through blockchain technology. Although NFTs can be associated with any type of good, they are particularly useful in the digital context, as ownership over digital assets typically cannot be demonstrated merely through possession.

Given these characteristics, it would seem that NFTs were almost custom made for the video game industry. From the auction houses of World of Warcraft to real estate developers in Second Life, transactions in digital goods have been a part of video games since technology allowed for it. Accordingly, one would expect that the video game community — both publishers and players — would welcome any technological developments that help to make such in-game transactions safer, easier and more lucrative. Indeed, some of the earliest use cases for NFTs were in the video game industry and, recently, many companies have begun incorporating NFTs into their games, with some going so far as to build games on the blockchain network itself.

However, as with any new technology, there are a number of potential issues raised by NFTs, particularly regarding their use in the video games industry, which should be kept in mind by anyone looking to get involved with this emerging trend.

### IP Infringement Issues

The creation of NFTs (also known as “minting”) can raise a host of intellectual property concerns<sup>1</sup> based on the digital asset associated with the NFT. For example, imagine an NFT associated with

<sup>1</sup> Many of these issues have been explored generally and in other contexts by Skadden attorneys in the articles below. This section is meant as an introduction to these issues and we encourage the reader to review these other sources for more in-depth analysis.

-“Nonfungible Tokens and the Music Industry: Legal Considerations,” *Skadden, Arps, Slate, Meagher & Flom LLP and Sedlmayr & Associates, P.C.*, March 29, 2021

-“NFTs Raise Novel and Traditional IP and Contract Issues,” *Bloomberg Law*, March 30, 2021

-“Decoding the Fine Print on Nonfungible Token Licenses,” *Law360*, March 30, 2021

-“Proliferation of NFT Transactions Raises Numerous US Tax Questions,” *Skadden, Arps, Slate, Meagher & Flom LLP*, May 17, 2021

-“Are Nonfungible Tokens Subject to US Anti-Money Laundering Requirements?” *Revue Trimestrielle de Droit Financier*, July 2021

# VIDEO GAMING / E-GAMING LAW UPDATE September 2021

an exclusive “skin” for a character in a game. It is easy to see why this type of good would naturally lend itself to the NFT format, but also easy to understand the myriad ways such an asset could implicate IP rights.

First, there may be copyright issued associated with both the character on which the skin is displayed, as well as the skin itself. In cases where the minter of the NFT also is the owner of the underlying IP, copyright concerns will likely be minimal; however, in circumstances where the minter does not own the underlying IP (for example, in the case of user-generated content or where the minter has only licensed the use of the underlying IP), copyright concerns could arise.

Similarly, NFTs may elicit trademark issues, both in instances where the skin incorporates a trademark (or a symbol that is confusingly similar to a trademark) and/or where the character (or other game element) is itself trademarked. Again, while this may not pose particular problems when the minter and the IP owner are the same, as NFTs continue to grow within the games industry, it is unlikely that this will always be the case. Indeed, even when the minter has a license to the trademark at issue, it does not necessarily mean that the minter has the right to use the trademark in connection with an NFT.<sup>2</sup>

Finally, depending on the game at issue, rights of publicity concerns also could be implicated. For instance, if the skin is for a sports game and has modified the appearance of an avatar based on a real world athlete, that athlete’s rights of publicity could be infringed by the NFT. Indeed, even when the character itself is not designed and based on a real person, but has merely been modeled on the appearance of an actor, the right of publicity could theoretically come into play.

Moreover, it is not just the minting of NFTs that could implicate these rights, but the reselling of such assets as well. One of the most desirable aspects of NFTs — and, in particular, one of the most appealing features for their application in the video game industry — are their ability to be easily and securely transferred. However, this same feature could raise a variety of additional concerns regarding the use (especially the commercial use) of others’ copyrights, trademarks and rights of publicity.

## Ownership, Licensing and Use Issues

Another issue presented by NFTs — and one that may have a disproportionate impact on how they are utilized in the video game space — is how a purchaser or current owner of an NFT may use the digital asset associated with the purchase. In other contexts, purchasers of NFTs will often be granted a license to certain rights in the underlying asset, which typically

includes some form of limited rights to use, display and reproduce the work. While video game NFTs would almost certainly be sold (and resold) under similar licensing agreements, the types of uses at issue differ substantially from other types of NFTs, and thus particular consideration must be given to how in-game assets connected to NFTs can be used.

In reference to the in-game skin example mentioned earlier, the license governing that asset would certainly permit the purchaser to use the skin while playing the game, but also presents questions such as:

- Would it permit the purchaser to publicly display or “perform” the skin via online streaming platforms such as Twitch?
- Would it permit the purchaser to reproduce the work in content created for YouTube?
- What if the purchaser uses the skin in a way that is disparaging to the game, or the publisher itself?
- Would the purchaser be able to make any modifications or alterations to the skin?
- What about pairing the skin with other items (including other NFTs), such as equipment?

With these questions unanswered, minters will have to give careful consideration to the rights and types of uses allowed or prohibited by the platform on which they are selling, and (if they have the leverage) may want to consider requiring customized terms for their NFTs.

Moreover, minters will need to figure out how NFTs can be resold and exchanged by purchasers. Presumably, most game companies will want to require that NFTs for particular games only be exchanged on in-game or game-sponsored platforms, though cross-game NFTs are already being implemented, meaning such restrictions will not always be feasible. Further, companies will almost certainly be faced with instances in which purchasers are violating the terms of their license or attempting to transfer the NFT outside the bounds of the accepted platform, and will therefore have to set up a system for dealing with such unauthorized activity.

Additionally, as with the IP infringement issues, these concerns are not limited to the minters or companies whose games include such NFT-associated assets; purchasers also will have to have a firm understanding of what rights they possess, as well as what rights they are permitted to transfer if and when they chose to sell their NFTs. Indeed, as NFT game assets become more commonplace, consumers are likely to become more sophisticated and may make gaming choices based on the perceived value of NFTs in games, with such value being tied, in part, to the permissiveness of the associated licenses.

<sup>2</sup> See May 10, 2021, *Westlaw* article “Can I Mint an NFT With That?: Avoiding Right of Publicity and Trademark Litigation Risks in the Brave New World of NFTs,” authored by Skadden’s Anthony Dreyer and David Lamb.

# VIDEO GAMING / E-GAMING LAW UPDATE September 2021

## Strategy Guide

The incorporation of NFTs into video games is still in its nascent stages and it is therefore difficult to predict the exact issues that will arise or what steps industry players should take to prepare for such concerns. Nonetheless, based on the issues that have arisen in other contexts, there are a number of best practices that video game companies and players should consider when dealing with NFTs:

- NFT minters should confirm what rights they have in the NFT-associated asset, and to the extent they do not fully own such rights (e.g., if they are mere licensees or joint owners of the rights), should carefully examine any license or joint ownership agreement to determine whether the rights granted could support or refute their right to mint.
- Rights holders, to the extent they have granted rights to others, should similarly review such agreements to determine whether they may have granted the right to mint NFTs to their licensees, and whether they may have the ability to prevent the minting/sale of NFTs associated with their IP (or restrict the types of uses of such NFTs).
- Companies interested in incorporating NFTs into their games should consider what uses are acceptable, including any conditions on display, reproduction, or resale, and carefully draft license terms to incorporate such conditions.
- Purchasers of NFTs should fully understand the conditions of any purchase before completing a transaction, paying particular attention to conditions on their ability to resell or transfer the NFT.

## Patch Notes

### New litigation filings and proposed legislation and regulations that may lead to important legal developments in the video game industry.

#### **Epic Games Files Trademark Infringement Suit Over “Nreal” Mark for Smart Glasses** (*Epic Games, Inc. v. Shenzhen Tairuo Tech. Co., Ltd.*, 5:21-cv-224 (E.D. N.C. May 14, 2021))

- On May 14, 2021, Epic Games sued Shenzhen Tairuo Technology Company for infringement of Epic’s “Unreal” trademark.
- Epic Games is the developer of the well-known “Unreal Engine,” a tool used in the development of video games, as well as augmented and virtual reality programs.
- Epic Games has alleged that Shenzhen, which does business in the United States under the mark “Nreal,” infringes Epic’s “Unreal” trademark.
- Nreal makes “smart” glasses that display 3D images over a user’s real world surroundings, which Epic Games claims are used in connection with services, such as augmented and virtual reality experiences, that are confusingly similar to those developed in connection with the Unreal Engine.
- Epic also claims that Nreal is planning to expand into software design and development beyond its glasses product, based on a pending trademark application.
- Epic previously opposed Nreal’s trademark applications in 2018, but after what Epic describes as “protracted settlement talks” the parties were unable to come to a resolution.
- Epic has asked the court to force Nreal to withdraw its application and also is seeking disgorgement of profits.
- On July 20, 2021, Nreal filed a motion to dismiss for lack of personal jurisdiction or, in the alternative, to transfer the suit to the U.S. District Court for the Northern District of California. This motion has not yet been decided.

# VIDEO GAMING / E-GAMING LAW UPDATE September 2021

## Players File Suits Against Purported PlayStation

**Monopoly** (*Caccuri v. Sony Interactive Entertainment LLC*, 3:21-cv-03361-RS (N.D. Cal. May 5, 2021))

- In a series of putative class action lawsuits filed over the summer, various players have accused Sony of antitrust violations in connection with a 2019 policy which prohibited retailers from selling digital download codes for PlayStation games.
- In the first of these lawsuits, filed on May 5, 2021, the plaintiff seeks to represent 10 million PlayStation store customers, and alleges that Sony's policy has allowed it to charge "supra-competitive prices" for its digital games, meaning often times in excess of the price for a physical copy of the same game.
- According to the suit, Sony is unique among its competitors (such as Microsoft or Nintendo) in that the company exerts total control over the price of games made by third-party developers but sold on the PlayStation Store.
- Two subsequent suits were filed on May 7, 2021 (*Cendejas v. Sony Interactive Entertainment LLC*, 3:21-cv-3447-RS (N.D. Cal.)) and June 29, 2021 (*Neumark v. Sony Interactive Entertainment LLC*, 3:21-cv-05031-JSC (N.D. Cal.)) and have been consolidated with the initial suit.
- While these suits are the first accusing Sony of monopoly practices, similar suits have previously been filed against Apple and Google in connection with their respective app stores, as well as against Valve in connection with its Steam platform (as discussed below).

**Valve Seeks To Compel Arbitration in Pair of Antitrust Suits** (*Wolfire Games LLC v. Valve Corp.*, 2:21-cv-00563-JCC (W.D. Wash. Apr. 27, 2021)); *Colvin v. Valve Corp.*, 2:21-cv-00650-JCC (W.D. Wash. May 13, 2021))

- In a pair of putative class action lawsuits — one brought on behalf of game developers and one brought on behalf of gamers — Valve is being accused of illegally monopolizing the PC gaming market through the use of a "most favored nations" provision in its agreements with game developers that sell products on its Steam platform.
- The most favored nations provision prevents developers from selling their games at better prices elsewhere, which the gamers and developers allege provides Valve with near total control over the PC gaming market, given the prevalence of Steam compatibility for PC games.
- On June 23, 2021, Valve moved to compel arbitration of all of the claims, relying on its Steam Subscriber Agreement, which is signed by every gamer using the platform. While seven out of the eight named plaintiffs are gamers, and thus necessarily

agreed to the arbitration provision, Valve is arguing that the game developer plaintiff's claims should be stayed pending the outcome of the arbitration, as they are based on the same facts and assert the same allegations.

- Valve also has moved to dismiss the game developer's claims for failure to state a claim on which relief can be granted, but continues to argue that the court need not consider that motion as the game developer's claims should be stayed.
- Neither motion has yet to be fully briefed.

## Twitch Takes Steps To Address Streamers' Off-Stream Conduct

- Streaming platform Twitch is taking steps to curb bad behavior by streamers, including actions that occur off-stream.
- Earlier this year, Twitch introduced a Hateful Conduct and Harassment Policy to better restrict hateful and harassing interactions occurring during streams.
- Additionally, on April 6, 2021, Twitch posted on its blog that it has expanded its efforts to address bad behavior off-stream, including social media interactions or even offline harassment. The post indicated that Twitch would address two additional categories of misconduct: (1) online and offline hateful or harassing conduct directed at members of the Twitch community; and (2) offenses that occur entirely off of the Twitch platform if those actions "pose a substantial safety risk to the Twitch community."
- Twitch also announced that, to assist in its investigations of wrongdoing by or against members of its community, the company will be partnering with an unnamed law firm that is experienced in conducting independent investigations. The company still encourages users to report instances of harassment or other objectionable behavior using the reporting tool, and provide any applicable evidence, including videos or screenshots.
- The policy was designed with the input of a panel of industry experts and Twitch users, and aims to greatly reduce harassment of Twitch streamers who are "women, members of the LGBTQIA+ community, Black, Indigenous, and people of color," against whom a disproportionate amount of harassment is directed.
- User misconduct reports, and subsequent Twitch investigations, have previously led to arrests of streamers for misconduct committed while on-air, including domestic and child abuse.

# VIDEO GAMING / E-GAMING LAW UPDATE

September 2021

## Side Quests

### Recent judicial decisions and enacted statutes or regulations that are likely to impact the video game industry.

#### ***GREE, Inc. v. Supercell Oy*, No. 20-2125**

(Fed. Cir. May 10, 2021)

- On May 10, 2021, the Federal Circuit upheld a Patent Trial and Appeal Board (PTAB) ruling invalidating a Gree, Inc. (Gree) patent challenged by Clash of Clans maker Supercell Oy.
- The dispute concerned a patent relating to “a game program that processes progress of a game for moving a plurality of objects arranged on a game field.”
- On appeal, Gree argued that moving game objects on a touch-screen interface was “not a game” and thus the PTAB incorrectly relied on precedent in “gaming cases.”
- In a nonprecedential opinion, the panel affirmed the PTAB’s decision that the patents were invalid under *Alice Corp. v. CLS Bank International*.
- In particular, the panel agreed with the PTAB that the claims covered the abstract idea of “associating game objects and moving one or more objects” rather than an improvement to a graphical interface. Additionally, the Federal Circuit agreed that Gree did not add any inventive concepts.
- It is also worth noting that the court’s decision made it clear that patentees must capture their inventive steps in the elements of the claims brought; while the panel found that Gree had described particular syntax of touches and swipes, it ultimately held that those elements did not factor in to the *Alice* analysis because they were not claimed.

#### ***Nintendo of America Inc. v. Matthew Storman*,**

**No. 2:19-cv-07818-CBM-RAO (C.D. Cal. Aug. 5, 2021)**

- On August 5, 2021, the U.S. District Court for the Central District of California granted Nintendo of America’s motion for reconsideration of the court’s prior refusal to grant a permanent injunction against the operator of the ROM- Universe website.
- ROMUniverse was a website that allowed users to download ROM files to play video games (primarily retro games for older-generation consoles) on a PC using emulation software.
- Nintendo filed suit against ROMUniverse in September 2019, alleging that the site’s distribution of ROM files allowing for the emulation of Nintendo games constituted copyright infringement, trademark infringement and unfair competition.

- On May 26, 2021, the court granted Nintendo’s motion for summary judgment, and awarded the company \$2.1 million in damages; the court, however, denied Nintendo’s request for a permanent injunction, finding that the company had failed to demonstrate irreparable harm.
- Nintendo moved for reconsideration on two primary grounds: (1) an intervening change in the law, namely the passage of the Trademark Modernization Act in December 2020; and (2) ROMUniverse’s inability to pay \$3,100 in sanctions issued by the magistrate judge in connection with discovery violations, suggesting a high probability that ROMUniverse would be unable to satisfy the monetary judgment against the company.
- The court found both of these arguments persuasive, holding that the presumption of irreparable harm codified in the Trademark Modernization Act applied, as Nintendo had demonstrated a likelihood of confusion, and the fact that ROMUniverse could not pay its sanctions demonstrated that Nintendo was likely without an adequate remedy at law.
- Thus, the court amended its order, and permanently enjoined ROMUniverse from any further infringement of Nintendo’s trademarks or copyrighted works.

#### ***Hamilton v. Speight*, No. 20-1123 (U.S. Sup. Ct.**

**June 21, 2021)**

- On June 21, 2021, the U.S. Supreme Court denied a petition for *certiorari* in a lawsuit filed by former NFL player and professional wrestler Lenwood “Hard Rock” Hamilton, seeking review of the Third Circuit’s decision rejecting his lawsuit accusing Microsoft and Epic Games of violating his rights of publicity on First Amendment grounds.
- In 2017, Mr. Hamilton sued the two companies, claiming that they used his in-ring persona, and in particular his likeness, for the character “Cole Train” in the Gears of War video game series.
- In September 2019, the U.S. District Court for the Eastern District of Pennsylvania granted summary judgment for Microsoft and Epic Games, finding that despite the similarities between the Cole Train character and Mr. Hamilton, the character was sufficiently transformed to have become Microsoft and Epic Games’s own expression, and thus constituted protected speech under the First Amendment.

# VIDEO GAMING / E-GAMING LAW UPDATE September 2021

- In September 2020, the U.S. Court of Appeals for the Third Circuit affirmed this decision, similarly finding that the Cole Train character was protected by the First Amendment.
- In denying Mr. Hamilton's petition, the Supreme Court rejected his slippery-slope argument that the ruling would protect activities like computer-generated celebrity pornography.

## ***Huffman v. Activision Publishing Inc.*, No. 2:19-cv-00050 (E.D. Tx. June 24, 2021)**

- On June 24, 2021, a Texas federal jury found for Activision Blizzard Inc. in a lawsuit brought by professional wrestler Booker T, alleging the game company copied his "G.I. Bro persona" for a character in the most recent Call of Duty game.
- Unlike in similar suits, at issue in the case was not Booker T's right of publicity, but his copyright in the character. The wrestler claimed that a character named "Prophet" in the game was lifted directly from "G.I. Bro," a military-themed persona reflected in poster that Booker T used to promote his comic book.
- During a four-day trial, Activision argued that Booker T lacked evidence that the company had access to the poster depicting the character, and that the image of G.I. Bro was not copyrightable both because it copied another famous person's image (Dwayne Johnson) from the neck down, and was a stock character.
- Booker T argued that the facial expression and attitude for Prophet in the Activision game were unique to the G.I. Bro character and thus copyrightable.
- The jury found for Activision, finding that there was no infringement of the plaintiff's copyright in its poster.

## ***Princeton Digital Image Corp. v. Ubisoft Entertainment SA*, No. 1:13-cv-00335 (D. Del. Sept. 8, 2021)**

- On September 8, 2021, the U.S. District Court for the District of Delaware awarded Ubisoft Entertainment fees in what it described as a "baseless" patent infringement lawsuit brought by Princeton Digital Image Corp.
- In 2013, Princeton Digital sued Ubisoft, alleging that Ubisoft's Just Dance game series infringed a patent owned by Princeton Digital covering a system of controlling virtual environments in response to audio signals.
- Following *inter partes* review (IPR) proceedings, the parties engaged in claim construction before the court. In its order on claim construction the court found that certain statements Princeton Digital made at the IPR proceedings amounted to a disclaimer, which resulted in Princeton Digital's asserted claims against Ubisoft becoming "baseless."
- However, Princeton Digital continued to litigate the case, despite (in the court's opinion) the fact that no reasonable fact-finder could conclude that the Just Dance games infringed the patent.
- Accordingly, the court determined that this constituted an "exceptional case" under the *Octane Fitness* standard and awarded fees to Ubisoft.

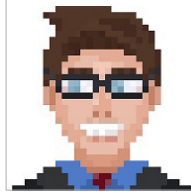
# VIDEO GAMING / E-GAMING LAW UPDATE

September 2021

## Contacts



**Anthony J. Dreyer**  
Partner / New York  
212.735.3097  
anthony.dreyer@skadden.com



**David M. Lamb**  
Associate / New York  
212.735.3421  
david.lamb@skadden.com



**Jordan Feirman**  
Counsel / New York  
212.735.3067  
jordan.feirman@skadden.com



**Andrew K. Patrick**  
Associate / New York  
212.735.3291  
andrew.patrick@skadden.com



**James Y. Pak**  
Counsel / Palo Alto  
650.470.3197  
james.pak@skadden.com

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One Manhattan West / New York, NY 10001 / 212.735.3000  
525 University Ave. / Palo Alto, CA 94301 / 650.470.4500