

NFT Suits May Blaze New Trail For Trademark Law

By **Britain Eakin**

Law360 (April 6, 2022, 12:01 PM EDT) -- New York federal judges who are overseeing Nike's suit against resale marketplace StockX and Hermes' case against a Los Angeles designer are on track to be the first to decide whether nonfungible tokens can infringe trademarks for physical goods.

With the increasing popularity of NFTs, unique digital assets that are stored on a blockchain and can be bought and sold, a spate of intellectual property suits has followed. These cases are expected to further define what NFTs are exactly and could test whether trademark protection extends into the metaverse, some attorneys say.

Of those newly filed suits, Nike brought an action in February, alleging online reseller StockX LLC's collection of NFTs, known as The Vault, is composed almost entirely of unauthorized images of Nike's shoes. U.S. District Judge Valerie E. Caproni will weigh StockX's argument that it's making fair use of Nike's images. StockX is also arguing it's entitled to use the images under the first sale doctrine, which allows buyers of trademarked goods to display and sell them under their original trademarks.

Hermes also filed suit in January, accusing designer Mason Rothschild of selling "MetaBirkin"-branded NFTs that rip off the name and look of the luxury brand's iconic handbag. U.S. District Judge Alison J. Nathan will consider Rothschild's argument that the works are pieces of art that are protected by the First Amendment.

Withersworldwide partner Gina Bibby said these cases highlight the many questions about how litigation in this space will shake out, saying "there are probably a lot of potential landmines in the metaverse" that remain unknown.

"The overarching theme is, be very thoughtful and very careful about what you're doing in the virtual world," she said.

Novel Issues

The judges in these cases will be grappling with some potentially groundbreaking legal issues, including weighing for the first time how digital assets intersect with real-world laws like the Lanham Act and First Amendment. The judges will also be looking closely at what an NFT really is and whether it infringes the trademarks at issue.

The Nike suit could be the first to decide not only whether NFTs can infringe trademarks on physical

goods, but also if an NFT is the actual underlying image or just the code a purchaser obtains, according to Alston & Bird senior associate Daniel Dubin.

If it's just a code, it can be likened to a receipt or proof of ownership of the underlying blockchain token, which is what StockX is arguing it amounts to.

"If it's just that, it's hard to imagine that a receipt can infringe intellectual property," Dubin said, noting that NFTs also come with the underlying image. "If the NFT is both proof of ownership and the underlying image, then the underlying image can likely infringe."

Such a ruling could spur "a flood of litigation," according to Dubin, with trademark owners like Nike empowered to enforce their trademark rights against NFT minters and Web3 creators that incorporate their intellectual property.

But it could have other effects as well.

"It also means that the digital images of NFTs could themselves be protected by trademark rights, thereby creating a new form of protection for NFT creators," Dubin said.

In response to Hermes' suit, Rothschild lodged a motion to dismiss in February that argues his works are protected free speech. Bibby, the Withersworldwide attorney, said unauthorized use of trademarks in expressive works of art always implicates the First Amendment, and the court will have to balance Rothschild's First Amendment rights against Hermes' trademark rights.

Hoppe, meanwhile, said the Nike case presents more interesting legal questions than the Hermes suit, which he called "another case of ripping off people's work." The Hermes case involves legal issues that could apply in any case involving representations of others' work, and wouldn't necessarily have to involve NFTs, he said.

Nike mentioned in its suit that it has pending trademark applications at the U.S. Patent and Trademark Office to register its sneakers as virtual goods. The USPTO hasn't issued those registrations yet, but both Hermes and Nike would be on stronger legal ground if they had virtual trademarks that were already registered, said Ivy Clarice Estoesta of Sterne Kessler Goldstein & Fox.

The court might nonetheless give them a broader scope of trademark rights because they've alleged in their suits that their marks are famous, Estoesta said.

"Whether [having famous marks] is enough to extend into the virtual world is one of the key legal questions these cases will potentially resolve," Estoesta said.

While the answer remains unknown for now, Bibby said she's advising clients to file for virtual trademarks "because it can't hurt."

The 'Wild West' Theory

There's a prevailing, but mistaken, view that NFTs are like the "Wild West," according to Hoppe. A Google search of "NFTs" and "Wild West" turns up a slew of results indicating the view is indeed widespread. Some of those results attribute the association to Sen. Elizabeth Warren, D-Mass., who has

compared the blockchain market to the Wild West and is pushing for digital currencies and NFTs to be regulated.

But Hoppe said that view applies mostly to financial regulation. When it comes to trademark litigation involving NFTs, the current legal framework is more than capable of handling these cases.

"Unlike some people who feel like it's the Wild West, who seem to think it's an open space where anything can happen, I don't agree with that," Hoppe said. "Most cases in this space have clear applicable principles that will be used by courts to apply the law."

While courts are largely equipped to handle the trademark infringement aspect of these cases under existing law, one issue that courts aren't necessarily prepared to hash out is potential remedies — should these cases make it that far — Estoesta said.

"If a plaintiff asks for these NFTs to be destroyed, I don't know how a court is going to enforce that kind of request, because NFTs can't be destroyed," Estoesta said. "That's something the current framework is lacking. I don't know what avenues courts have to enforce that."

There's a process called "burning" that can potentially eliminate NFTs from the market by rendering them unusable in the future, but the process can be carried out in different ways, so there doesn't appear to be a set definition currently for what it entails, according to Estoesta.

"So while an NFT can't be destroyed (like a physical object), perhaps 'burning' the NFT to remove it from circulation is an alternative remedy," she wrote in an email.

Meanwhile, Hoppe said the judge in the Nike case may not even get to reach what he views as the most interesting question presented in either case: whether or how the first sale doctrine applies. If the court determines StockX launched its NFTs before they actually represented identifiable physical items held in its inventory, that would allow the court to circumvent the issue.

"I think the judge won't have much difficulty in disposing of the first sale doctrine claims because they haven't implemented what they said they were implementing, at least according to Nike," Hoppe said.

--Editing by Marygrace Anderson.