What You Need to Know About NFTS and IP

By Rachel Nicholas and Daniel Ueno

Are NFTs merely a bubble that is about to burst, or a permanent fixture set to change the online landscape as we know it?

An NFT, or a non-fungible token, is defined as "a unique digital identifier that cannot be copied, substituted, or subdivided, that is recorded in a blockchain, and that is used to certify authenticity and ownership (as of a specific digital asset and specific rights relating to it)" (***Meriam-Webster***). According to Merriam-Webster, the first known use of NFT was in 2017, id., and just four short years later, NFT was deemed the word of the year (***CNN***). In 2022, it is hard to consume any media without coming across a mention of NFTs. They've integrated into social media platforms, the professional sports arena, Hollywood, and across big retail brands in virtually every industry from alcohol and apparel to fashion and automobiles. NFTs can be used in a variety of ways. For example, NFTs can be used in connection with tangible collectibles and rare goods to verify authenticity, such as shoes, or sports trading cards. Additionally, they can be used to give access to additional content, privileges and benefits, or membership. Also, they can be used in the metaverse and in connection with gaming and esports. However, much of the current NFT market seems based on perceived scarcity, bragging rights, and speculation. Some of the most notable sales of NFTs for digital art include 'Everydays: The First 5000 Days' by artist Beeple selling for $69 million, and Twitter co-founder Jack Dorsey's first-ever tweet auctioning for $2.9 million, neither of which came with any additional access, membership, or goods.

So, are NFTs merely a bubble that is about to burst, or a permanent fixture set to change the online landscape as we know it? What is certain is that the meteoric rise of NFTs makes them hard for consumers, companies, and even governments to ignore. In 2021, the estimated trade volume of NFTs was $25 *billion* (DappRadar). Given the size of the industry, the speed with which it got there, and the wide range of both use cases and content covered by NFTs, it is no surprise that there are a number of legal implications, and conflicts that have begun to arise, including tax and securities issues, theft and fraud, and privacy concerns. Although NFTs can point to any digital asset, they often point to artwork, images, music, GIFs, and video clips – all of which can directly implicate intellectual property (IP) rights. Some of the most recent and high profile lawsuits involving NFTs help highlight the recurring IP issues and help inform best practices for various stakeholders.

Miramax LLC v. Tarantino (Pulp Fiction)

Miramax, LLC v. Quentin Tarantino, 1:22-cv-00384 (C.D. Cal November 16, 2021)

One of the first and most notable NFT related lawsuits is *Miramax LLC vs. Quentin Tarantino*. As background, American filmmaker Quentin Tarantino publicly announced via press release and at a crypto-conference, plans to auction off "exclusive scenes" and pieces of the original script from the acclaimed 1994 motion

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picture *Pulp Fiction* in the form of NFTs. Miramax, who financed the film, claims that Tarantino assigned it nearly all of his IP rights to *Pulp Fiction*, making his unilateral NFT offerings featuring content from and related to the film problematic. After an initial demand letter was unsuccessful at resolving the dispute, Miramax filed suit for breach of contract, copyright infringement, trademark infringement, and unfair competition.

Under the relevant contract between the parties, Tarantino granted to Miramax, "all rights (including all copyrights and trademarks) in and to the [Pulp Fiction film] (and all elements thereof in all stages of development and production) now or hereafter known including without limitation the right to distribute the Film in all *media now or hereafter known* (theatrical, non-theatrical, all forms of television, home video, etc.)," excluding only a limited set of "Reserved Rights" which were reserved to Tarantino. Tarantino's Reserved Rights included "soundtrack album, music publishing, live performance, print publication (including without limitation screenplay publication, 'making of' books, comic books and novelization, in audio and electronic formats as well, as applicable), interactive media, theatrical and television sequel and remake rights, and television series and spinoff rights." Tarantino executed an assignment in Miramax's favor memorializing the transfer of rights. Moreover, Miramax subsequently filed copyright registrations covering the motion picture, and secured federal trademark registrations for PULP FICTION.

Miramax's claims allege that Tarantino's promotion and use of *Pulp Fiction* works for NFTs violates the terms of its contract with him, constitutes copyright infringement as the promotion and sale of the NFTs are an unauthorized derivative work, and constitutes trademark infringement as the NFTs are likely to cause consumers to believe that the Pulp Fiction NFTs are sold, authorized, endorsed, or sponsored by Miramax. Unsurprisingly, Miramax categorizes NFTs as the exact type of media covered by the inclusion in its rights of "media now or hereafter known." In his answer, Tarantino argues that the reservation of rights related to screenplay publication gives him the right to publish portions of his original handwritten screenplay for Pulp Fiction, including in the form of an NFT.

The contract between Miramax and Tarantino obviously predates the existence of NFTs, and while the case is ongoing, it remains to be seen if the standard "now or hereafter known" clause will sufficiently cover NFTs, or if there is sufficient ambiguity that Tarantino's reservation of rights in the screenplay may prevail.

Rothschild's website and other promotion of the METABIRKINS collection claim to be a tribute to Hermès, though the website also features a disclaimer expressly disclaiming any affiliation with Hermès. Hermès argues that Rothschild's unauthorized use, sale, and distribution of the METABIRKINS NFTs in interstate commerce, is likely to cause confusion and lead the public to believe that the NFTs emanate or originate from Hermès, or that Hermès has approved, sponsored, or sanctioned Rothschild and his NFTs. Among other damages, Hermès is seeking an injunction.

In response, Rothschild fielded a motion to dismiss the complaint for failure to state a claim. The motion focuses on Rothschild's alleged First Amendment defense, arguing that the NFTs are a critical commentary of Hermès' manufacturing practices. The motion to dismiss also relies on the Second Circuit's *Rogers v. Grimaldi* decision, which held where the defendant's product is artistic or expressive, the Lanham Act must be interpreted "narrowly in order to avoid suppressing protected speech under the First Amendment." Rothchild argues that *Rogers* thus applies to Hermès' claims regarding Rothschild's digital artwork depicting and commenting on Birkin bags. Specifically, Rothchild argues that his use of "MetaBirkins" as the name of his art project, and his use of that name to refer to his artworks and art projects on Instagram, Twitter, and elsewhere fall "under Rogers, all of Rothschild's uses are protected: they are artistically relevant and not explicitly misleading."

Hermès has since amended its complaint, adding allegations of additional instances of consumer confusion stemming from Rothchild's use of METABIRKINS. Hermès also counters Rothschild's claims that the NFTs are primarily artistic works.

Hermès v. Mason Rothschild (Birkin Bag)
Hermès International v. Mason Rothchild, 2:21-cv-08979 (S.D.N.Y. January 14, 2022)

Another recent and notable NFT case is *Hermès v. Mason Rothschild*. The defendant in that case, Mason Rothchild, is an artist, designer, and NFT creator who made a public splash by announcing his creation of a collection of NFTs identified as METABIRKINS. The collection comprised digital renderings of fanciful versions of Birkin-style bags and were offered for sale on multiple platforms, including OpenSea (the largest platform for selling of NFTs). Rothschild has promoted his METABIRKINS NFT collection on social media using the "MetaBirkin" handle, and at the ***www.metabirkin.com*** website. Hermès is one of the world's foremost luxury brands, offering a variety of expensive leather goods, accessories, and home furnishings. One of Hermès' most well-known products is The Birkin – a leather purse that retails for tens of thousands of dollars and upward. Hermès sent Rothschild a cease and desist letter once it caught wind of his METABIRKINS project, which Rothschild promptly made public on social media, with a response asserting his First Amendment rights, and promising that he would fight. Although Hermès was able to successfully compel OpenSea to remove the METABIRKINS collection from its website, Rothschild continued sales of the NFTs elsewhere. Hermès then filed the subject lawsuit, asserting claims for trademark infringement, false designation of origin, trademark dilution, cybersquatting, and unfair competition.

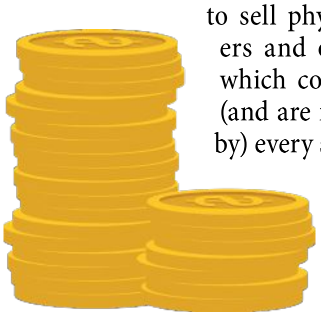
Hermès owns a federal trademark registration for BIRKIN for general leather goods, bags, and purses. It also owns a federal registration for the Birkin trade dress. Rothschild's website features METABIRKINS prominently, but also features the HERMÈS and BIRKIN marks.

Nike v. StockX
Nike, Inc. v. StockX LLC, 1:22-cv-00983 (S.D.N.Y. February 3, 2022)

Lastly, the *Nike v. StockX* case made waves in the first quarter of 2022, given the prominence of the players, and the potentially wide-reaching implications depending on how the dispute resolves. Defendant StockX is the operator of an online resale platform for various brands of sneakers, apparel, luxury handbags, electronics, and other collectible goods that purports to provide authentication services to its customers. StockX announced plans to create a series of "Vault NFTs" that linked to an image and indicated ownership of verifiable, authentic, tangible goods – namely, Nike shoes. StockX claims that its Nike-branded "Vault NFTs" merely track ownership of a physical Nike product safely secured in its "vault," functioning as a traceable digital receipt.

Nike did not approve of or authorize StockX's Nike-branded Vault NFTs, and filed suit alleging trademark infringement, unfair competition, and trademark dilution among other common law claims. Nike alleges that StockX's unsanctioned products are likely to confuse consumers, create a false association between those products and Nike, and dilute Nike's famous trademarks. Nike points out that StockX almost exclusively used Nike's marks to launch its Vault NFTs, alleging that it did so to garner attention, drive sales, and confuse consumers into believing that Nike collaborated with StockX on the Vault NFTs. In its complaint, Nike points to copious amounts of consumer confusion on social media (potentially also a pretty strong commentary on the public's misunderstanding of the new technology in general).

In response, StockX has stated that "Nike's claims lack merit, disregard settled doctrines of trademark law, including the doctrines of first sale and nominative fair use," and takes the position that the NFT itself is merely a "claim ticket" for customers to access the corresponding physical good (i.e., Nike shoes) that is stored in StockX's vault, and once the physical good is claimed, the NFT is removed "from the customer's digital portfolio and permanently removed from circulation." StockX compares their use of NFTs to other e-commerce retailers' nominative fair use of "images and descriptions of products to sell physical sneakers and other goods, which consumers see (and are not confused by) every single day."



Takeaways

For those interested in creating or minting their own NFTs and offering them on the marketplace, clearance of whatever is featured in the underlying digital asset to ensure proper releases and permissions are in place is one key to avoiding conflict. People, creative works, and trademarks should all be cleared to confirm ownership or adequate licensing is in place. Although treatment of NFTs by courts is still largely a gray area, the safest course is to treat any work underlying an NFT the same as any other asset moving in normal sales channels, as simply selling through the blockchain is unlikely to remove the potential liability for IP infringement.

Sellers should also be cautious of the IP used in marketing and promoting NFTs. Even if an NFT points only to assets with IP owned by the NFT seller, using third-party IP to advertise the NFTs is potentially opening the door to liability. Sellers should also make sure the contract governing the sale of their NFT is clear and aligns with their expectations, and they should carefully review any terms of service applicable to the platform or NFT marketplace used.

For those interested in purchasing an NFT, researching the seller, and the terms governing the sale, is crucial. One issue perhaps not well highlighted in the prominent cases summarized above is the seemingly pervasive misunderstanding surrounding rights that buyers acquire when they purchase an NFT. Frequently, buyers assume they acquire rights in the underlying work of art – when, typically, this is not the default. Given the high price of some NFTs, and how frequent this point is missed in the media, it is not surprising that the average purchaser assumes that some underlying IP rights are part of the deal. The only way to be sure of the scope of rights conveyed with the purchase of an NFT is to review the contract governing the sale.

Lastly, for all IP rights owners, the existence of NFTs should be taken into account in all agreements – even without eminent plans to expand into that space. All agreements going forward should expressly state whether the minting and sale of NFTs connected to the IP is permitted and under what conditions. IP owners should also monitor the metaverse and NFT platforms to ensure digital infringement is not running rampant and negatively impacting those IP rights. While NFT marketplaces currently operate like the Wild West, it seems as though some brands have had success using traditional takedown methods by contacting the marketplace directly to report infringement.