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Expert Analysis

A Tale of Two Lawsuits: Two New York Trademark Actions Against NFT Sales Pose Distinct Challenges to the Burgeoning NFT Marketplace

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The growth of non-fungible token (NFT) trading into a $17 billion industry in 2021 has given rise to a host of new legal questions. An NFT is a piece of data that, in general, keeps track on a blockchain of who owns another (often digital) asset. As digital assets verified by NFTs reach prices in the tens of millions of dollars, and with their popularity expanding rapidly, much confusion has surrounded the implications for intellectual property rights.

Two lawsuits recently filed in the U.S. District Court for the Southern District of New York illustrate the unsettled trademark law issues raised by NFTs. These lawsuits will, in different ways, test how trademark doctrine should apply to these digital assets and the transactions they relate to.

'Hermès International v. Mason Rothschild'

In the first suit, *Hermès Int'l v. Rothschild*, No. 22-cv-00384 (S.D.N.Y.), French luxury design house Hermès International brought trademark infringement, dilution, and related claims against California artist Mason Rothschild based on Rothschild's sale and marketing of 100 "MetaBirkin" NFTs. These NFTs, whose name references the high-end Birkin handbag sold by Hermès, authenticate digital images created by Rothschild of Birkin bags covered in colorful fur. In other words, the NFTs indicate that the purchaser is the true owner of one of Rothschild's digital images.

> Despite the 'Hermès' and 'Nike' cases' superficial similarity, the two cases raise fundamentally different questions within trademark doctrine.

On May 5, 2022, the district court denied Rothschild's motion to dismiss in a summary order, indicating that it would issue an opinion setting forth its reasoning at a subsequent date. Rothschild had argued in his motion to dismiss that his use of the "Birkin" name is protected by the First Amendment. The motion relied primarily on the doctrine announced in *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989), which limits the application of the Lanham Act where the plaintiff's mark is used as part of an expressive work. Under *Rogers*, such use of a trademark does not violate the Lanham Act unless the use (1) has no artistic relevance to the underlying work at all or (2) is explicitly misleading. Rothschild claimed that the furry Birkin bag images authenticated by his NFTs are expressive works that provide commentary on animal cruelty in the creation of leather handbags. He further argued that his images' use of a famous trademark like "Birkin" is part of a time-honored artistic tradition going back at least to Andy Warhol's works depicting Campbell's soup cans.

Even though the court denied the motion to dismiss, how *Rogers* applies to Rothschild's use of the Birkin name will likely continue to be the central question as the dispute unfolds. Hermès claims in its Amended Complaint that Rothschild's reliance on *Rogers* is simply "a ruse," and it opposed dismissal by arguing, first, that Rothschild's MetaBirkins are not art at all but "simply digital knock-offs, or digital versions, of physical BIRKIN handbags" for use in the metaverse. There is little doubt that if Rothschild had created physical paintings of furry Birkin bags and called them "PaintBirkins," for example, those paintings would be expressive works entitled to *Rogers*'s protection. The court in *Hermès* will have to consider in the first instance, and after factual development during discovery, whether the facts that the works are instead digital images and are marketed by means of NFTs should change the analysis.

Hermès further argues that "MetaBirkin" does not refer to the titles of the individual images or NFTs (which are simply titled with numbers from 0 to 99) at all, but instead to an entire "NFT business" comprising not only the NFTs described above but also NFTs linked to digital assets having nothing to do with Birkin bags, as well as a "METABIRKINS marketplace" with its own website and social media accounts. But if the NFTs are simply methods of authenticating the owner of an image, perhaps Rothschild's use of the Birkin name to market them is intrinsically wrapped up in the expressive work itself, just as a title would be.

Additionally, Rothschild cited Ninth Circuit precedent holding that the *Rogers* doctrine extends to marketing and promotional activities for expressive works, including activities that generate revenue. See *Twentieth Century Fox Television v. Empire Distribution*, 875 F.3d 1192, 1197-98 (9th Cir. 2017)). That holding, however, likely is not unlimited. Warhol may have been permitted to market his silk screens under the name "Campbell's Soup Cans," but Warhol did not operate a storefront using the Campbell's name to sell his works—let alone to sell works other those depicting Campbell's soup cans. The court in *Hermès* will likely have to determine where to draw that line, a question the court seems to have concluded required more factual development than is permitted on a motion to dismiss.

If the court eventually concludes that *Rogers* applies, then Rothschild can likely satisfy the

MetaBirkins online NFT shop

first prong in the *Rogers* test—demonstrating that his use of the "Birkin" name has artistic relevance greater than zero, which is all that is required. See, e.g., *Louis Vuitton Malletier S.A. v. Warner Bros. Entertainment*, 868 F. Supp. 2d 172, 178 (S.D.N.Y. 2012). The second *Rogers* prong—whether the use is explicitly misleading—could pose a more substantial challenge. Courts in the Second Circuit generally analyze this prong by applying the standard likelihood-of-confusion factors (known as the *Polaroid* factors in that Circuit), but requiring the plaintiff to make a "particularly compelling" showing. See, e.g., *Twin Peaks Prods. v. Publication's Int'l, Ltd.*, 996 F.2d 1366, 1379 (2d Cir. 1993). Hermès argues that it can make that showing, claiming that "MetaBirkin" is merely Hermès's Birkin trademark with the generic prefix "Meta," that Rothschild acted in bad faith, and that there is evidence of actual confusion. Rothschild, however, argues that the court should follow other decisions, such as those of the Ninth Circuit, that take a more restrictive view of what constitutes “explicitly misleading.”

‘Nike v. StockX’

A second recent case in the Southern District of New York, *Nike v. StockX*, No. 22-cv-00983 (S.D.N.Y.), bears some facial similarity to *Hermès*—once again, a widely recognized brand alleges that the use of its name in connection with the sale of NFTs is infringing. But the similarities may stop there.

StockX operates a digital marketplace for people looking to resell luxury goods, including sneakers, which StockX authenticates before sending to the buyer. StockX recently launched a new program, Vault NFTs, which it touts as an opportunity for customers to buy NFTs that indicate ownership in a corresponding physical item (a visual rendering of which appears in a digital image associated with each NFT). According to StockX, “Vault NFTs are one of the first NFT applications tied to a physical product,” rather than a digital image. StockX claims that the purchaser can exchange the NFT for the physical item at any time, and that the NFT cannot “be traded separately, or decoupled, from ownership of the underlying” physical item. StockX explains that Vault NFTs are targeted at consumers “who trade current culture products” but “do not want to take physical possession of [them] for use.”

By contrast, Nike—whose shoes it claims are the top-selling items on StockX—alleges that StockX’s VaultNFTs are not mere receipts establishing a record of purchase of an item in StockX’s vault. Rather, it says the NFTs are standalone commodities created by StockX, branded with the Nike trademark, and sold freely in the marketplace. Nike claims that the terms and conditions attached to the sale of the NFTs allow StockX, at its discretion, to provide the purchaser of the NFT with something *other* than the specific physical item initially associated with the NFT. Furthermore, Nike claims StockX charges a fee for anyone who actually seeks to trade in their VaultNFT for the corresponding physical item. Nike alleges that the decoupling of the VaultNFTs from the physical items is also shown by the fact that the VaultNFTs sell for hundreds or even thousands of dollars each, well north of the market prices for the shoes themselves, which Nike says has already led to sharp public criticism of the NFTs.

StockX does not appear to claim that its Vault NFTs are part of, or linked to, an expressive work—though each NFT is paired with “a vivid image of a bespoke Nike shoe.” Thus, the legality of StockX’s use of the Nike trademark will likely turn not on *Rogers* but on the nominative fair use doctrine. Nominative fair use allows a party to use another’s mark to refer to the mark owner’s goods, provided the use does not cause confusion about the source of the user’s product or imply sponsorship or affiliation by the owner. See *Weight Watchers Int’l v. Noom*, 403 F. Supp. 3d 361, 378 (S.D.N.Y. 2019). Thus, for instance, a luxury consignment shop was permitted to resell Chanel products and mention the name of the products on its website. *See Chanel v. RealReal*, 449 F. Supp. 3d 422, 439-40 (S.D.N.Y. 2020). A reseller’s mere authentication of the source of an object will not prevent a finding of nominative fair use.

In claiming that its use of the Nike mark “is no different than major e-commerce retailers and marketplaces who use images and descriptions of products to sell physical sneakers and other goods,” StockX is relying on a nominative fair use defense. That is, StockX is asserting that it is using Nike’s mark simply to identify the physical Nike products it is reselling, much like the consignment shop using the mark “Chanel” to identify Chanel products on offer. Whether that defense carries the day will depend largely on whether the facts bear out StockX’s or Nike’s characterization of the Vault

NFTs. Indeed, StockX's decision not to move to dismiss the complaint likely reflects a recognition that the dispute is going to be fact-intensive.

Takeaways

Despite the differences in the issue raised by the *Hermès* and *Nike* lawsuits, it is noteworthy that in both cases, the defendant presents its activities as no different from longstanding activities in the "real world." Rothschild claims that his MetaBirkin NFTs simply authenticate digital artworks, much as a certificate of authenticity would for a physical artwork; StockX claims that its Vault NFTs are mere claim tickets for physical sneakers on the second-hand market, much like a certificate of title—commonplace for tracing real and physical property ownership—for the blockchain era. In both cases, it is the plaintiff that seeks to characterize NFTs as something separate from the underlying assets. Hermès argues that Rothschild has created an NFT business separate from the underlying images (which it claims are not even titled "MetaBirkin"), while Nike argues that the Vault NFTs are standalone assets that are decoupled from the underlying sneakers.

This suggests that, in litigation but also outside of it, creators and promoters of NFTs should be careful not to oversell the novelty of the product they are promoting—and, more substantively, should be cautious in decoupling their NFTs from the goods (physical or digital) the NFTs relate to. Doing so may make it more difficult to claim later that their activities are simply digital equivalents of tried-and-true "real world" businesses protected by established trademark doctrines.

On the plaintiff side, *Hermès* and *Nike* illustrate the importance of obtaining trademark registrations for metaverse-related goods and services. In its complaint, Nike was able to point to its acquisition in December 2021 of RTFKT, a digital art studio with a history of apparel-related NFT digital artwork, and to its applications to register its existing marks for "virtual goods." Nike's existing investment of resources in the metaverse will make it easier for it to prove a likelihood of confusion with sellers of NFTs or other metaverse-related goods and services. Hermès, however, makes no similar allegations, which likely means they have made no such inroads into NFT or metaverse-related marketplaces to date. Hermès is thus reduced to arguing generally that the metaverse is a "new outlet for fashion brands to sell digital assets." If Hermès could have claimed that it specifically had expanded into the NFT or virtual goods marketplaces, the argument would undoubtedly have been stronger.

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Despite the *Hermès* and *Nike* cases' superficial similarity, the two cases raise fundamentally different questions within trademark doctrine. How the courts grapple with those questions as these cases move forward could shape the rapidly evolving NFT marketplace—and brands, blockchain enthusiasts, and artists should keep a close eye on their development.

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