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Move Fast and Make (Break?) Things: IP-Related NFT Litigation Trends

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Although non-fungible tokens (“NFTs”) have been around since approximately 2014, they exploded into the mainstream in early 2021, fetching eye-popping prices at auction. After Beeple’s March 2021 sale made headlines, the market remained red hot through the rest of that year. For example, “The Merge” – a series of NFTs created by digital artist Pak – sold for \$91.8 million in December 2021.

It has been reported that the global NFT market was worth \$41 billion in 2021 alone¹ – a figure rivaling that for the entire global fine art market. Even accounting for a possible slowdown in the NFT market due to saturation or recent drops in crypto prices, there is no question that substantial sums of money (and valuable intellectual property rights) are on the line and may pose significant risks, particularly given the gold rush-like nature of the market.

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For the uninitiated, an NFT is a digital asset (think a publicly verifiable and unique certificate of authenticity) that is stored on a blockchain and is typically purchased with cryptocurrency. When NFTs are created, or “minted,” they are listed on an NFT marketplace, like OpenSea or Rarible, and frequently sold or traded pursuant to accompanying “smart contracts” – software encoded with the NFT that sets the terms of current and future transactions in that NFT.

Smart contracts are self-executing, meaning there is no need for an intermediary or central authority, and because they are stored on the blockchain, they provide a public and secure transaction history of the NFT. An NFT itself can be linked to an underlying digital or physical asset. In the former instance, the NFT and smart contract are stored on the blockchain, and the digital media file – for example, a JPEG, GIF, video or music file – may be stored separately, usually on a single central server or a decentralized network.

Nearly two years since the NFT boom captured the public consciousness, we can now examine a slew of lawsuits and initial court rulings to help NFT market participants – buyers, sellers, trading platforms, investors and IP holders – assess such risks and consider whether and where litigation is likely. These risks and

considerations are all the greater in the context of the current “crypto winter,” in which cryptocurrency valuations have fallen significantly from prior highs. What follows are some of the major NFT-related litigation and IP trends we are seeing.

TRADEMARK CASES ARE AT THE FOREFRONT

Many of the early NFT-related lawsuits have been Lanham Act and state-law trademark cases. The number of these claims may have to do with the lack of clarity, or the confusion (pun intended), about what rights in underlying works are actually being transferred, granted or otherwise licensed in connection with the sale of an NFT. The following represent three paradigm examples of the types of trademark matters we have seen filed:

- In *McCollum v. Opolous, et al.*, Grammy-nominated recording artist Lil Yachty brought claims against Opolous, a startup selling ownership interests in musicians’ copyrighted works.² Lil Yachty alleged that Opolous misrepresented that it would sell his songs on its platform and used his image and trademarked name to raise \$6.5 million in investment capital without compensating him. He brought federal claims for trademark infringement and false representation of affiliation, among others.

Perhaps the most remarkable aspect of this NFT case is that it does not raise particularly novel legal issues: but for the fact that the products at issue are NFTs, this looks like a fairly typical trademark case.

It will be worth watching, however, to see how courts treat digital “goods” under federal trademark law, especially where certain goods may be expressive works, transformational or communicative and therefore may implicate First Amendment and copyright considerations.

- In *Nike, Inc. v. StockX LLC*,³ Nike sued StockX, a company that operates an online secondary market platform for resale of various brands of sneakers and other consumer goods. Nike alleged that StockX was creating and selling NFTs that used Nike’s trademarks without authorization.

In response, StockX argued that its NFTs were in fact “claim tickets” or “digital receipts” for physical shoes that StockX stored in a climate-controlled and high-security vault. StockX asserted that therefore

it was using Nike’s trademarks solely for descriptive purposes as allowed by the doctrines of first sale and nominative fair use.

The case has now entered the discovery phase, and it remains to be seen whether the court will treat the NFTs as products unto themselves or as receipts for physical products.

- NFTs have been frequently used to buy and sell digital, artistic works. But what qualifies as “artistic” is up for debate, and that debate is likely to evolve rapidly as Web3 technologies advance and the metaverse expands.

A decision in *Hermès International v. Rothschild*⁴ hints at what may be to come. There, Hermès, a luxury fashion business known for its iconic “Birkin” handbag, sued Rothschild, who created a collection of digital images titled “MetaBirkin” depicting an image of a blurry faux-fur-covered Birkin bag and sold the images as NFTs. Hermès sued for federal trademark infringement, false designation of origin, trademark dilution and cyber-squatting, among other claims.

In response, Rothschild moved to dismiss the complaint, arguing that his “MetaBirkins” are artistic works and protected under the First Amendment.

The court applied the *Rogers* test and denied Rothschild’s motion, finding that the complaint sufficiently alleged that the use of the “Birkin” name lacked artistic relevance to the digital images and was explicitly misleading.⁵ In so holding, the court found that Rothschild’s use of NFTs to authenticate the digital images did not render them a commodity without First Amendment protection.⁶ Importantly for forecasting purposes, the court suggested that the analysis might be different if the MetaBirkins could be worn in a virtual world instead of being just an image of a handbag.⁷

Thus, there are risks that as brands expand into the metaverse to offer wearable and usable products that more closely mirror “goods” in the physical world, the viability of First Amendment defenses may decrease.

Rothschild unsuccessfully sought to appeal the motion to dismiss order and subsequently moved for summary judgment on a number of grounds that

echo his motion to dismiss arguments. As of the time of this writing, the court has not yet issued a written opinion.

COPYRIGHT AND NFT EXPLOITATION

In *Miramax, LLC v. Quentin Tarantino, et al.*,⁸ the film company sued Tarantino, alleging that the director's announced plan to create NFTs of handwritten excerpts of *Pulp Fiction's* script and accompanying commentary would infringe Miramax's copyright in the film.

Tarantino moved for judgment on the pleadings, arguing that the film was a derivative work of the screenplay and, thus, that Tarantino retained all rights to the latter unless expressly granted to Miramax.

However, the parties settled the matter before the court ruled on Tarantino's motion, and thus the court did not have the opportunity to weigh in on these specific issues in the context of this case.

Nevertheless, this case and *StockX* suggest that while NFTs themselves may be novel, the underlying IP concepts – the first sale doctrine, nominative fair use, and the scope of exclusive rights under 17 U.S.C. § 106 – are the standards by which such claims will be judged.

WHO HOLDS THE RIGHTS WHEN AN NFT IS STOLEN?

While it has not ripened into litigation, actor Seth Green and his stolen (since returned) Bored Ape Yacht Club NFT provide a cautionary tale for content creators, buyers and distributors.

Green's Bored Ape (BAYC #8398)⁹ came with terms and conditions that profess to grant NFT owners like him a worldwide license to "use, copy, and display" the NFT for commercial uses and to create derivative works. Green was developing an animated television show called *White Horse Tavern* around his ape, and had even promoted the show at NFT conference VeeCon. But the theft of his ape, Fred, in a phishing scheme and its subsequent sale to an apparently unsuspecting third party raised a host of questions about whether Green still held the necessary IP rights in Fred to move forward with his show, and what rights the third party acquired as a result of the transfer.

Green said, "I bought that ape in July 2021, and have spent the last several months developing and exploiting the IP to make it into the star of this show. Then, days before – his name is Fred, by the way – days before he's set to make his world debut, he's literally kidnapped."¹⁰

THE U.S. GOVERNMENT TAKES NOTICE

In June 2022, the U.S. Patent and Trademark Office and the U.S. Copyright Office agreed to launch a joint study into NFTs at the request of Senators Pat Leahy and Thom Tillis, the results of which are scheduled to be published this year and will seek to answer questions about how NFTs affect transfers of rights, licensing and infringement.

CONCLUSION

As fallout from the NFT boom continues and as the metaverse continues to expand, so too will legal risks and litigation around it. Content creators, licensors, investors and other stakeholders will do well to continue to monitor these developments.

Notes

1. Natasha Dailey, NFTs ballooned to a \$41 billion market in 2021 and are catching up to the total size of the global fine art market, Insider.com, Jan. 6, 2022, available at <https://markets.businessinsider.com/news/currencies/nft-market-41-billion-nearing-fine-art-market-size-2022-1>.
2. *McCollum v. Opulous, et al.*, Case No. 2:22-cv-00587-MWF-MAR (C.D. Cal.).
3. *Nike, Inc. v. StockX LLC*, Case No. 1:22-cv-000983-VEC (S.D.N.Y.).
4. *Hermès International, et al. v. Mason Rothschild*, Case No. 1:22-cv-00384-JSR (S.D.N.Y.).
5. *Id.* at Dkt. No. 50, pp. 13-18.
6. *Id.* at p. 12.
7. *Id.* at p. 3, n.1.
8. *Miramax, LLC v. Quentin Tarantino, et al.*, Case No. 2:21-cv-08979-FMO-JC (C.D. Cal.).
9. <https://opensea.io/assets/ethereum/0xbc4ca0eda7647a8ab7c2061c2e118a18a936f13d/8398>.
10. Sarah Emerson, *Seth Green's Stolen Bored Ape Is Back Home*, BuzzFeed News, June 9, 2022 (available at <https://www.buzzfeed-news.com/article/sarahemerson/seth-green-bored-ape-nft-returned>).

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