

## TREATING NON-FUNGIBLE TOKENS AS DIGITAL GOODS UNDER THE LANHAM ACT

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### ABSTRACT

*Non-fungible tokens (NFTs) are digital tokens that are stored using blockchain, or distributed ledger technology, and which contain metadata tying each token to a creative work or physical product. The value of an NFT is largely driven by the brand or celebrity that produced it. Sales of NFTs have shown that the public has a tremendous appetite to spend large amounts of money on NFTs from specific sources, anticipating that their value will rise over time. The quick-moving nature of NFT marketplaces, combined with the lack of policing for fraudulent activity or bad behavior, has created a perfect storm for vast intellectual property infringement. In particular, NFTs are being fraudulently created and marketed as being derived from specific sources.*

*Pursuing a trademark infringement case requires first showing that there is a good or service used in commerce bearing the plaintiff's trademark. In the past, the Supreme Court has at times shown an unwillingness to recognize intangible assets as goods in the stream of commerce. However, this may have reflected the inability of intangible goods to reliably communicate their sources. NFTs offer a new type of intangible good that is unique and*

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*for which source identification is not only available but provides specific value for the good. One argument against allowing digital assets to be considered goods used in commerce is the potential cross between copyright and trademark law. However, the fact that source is so important to the value of an NFT means that the creative content in a linked creative work and the brand associated with the token should be considered separately under the law. This Note argues that courts and/or legislators should find that NFTs and other digital goods meet the use in commerce requirement. This acknowledgement will offer more predictable policing of trademark infringement and may open a door to other solutions including takedown notices for NFT marketplaces.*

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## I. INTRODUCTION

Blockchain, or distributed ledger technology, has taken the world by storm in recent years. The concept of distributed ledger technology was first introduced in a 2008 white paper by Satoshi Nakamoto, a person whose true identity remains unknown.<sup>1</sup> This paper, called *Bitcoin: a Peer to Peer Electronic Cash System*, outlined “using proof-of-work to record a public history of transactions,” which allows for recording and verifying ownership of digital currency and other digital assets.<sup>2</sup> Non-fungible tokens (NFTs) comprise created (or “minted”) digital tokens that are stored using blockchain technology and contain metadata tying the token to a particular asset.<sup>3</sup> NFT purchases effectively provide the purchaser with a digital link to an associated asset stored using blockchain technology.<sup>4</sup> Currently, the transfer of assets using NFTs largely operates as a tool for monetizing all types of digital

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<sup>1</sup> Bernard Marr, *A Very Brief History Of Blockchain Technology Everyone Should Read*, FORBES (Feb. 16, 2018, 12:28 AM), <https://www.forbes.com/sites/bernardmarr/2018/02/16/a-very-brief-history-of-blockchain-technology-everyone-should-read/?sh=b8279e97bc47> [<https://perma.cc/3NST-T9QJ>].

<sup>2</sup> SATOSHI NAKAMOTO, *BITCOIN: A PEER-TO-PEER ELECTRONIC CASH SYSTEM* 9, <https://bitcoin.org/bitcoin.pdf> [<https://perma.cc/JM27-7LCR>] (last visited Dec. 14, 2021).

<sup>3</sup> Jonathan Emmanuel, Gavin Punia & Simi Khagram, *Non-fungible tokens: What’s all the fuss?*, 28 No. 12 WESTLAW J. INTELL. PROP. 02 (2021).

<sup>4</sup> *Id.*

content, with the most widely known experiments resulting from artists and sports teams leveraging NFT platforms to offer exclusive content to purchasers.<sup>5</sup> The already enormous marketplaces for NFTs are continuing to grow rapidly, with more than \$10 billion in NFT assets traded in the third quarter of 2021 alone.<sup>6</sup>

NFT digital tokens come in two basic forms; the first type of token is linked to a physical good and the second type of token provides access for digital files.<sup>7</sup> Generally, when physical goods are sold, the use of trademarks on or in connection with the sale of those goods falls within traditional application of trademark law.<sup>8</sup> However, NFTs are not physical goods, and there is still controversy regarding whether NFTs and other digital files represent “goods” or “services” under the Lanham Act.<sup>9</sup> Furthermore, there are also additional questions about what exactly is owned when an NFT transfer is made.<sup>10</sup> The answers to these questions, which will be critical for pursuing trademark infringement claims and relevant defenses in cases involving NFTs, are likely to hinge on whether NFTs should be viewed like traditional goods or services in determining source confusion, and defining what is actually owned after they are transferred or sold.

Given the increasing number of brands entering the NFT market, it is not surprising that trademark protection is a growing concern and hotly debated topic for NFTs and their associated assets. Trademark infringement claims generally require establishing a valid mark that is entitled

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<sup>5</sup> Pavel Kireyev & Peter C. Evans, *Making Sense of the NFT Marketplace*, HARV. BUS. REV. (Nov. 18, 2021), <https://hbr.org/2021/11/making-sense-of-the-nft-marketplace> [<https://perma.cc/EN9J-ZSP8>].

<sup>6</sup> *Id.*

<sup>7</sup> Emmanuel, Punia & Khagram, *supra* note 3.

<sup>8</sup> *See* 15 U.S.C. § 1127.

<sup>9</sup> Mark P. McKenna & Lucas S. Osborn, *Trademarks and Digital Goods*, 92 NOTRE DAME L. REV. 1425, 1428 (2017).

<sup>10</sup> Emmanuel, Punia & Khagram, *supra* note 3.

to protection and use of the mark or a confusingly similar mark in commerce to sell or advertise goods or services without the owner's permission.<sup>11</sup> As a result of the intense interest in the expanding virtual world, brands are rushing to file trademark applications for digital assets, which means that there will likely be many new registered marks that could be infringed in the future. Already, questions are mounting about whether transfer and sale of digital assets constitutes use in commerce under the Lanham Act.

This Note will argue that NFTs are unique goods that can convey information about source in commercial trade. This means that transfer of an NFT should be treated in the same manner as the sale of a physical good under the Lanham Act. Some may argue that changing trademark law to permit claims for digital files will destroy distinctions between copyright and trademark law. However, NFTs represent a new type of digital file that is not intended to serve as creative content. Instead, an NFT token serves as a good that functions as an access point to a separate digital or physical asset, which can comprise creative content that is separate from the token. Section II of this Note will describe the emerging markets for digital assets and the intersection of brand identity with NFTs. Section III will examine the threats posed by brand misuse in NFT marketing and discuss several newly filed lawsuits over intellectual property in NFTs. Section IV will examine the definition of "goods" and "use in commerce" under the Lanham Act and argue that NFTs are a new type of digital good distinguished from those for which claims of infringement were previously found to fall solely within copyright law. Section V will discuss the current debate over satisfying the "use in commerce" requirement for digital goods and advocate for more intervention by the courts and legislators to recognize a "use in commerce"

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<sup>11</sup> See 15 U.S.C. § 1125(a).

standard that will apply to the growing virtual world. Section VI will conclude the Note.

## II. GROWING MARKETS FOR DIGITAL GOODS

### A. *Novel Distribution of Creative Content*

The digital revolution has fundamentally altered production and consumption of creative content. Over the past two decades, consumer purchases of creative goods have increasingly shifted from buying physical goods at traditional brick and mortar shops to transferring digital assets that are completely marketed and delivered through the internet.<sup>12</sup> Internet use grew by more than 6% globally between 2020 and 2021, bringing the total to an eye-popping 4.8 billion internet users around the world.<sup>13</sup> Not long ago, people were waiting in line at a video store to check out the latest newly-released movie. Now, streaming services are everywhere, usually requiring a digital subscription to access a catalog of music, movies, or other content. Social media has also introduced new platforms for consuming digital content that currently engage around 57% of the world's population, with more than 1 in 9 people having used social media for the first time within the past 12 months.<sup>14</sup> Experts have also noted a meteoric

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<sup>12</sup> Ian MacKenzie, Chris Meyer, and Steve Noble, *How retailers can keep up with consumers*, MCKINSEY & CO. (Oct. 1, 2013), <https://www.mckinsey.com/industries/retail/our-insights/how-retailers-can-keep-up-with-consumers> [<https://perma.cc/RMP2-QYPV>] (“Habits of consuming content have changed dramatically. US consumers doubled their spending on digital newspapers in the past seven years, for example, while halving their spending on print newspapers.”).

<sup>13</sup> Simon Kemp, *Digital Audiences Swell, But There May Be Trouble Ahead*, WE ARE SOCIAL (July 21, 2021), <https://wearesocial.com/us/blog/2021/07/digital-audiences-swell-but-there-may-be-trouble-ahead/> [<https://perma.cc/3TW8-TAPT>].

<sup>14</sup> *Id.*

rise in electronic gaming, often called eSports, and project that the global market will balloon to over \$2.5 billion by 2025.<sup>15</sup> Even more traditional content forms are being digitized, with around a third of Americans having read at least one e-book in the past 12 months.<sup>16</sup> Studies have shown that convenience typically trumps all other factors when comparing online shopping to physical shopping experiences.<sup>17</sup>

The push toward online shopping has enhanced consumer awareness of creative digital content and driven the development of a new market for digital goods.<sup>18</sup> These goods exist entirely within digital environments and can either be tied to a physical good or can exist on their own as purely digital goods.<sup>19</sup> Similar to the way people use branded luxury goods in the physical world, individuals use purely digital goods to demonstrate their tastes or status within the virtual environment.<sup>20</sup> The most common

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<sup>15</sup> Christina Gough, *Size of global eSports market 2021–2029*, STATISTA (Feb. 8, 2022), <https://www.statista.com/statistics/1256162/global-esports-market-size/> [[https://perma.cc/WR92-M65L](https://perma.cc WR92-M65L)].

<sup>16</sup> Michelle Faverio & Andrew Perrin, *Three-in-ten Americans now read e-books*, PEW RSCH. CTR. (Jan. 6, 2022), <https://www.pewresearch.org/fact-tank/2022/01/06/three-in-ten-americans-now-read-e-books/> [<https://perma.cc/V8LB-GMCG>].

<sup>17</sup> See Steven Dudash, *Meta Consumerism: Holiday Gifts, Digital Goods, & Virtual Expression*, FORBES (Dec. 31, 2021, 11:19 AM), <https://www.forbes.com/sites/greatspeculations/2021/12/31/meta-consumerism-holiday-gifts-digital-goods--virtual-expression/?sh=ce85205279aa> [<https://perma.cc/5HTT-TMP6>].

<sup>18</sup> Beth Owens, *Is virtual shopping the future of ecommerce?*, WHIPLASH (Sept. 23, 2021) <https://whiplash.com/blog/virtual-shopping-future-of-ecommerce/> [<https://perma.cc/H8YG-JYPN>].

<sup>19</sup> Cathy Hackl, *Metaverse Commerce: Understanding The New Virtual To Physical And Physical To Virtual Commerce Models*, FORBES (Jul 5, 2022, 08:01 PM), <https://www.forbes.com/sites/cathyhackl/2022/07/05/metaverse-commerce-understanding-the-new-virtual-to-physical-and-physical-to-virtual-commerce-models/> [<https://perma.cc/E7LS-US97>].

<sup>20</sup> Dudash, *supra* note 17.

examples are the skins, items, maps, or terrains that are purchased and used by video game players.<sup>21</sup> Luxury goods manufacturers are also jumping into the new digital platforms, acutely aware that just as video game players show status with purchased digital goods, so too will visitors to virtual worlds wish to display digital goods of particular value as a form of self-expression in the different multiverses.<sup>22</sup> Currently, consumers are purchasing more than \$80 billion per year in virtual goods within video games alone.<sup>23</sup> Experts expect even greater spending in digital environments in the future.<sup>24</sup>

While the resulting increase in consumer access to digital content and virtual goods has opened tremendous new avenues for monetizing creative work, the risk of unauthorized duplication and distribution that siphons off revenue from creators and authors is also growing. Until recently, the primary ways that many digital content sellers generated revenue were direct sales using subscriptions, metered paywalls, affiliate links, and sponsored content.<sup>25</sup> Direct sales are the most straightforward monetization strategy because they provide the largest amount of control to content producers.<sup>26</sup> However, despite highly successful direct selling in certain markets like the streaming content market, direct sales also come with drawbacks such as the likelihood of consumers finding the same content

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<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> Anna Wiener, *Money in the Metaverse: in a virtual world full of virtual goods, finance could get weird*, THE NEW YORKER (Jan. 4, 2022), <https://www.newyorker.com/news/letter-from-silicon-valley/money-in-the-metaverse> [https://perma.cc/VGW4-3NEH].

<sup>24</sup> Dudash, *supra* note 17.

<sup>25</sup> Philip Kushmaro, *6 strategies smart digital publishers use to monetize content*, CIO (Aug. 4, 2017, 5:41 AM), <https://www.cio.com/article/230459/6-strategies-smart-digital-publishers-use-to-monetize-content.html> [https://perma.cc/S9FL-CPB7].

<sup>26</sup> *See id.*



elsewhere for free or reduced price.<sup>27</sup> Although most creative content distributed through digital subscriptions prevents subscribers from owning the content, pirated copies of creative materials are still widespread.<sup>28</sup> Some customers have been enticed by offers of exclusive content to continue purchasing goods and services from select content producers, but until recently there was no way to reliably separate authentic source-created content from unauthorized copies not connected to the original source.<sup>29</sup>

***B. NFTs Constitute a New Type of Digital Asset***

The digital goods market took a drastic turn with the creation of NFTs. NFT purchases effectively provide the purchaser with a link, stored using blockchain technology, to an associated physical product or digital asset.<sup>30</sup> The primary blockchain used to mint new NFTs is Ethereum, although other blockchain technologies also support NFT minting.<sup>31</sup> While blockchain is mostly known for cryptocurrencies such as Bitcoin, the underlying technology is already being used to secure transactions in a variety of business fields.<sup>32</sup> Simply put, blockchain

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<sup>27</sup> *Id.*

<sup>28</sup> See Ashley Johnson, *22 Years After the DMCA, Online Piracy Is Still a Widespread Problem*, INFO. TECH. & INNOVATION FOUND. (Feb. 7, 2020), <https://itif.org/publications/2020/02/07/22-years-after-dmca-online-piracy-still-widespread-problem> [<https://perma.cc/4GVS-FLY9>].

<sup>29</sup> Steve Kaczynski & Scott Duke Kominers, *How NFTs Create Value*, HARV. BUS. REV. (Nov. 10, 2021), <https://hbr.org/2021/11/how-nfts-create-value> [<https://perma.cc/T74L-D3L3>].

<sup>30</sup> *See id.*

<sup>31</sup> Robyn Conti & John Schmidt, *What Is An NFT? Non-fungible Tokens Explained*, FORBES (Apr. 6, 2022, 1:22 PM), <https://www.forbes.com/advisor/investing/nft-non-fungible-token/> [<https://perma.cc/2S2A-JWCE>].

<sup>32</sup> *See* Emmanuel, Punia & Khagram, *supra* note 3.

provides the means to record sales or transfers in the electronic ledgers of the involved parties without a way of retrospectively altering the transaction history.<sup>33</sup> In other words, blockchain gives a clear picture of what happened and when. With blockchain serving to increase transparency in digital transactions, there is no need for centralized repositories for transaction validation.<sup>34</sup>

NFTs have generated particular interest in the digital content market because the tokens harness the power of blockchain to record individual transfers of ownership, through which a link to a unique creative work can be provided.<sup>35</sup> Artists, illustrators, designers, filmmakers, and other creative producers have discovered that they can link their creative works with an NFT to provide a non-fungible digital package.<sup>36</sup> The term “non-fungible” means that the token is unique and therefore not interchangeable with another similar token.<sup>37</sup> This uniqueness creates a form of digital scarcity, which contrasts with the usually infinite supply of copies that are possible for most digital files due to the lack of obstacles for reproduction.<sup>38</sup> In other words, the fact that an NFT can only have one owner at a time means that NFT buyers get exclusive ownership of a specific digital asset. This is not possible for other digital assets for which transfer is not recorded in some manner that tracks a unique identifier for the asset.<sup>39</sup>

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<sup>33</sup> Vaibhav Lohia, *Blockchain in Sales: Hype that Hasn't Delivered*, SALES MGMT. ASS'N (Sept. 4, 2018), <https://salesmanagement.org/blog/blockchain-in-sales-hype-that-hasnt-delivered/> [<https://perma.cc/38PT-XNDW>].

<sup>34</sup> *Id.*

<sup>35</sup> Kaczynski & Kominers, *supra* note 29.

<sup>36</sup> *See* Conti & Schmidt, *supra* note 31.

<sup>37</sup> *Id.*

<sup>38</sup> *Id.*

<sup>39</sup> *See* Kaczynski & Kominers, *supra* note 29 (“Before someone can buy a good, it has to be clear who has the right to sell it, and once someone does buy, you need to be able to transfer ownership

**C. Brand Association with NFTs**

Companies and organizations across the globe are jumping headfirst into NFTs. Some examples of items that have been minted into NFTs or linked to NFTs include original artwork, videos, collectible digital files, virtual avatars, sneakers, and music.<sup>40</sup> Several large marketplaces for NFTs have sprung up to satisfy the growing demand.<sup>41</sup> These marketplaces vary in exclusivity, from peer-to-peer open browsing for anyone willing to make an account, such as OpenSea.io, to the invitation only platforms like Foundation, which purports to host higher caliber artwork.<sup>42</sup> Early versions of NFTs established new brands by creators willing to take a risk on the novel format for selling their work. Cryptokitties, a pioneering Ethereum-based game for buying and selling collectible digital cats, started in 2017 and became a highly publicized early example of NFT technology in action.<sup>43</sup> Since then, many established brands have begun to enter the NFT market. In 2019, the National Basketball Association (NBA) joined forces with Cryptokitties' creator, Dapper Labs, to create NFT versions of officially licensed video highlights called Top Shots, and in 2021 the NFL released commemorative virtual tickets through limited edition NFTs.<sup>44</sup> Everyday

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from the seller to the buyer. NFTs solve this problem by giving parties something they can agree represents ownership. In doing so, they make it possible to build markets around new types of transactions—buying and selling products that could never be sold before . . . .”).

<sup>40</sup> See Conti & Schmidt, *supra* note 31.

<sup>41</sup> *Id.*

<sup>42</sup> *Id.*

<sup>43</sup> *CryptoKitties: A Pioneer in Ethereum Gaming and NFTs*, CRYPTOPEDIA (Mar. 10, 2022), <https://www.gemini.com/cryptopedia/cryptokitties-nft-crypto-ethereum-token> [https://perma.cc/8DEV-29QS].

<sup>44</sup> *NBA Top Shot: Pioneering NFT Collectibles in Sports*, CRYPTOPEDIA (Jan. 10, 2022), <https://www.gemini.com/cryptopedia/>

brands have also experimented with NFTs. For example, McDonalds issued a limited collection of “McNFTs” that featured the McRib sandwich, Clinique released a series of NFTs titled “MetaOptimist” to members of its rewards program, and Mattel’s Hot Wheels sold packages of NFTs featuring their iconic car designs.<sup>45</sup> Even luxury brands are finding value in NFTs, with Gucci auctioning off NFTs inspired by its Fall/Winter 2021 collection.<sup>46</sup>

Brands find NFTs valuable because they offer versatile new market connections with consumers.<sup>47</sup> To date, NFTs have been mostly limited to avant-garde digital art galleries, sports collectibles, and gimmicky giveaways.<sup>48</sup> This has made some feel that the future of NFTs is uncertain; however, the use of NFTs so far has only scratched the surface of what might be possible once they become mainstream.<sup>49</sup> For example, brands will be able to create immersive advertising campaigns that contain videos, music clips, or pieces of art that can be combined in “a new world of brand storytelling.”<sup>50</sup> Since advertising is about engaging consumers, NFTs provide the means to “encourage interaction and conversation” between brands and consumers in a new way that can build loyalty and

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nba-topshot-nft-flow-blockchain-nba-moments [https://perma.cc/75JM-LG9Z]; Kate Birch, *Top 10 NFT marketing initiatives by leading brands in 2021*, BUS. CHIEF (Jan. 5, 2022), https://businesschief.com/digital-strategy/top-10-nft-marketing-initiatives-leading-brands-2021 [https://perma.cc/CGP5-74LQ].

<sup>45</sup> Birch, *supra* note 44.

<sup>46</sup> *Id.*

<sup>47</sup> Ben Zimmerman, *How The World of NFTs Could Be the Next Big Thing for Advertising*, FORBES (May 7, 2021, 7:50 AM), https://www.forbes.com/sites/forbesbusinesscouncil/2021/05/07/how-the-world-of-nfts-could-be-the-next-big-thing-for-advertising/?sh=6a6587984491 [https://perma.cc/VK68-2LW6].

<sup>48</sup> See Conti & Schmidt, *supra* note 31.

<sup>49</sup> *Id.*

<sup>50</sup> Zimmerman, *supra* note 47.

interest.<sup>51</sup> This can happen through a variety of culturally relevant incentives such as giving away free merchandise or collectibles, providing access to events, and promising interaction with celebrities or social media influencers.<sup>52</sup> Brands are likely to see tremendous value in creating communities of shared values around the new technology.<sup>53</sup>

Another area where NFTs will likely intersect with brand management is in gaming. Gamers already spend money in games to purchase digital items; having the ability to sell gameplay-earned NFTs will allow players to move away from a strict consumer exploitation model into a more symbiotic marketplace relationship with the game developers.<sup>54</sup> Many companies and individual creators are also watching the development of the metaverse, where virtual assets like NFTs will likely become status symbols and keys to unlock new features, similar to the NFTs that are already being purchased in video games.<sup>55</sup> There are likely many other avenues for distribution and sale of NFTs that haven't been explored, but there is little doubt about the potential for NFTs to fundamentally change the interaction of brands with consumers.<sup>56</sup>

In addition to versatility and related consumer connection benefits, brands can use NFTs to simplify validation of authenticity for physical or digital assets associated with the tokens. In other words, NFTs can

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<sup>51</sup> *Id.*

<sup>52</sup> Bartek Sibiga, *What NFTs Mean For the Global Ad Industry*, ADVERT. WEEK, <https://advertisingweek.com/what-nfts-mean-for-the-global-ad-industry/> [<https://perma.cc/56HN-8688>] (last visited Feb. 22, 2023).

<sup>53</sup> *Id.*

<sup>54</sup> Nicole Serena Silver, *The History And Future Of NFTs*, FORBES (Nov. 2, 2021, 11:35 AM), <https://www.forbes.com/sites/nicolesilver/2021/11/02/the-history-and-future-of-nfts/?sh=634274a16a16> [<https://perma.cc/UYS3-3QFM>].

<sup>55</sup> Dudash, *supra* note 17.

<sup>56</sup> Silver, *supra* note 54.

function similarly to certificates of authenticity.<sup>57</sup> Certificates of authenticity often show up in sales of artwork, for example.<sup>58</sup> While these certificates are only an assertion of authenticity, which is not a provable accounting of origination, they still provide some measure of assurance when value is dependent on source.<sup>59</sup> NFTs offer a similar form of accounting for authenticity since the association of a particular token with an artwork or other item can be recorded in the NFT’s blockchain-based registry.<sup>60</sup> This record of transfers for the digital asset or physical item associated with the NFT forms the basis for authentication.<sup>61</sup> Brands are therefore able to market products associated with NFTs by guaranteeing the purchase of an original, authentic product that can be verified by the blockchain ledger.

Several industries are now exploring the use of NFTs to act as “digital passports” for recording product repair and transaction history, and for certifying the authenticity of their products.<sup>62</sup> Auction houses have shown interest in using NFTs to guarantee authenticity of auctioned art.<sup>63</sup> In an industry first, Christie’s auctioned a

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<sup>57</sup> Shin Hyung Choi, *Proof of Provenance: Why NFTs Can be Valuable*, MEDIUM (Apr. 12, 2021), <https://shinhyungchoi.medium.com/proof-of-provenance-why-nfts-can-be-valuable-1489ed1395fd> [https://perma.cc/FX4E-R8FK].

<sup>58</sup> *Id.*

<sup>59</sup> *Id.*

<sup>60</sup> *Id.*

<sup>61</sup> *Id.*

<sup>62</sup> *From Royalties to Resale Restrictions, What Would Tying NFTs to Luxury Goods Look Like?*, THE FASHION LAW (Apr. 14, 2021) [hereinafter *Royalties*], <https://www.thefashionlaw.com/from-royalties-to-resale-restrictions-what-would-linking-nfts-to-luxury-goods-look-like/#> [https://perma.cc/9HZY-675W].

<sup>63</sup> *See Digital Art & NFTs*, CHRISTIE’S, <https://www.christies.com/en/events/digital-art-and-nfts/overview> [https://perma.cc/7ERW-WKBQ] (last visited Jan. 20, 2023); *NFT*, SOTHEBY’S, <https://www.sot>

digital collection from the artist Beeple for over \$69 million and used NFTs to effectively provide “a guarantee of its authenticity.”<sup>64</sup> The collection was sold based on the promised delivery of an NFT that contained an encrypted artist signature that could be stored on the blockchain for future verification of the associated digital artworks.<sup>65</sup> Nike has led the clothing industry in its adoption of NFT technology.<sup>66</sup> The sportswear giant has issued “CryptoKick” NFTs when customers purchased corresponding actual shoes.<sup>67</sup> A consumer could then sell or trade their shoes and provide the buyer with an assurance of authenticity based on the associated NFT.<sup>68</sup> Nike even filed a utility patent application claiming a system and method for providing cryptographically secured digital assets associated with footwear.<sup>69</sup> The NBA also markets authenticity when selling its Top Shots NFTs, providing certificates along with an original clip.<sup>70</sup> This newly devised system is already being hailed as the future of sports trading cards.<sup>71</sup>

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hebys.com/en/departments/nft [https://perma.cc/7BAZ-2UZ5] (last visited Jan. 28, 2023).

<sup>64</sup> *Beeple’s opus*, CHRISTIE’S, <https://www.christies.com/features/Monumental-collage-by-Beeple-is-first-purely-digital-artwork-NFT-to-come-to-auction-11510-7.aspx> [https://perma.cc/AN8Q-4MZQ].

<sup>65</sup> *Id.*

<sup>66</sup> *Nike leads other brands in revenues from NFTs*, LEDGER INSIGHTS (Aug. 23, 2022), <https://www.ledgerinsights.com/nike-brands-revenues-nfts/> [https://perma.cc/D58N-VE3E].

<sup>67</sup> *Royalties*, *supra* note 62.

<sup>68</sup> *Id.*

<sup>69</sup> U.S. Patent No. 10,505,726 (filed May 28, 2019).

<sup>70</sup> Jenny Stanley, *Five of the biggest companies already using NFTs*, THE DRUM (Nov. 22, 2021), <https://www.thedrum.com/opinion/2021/11/22/five-the-biggest-companies-already-using-nfts> [https://perma.cc/PGM4-TUYB].

<sup>71</sup> *Id.*

### III. TRADEMARK INFRINGEMENT THREATS FOR NFTS

#### A. *Potential for Brand Misuse in NFTs*

In recent years, NFTs transitioned rapidly from a niche technology to a full-blown phenomenon,<sup>72</sup> and it's easy to see why. Almost everyone is familiar with the concept of collectible items and the added value of branding on those collectible items. Thinking of this from the perspective of traditional physical products, entire markets have sprung up for goods based only on their branding. For example, Coca-Cola is a powerful brand long integrated into everyday American life.<sup>73</sup> Consumers know Coca-Cola for the soft drink, which continues to have the top sales for its product category due to strong brand loyalty; however, many consumers now collect various items having the Coca-Cola logo, including coolers, signs, calendars and even used bottles.<sup>74</sup>

The popularity and perceived value of NFTs as collectibles has generated a sort of gold rush, with companies and individuals rushing to claim some of the profits generated from NFT sales.<sup>75</sup> Like any gold rush, the

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<sup>72</sup> *Are NFTs Changing the Way We Experience Collectibles?*, BINANCE BLOG (Sept. 28, 2022), <https://www.binance.com/en/blog/nft/are-nfts-changing-the-way-we-experience-collectibles-4404297521954138007> [<https://perma.cc/LE9Z-SGHJ>].

<sup>73</sup> Jan S. Slater, *Collecting the Real Thing: A Case Study Exploration of Brand Loyalty Enhancement Among Coca-Cola Brand Collectors*, 27 *ADVANCES CONSUMER RSCH.* 202, 202–08 (2000) (discussing Coca-Cola's ability to develop and maintain a link with the consumer through decades of consistent brand strategies and well-financed advertising campaigns).

<sup>74</sup> *Id.*

<sup>75</sup> See Todd Spanger, *Hollywood's NFT Gold Rush: Behind the Hope and Hype*, *VARIETY* (Nov 11, 2021 9:15 AM), <https://variety.com/2021/digital/news/hollywood-nft-entertainment-gold-rush-1235108296/> [<https://perma.cc/W5R7-LBKD>] (“[M]any buyers



high profits and largely unregulated markets were bound to draw counterfeiters and frauds along with legitimate artists and companies. Similar to the recent discovery of alleged ongoing fraud within the FTX cryptocurrency trading platform<sup>76</sup>, there are already documented cases of fraudsters trying to mint and sell fraudulent NFTs to steal money from unsuspecting consumers.<sup>77</sup> Artists were some of the first people to sound the alarm about NFTs and intellectual property misuse.<sup>78</sup> For example, artist Derek Laufman was alerted to sales of new NFTs linked to copies of his artwork by his social media followers.<sup>79</sup> However, at the time he had not minted any NFTs or authorized others to use his work when minting NFTs.<sup>80</sup> But that didn't change the fact that Rarible, an NFT marketplace, showed a verified profile for someone claiming to be him.<sup>81</sup>

Fraudulent behavior associated with NFTs is not limited to copying artists' original creations but extends to all corners of the NFT marketplaces. Cameron Hejazi, CEO and co-founder of the NFT marketplace Cent, paused

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are presumed to be speculators betting that they can flip NFTs for a profit if they accrete in value.”).

<sup>76</sup> David Yaffe-Bellany, Matthew Goldstein & Emily Flitter, *Prosecutors Say FTX Was Engaged in a ‘Massive, Yearslong Fraud,’* N.Y. TIMES (Dec. 13, 2022), <https://www.nytimes.com/2022/12/13/business/ftx-sam-bankman-fried-fraud-charges.html> [https://perma.cc/924R-X7H5].

<sup>77</sup> Bijan Stephen, *NFT mania is here, and so are the scammers*, THE VERGE (Mar. 20, 2021, 10:00 AM), <https://www.theverge.com/2021/3/20/22334527/nft-scams-artists-opensea-rarible-marble-cards-fraud-art> [https://perma.cc/Z9P8-P28B].

<sup>78</sup> See *id.*; Avi Asher-Shapiro, *Booming NFT art market plagued by ‘mind-blowing’ fraud*, REUTERS (Jan. 18, 2022 7:13 AM), <https://www.reuters.com/article/usa-tech-art/booming-nft-art-market-plagued-by-mind-blowing-fraud-idUSKBN2JS0YJ> [https://perma.cc/LP6S-FB5A].

<sup>79</sup> Stephen, *supra* note 77.

<sup>80</sup> *Id.*

<sup>81</sup> *Id.*

NFT sales after identifying a broad range of illegal activities.<sup>82</sup> He was able to identify three main problems: selling of unauthorized copies of NFTs, making NFTs from others' creative content, and selling of NFTs that resemble a security.<sup>83</sup> While Cent is a relatively small marketplace, at around 150,000 users, it has seen rampant fake and illegal tokens across the industry.<sup>84</sup> Even OpenSea, the largest NFT marketplace, has acknowledged similar problems, stating that over 80% of NFTs created with its free minting tool were "plagiarized works, fake collections, and spam."<sup>85</sup>

### **B. First Shots Fired over NFTs**

With the increasing potential for misuse of brands and creative works in NFTs, and the potentially enormous amount of untapped financial rewards, it is no surprise that the first lawsuits have already been filed in what promises to be a fierce battle over intellectual property infringement in NFTs.<sup>86</sup> For example, Miramax filed suit against Quentin Tarantino after he announced an auction on <https://tarantinonfts.com> that included various artifacts and props from Tarantino's films and, most notably, NFTs

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<sup>82</sup> Elizabeth Howcroft, *Marketplace suspends most NFT sales, citing 'rampant' fakes and plagiarism*, REUTERS (Feb. 12, 2022, 11:39 AM), <https://www.reuters.com/business/finance/nft-marketplace-shuts-citing-rampant-fakes-plagiarism-problem-2022-02-11/> [<https://perma.cc/7J2K-FQ4T>].

<sup>83</sup> *Id.*

<sup>84</sup> *Id.*

<sup>85</sup> OpenSea (@opensea), TWITTER (Jan. 27, 2022, 6:26 PM), <https://twitter.com/opensea/status/1486843201352716289?> [<https://perma.cc/MG9E-XDGX>].

<sup>86</sup> Andrew L. Lee, et al. *2022 NFT Litigation Roundup*, NAT'L L. REV. (Jan. 28, 2023), <https://www.natlawreview.com/article/2022-nft-litigation-roundup> [<https://perma.cc/NHF6-2HUX>].

linked to scans of original script pages from *Pulp Fiction*.<sup>87</sup> After a cease-and-desist letter failed to stop Tarantino’s auction plans, the studio filed a complaint alleging that Tarantino had infringed on its intellectual property rights by offering the NFTs for sale.<sup>88</sup> Miramax alleged that NFTs are covered by a phrase from its agreement with Tarantino that claimed ownership “in perpetuity throughout the universe, [to] ‘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.’”<sup>89</sup> The agreement specified that this applied to “all media now or hereafter known.”<sup>90</sup> In his answer, Tarantino argued that minting of the NFTs falls within his “Reserved Rights” to publish the *Pulp Fiction* screenplay under his agreement with Miramax.<sup>91</sup> The case was recently settled out of court.<sup>92</sup>

While the Miramax suit asked novel questions about assignment of intellectual property rights involving unknown technologies at the time the contract was signed,<sup>93</sup> fashion brand Hermès is battling an NFT creator over electronic counterfeiting.<sup>94</sup> This type of counterfeiting

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<sup>87</sup> Complaint at 10–11, *Miramax, L.L.C. v. Quentin Tarantino et al.*, No. 2:21-CV-08979 (C.D. Cal. Nov. 16, 2021).

<sup>88</sup> *Id.* at 1–2.

<sup>89</sup> *Id.* at 4.

<sup>90</sup> *Id.* at 4–5 (defining the media to include “[t]heatrical, non-theatrical, all forms of television, home video, etc.[], excluding only a limited set of ‘Reserved Rights’ which were reserved to Tarantino as an individual.”) (citation omitted).

<sup>91</sup> Answer at 12, *Miramax, LLC, v. Quentin Tarantino et al.*, No. 2:21-CV-08979-FMO-JC (C.D. Cal. July 7, 2022).

<sup>92</sup> Adi Robertson, *Quentin Tarantino settles NFT lawsuit with Miramax*, THE VERGE (Sept. 9, 2022 12:11 PM), <https://www.theverge.com/2022/9/9/23344441/quentin-tarantino-pulp-fiction-nft-miramax-lawsuit-settled> [<https://perma.cc/4B2E-RSQ7>].

<sup>93</sup> See Complaint, *supra* note 87, at 10.

<sup>94</sup> See Complaint at 1, *Hermès Int’l v. Rothschild*, No. 1:22-cv-00384 (S.D.N.Y. Jan 14, 2022).

is a growing problem in virtual marketplaces.<sup>95</sup> In January 2022, Hermès filed a lawsuit in the Southern District of New York against Mason Rothschild for creating an NFT collection called “MetaBirkins” based on the iconic Hermès Birkin handbag.<sup>96</sup> Hermès claimed trademark infringement, trademark dilution, and cybersquatting, alleging that the defendant used the Birkin trademarks on his virtual handbags and to promote his website and NFTs.<sup>97</sup> Hermès argued that the use of the Birkin name would result in likelihood of confusion for the NFT purchasers.<sup>98</sup> In December of 2021, Rothschild started selling the MetaBirkin NFTs on NFT marketplace OpenSea, with some fetching as much as \$42,000.<sup>99</sup> After Hermès complained, OpenSea removed the MetaBirkins from the marketplace.<sup>100</sup> Rothschild then started selling the MetaBirkins through another website while attempting to appease Hermès by placing a disclaimer on his site stating that the MetaBirkins “were ‘not affiliated, associated, authorized, endorsed by, or in any way officially connected’ with Hermès.”<sup>101</sup> In a potentially miscalculated move, Rothschild linked the disclaimer to the Hermès website, which Hermès argued contributed to consumer confusion about whether MetaBirkins are connected with Hermès.<sup>102</sup> When defending his actions, Rothschild claimed that, as an artist, he produced the MetaBirkins as

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<sup>95</sup> Stephen, *supra* note 77.

<sup>96</sup> See Complaint, *supra* note 94, at 10.

<sup>97</sup> *Id.* at 4.

<sup>98</sup> *Id.* at 1, 34, 36–37.

<sup>99</sup> Emily Faro & Danielle Garno, *Trademarks meet NFTs: Hermès sues NFT creator over MetaBirkins*, ADLAW BY REQUEST (Jan. 26, 2022), <https://www.adlawbyrequest.com/2022/01/articles/in-the-courts/trademarks-meet-nfts-hermes-sues-nft-creator-over-metabirkins> [<https://perma.cc/HJG6-HPY8>].

<sup>100</sup> *Id.*

<sup>101</sup> *Id.*

<sup>102</sup> *Id.*

expressive works that should be immunized from legal consequences of including a famous brand.<sup>103</sup> However, in its complaint, Hermès alleged that Rothschild is a “digital speculator” who engaged in a form of counterfeiting that deliberately caused confusion about source of the NFTs in the minds of consumers and effectively harnessed the Hermès brand goodwill to make money.<sup>104</sup> A jury has sided with Hermès, suggesting that NFT creators may face an uphill battle defending use of others’ trademarks in counterfeit NFTs, even when the NFTs are “in at least some respects works of artistic expression.”<sup>105</sup>

The first lawsuit over NFTs linked to physically manufactured products has also popped up. Nike filed a lawsuit against StockX in the Southern District of New York alleging infringement of Nike’s trademarks in connection with production of NFTs by StockX.<sup>106</sup> StockX, a platform for reselling sneakers, handbags and other collectible goods, started minting and selling Nike-branded NFTs without permission.<sup>107</sup> These NFTs were called “Vault NFTs” because they ostensibly tracked ownership of a physical Nike product held in StockX’s “vault.”<sup>108</sup> These Vault NFTs included nine virtual sneakers, eight of which were Nikes, and all of which were sold for prices significantly higher than their associated physical sneakers.<sup>109</sup> According to StockX, a purchased Vault NFT could be redeemed for an associated pair of

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<sup>103</sup> Complaint, *supra* note 94, at 3.

<sup>104</sup> *Id.* at 1.

<sup>105</sup> See Verdict at 1–2, Hermès Int’l v. Rothschild, No. 1:22-cv-00384-JSR (S.D.N.Y. Feb. 8, 2023); Instructions of Law to the Jury at 21, Hermès Int’l v. Rothschild, No. 1:22-cv-00384-JSR (S.D.N.Y. Feb. 7, 2023).

<sup>106</sup> See Complaint at 1, Nike, Inc., v. StockX, L.L.C., No. 22-cv-983 (S.D.N.Y. Feb. 3, 2022).

<sup>107</sup> *Id.* at 2.

<sup>108</sup> *Id.* at 3.

<sup>109</sup> *Id.* at 24, 35.

actual Nike shoes “in the near future.”<sup>110</sup> However, in its complaint, Nike pointed out that StockX “state[d] that ‘the redemption process is not currently available’ to NFT owners.”<sup>111</sup> Nike alleged that this would leave the consumer without the benefit of the shoes that were “supposedly connected to the NFT.”<sup>112</sup> The selling of the Vault NFTs allegedly infringed Nike’s trademarks since StockX sold “dubious products” that caused Nike to suffer from “allegations that the Vault NFTs were a scam.”<sup>113</sup> According to Nike, consumer confusion over the source of the Vault NFTs created negative associations with the Nike brand that harmed its reputation, and it offered public comments and snapshots in the complaint as proof.<sup>114</sup>

### ***C. NFT Trademark Registration***

As brand owners gear up for more fights over fraud and brand misappropriation in NFTs, they are naturally concerned about protecting their trademarks, especially if the trademarks can be used to reel in buyers. Plaintiffs can establish a prima facie case of trademark infringement under § 43(a) of the Lanham Act by showing “(1) that it had trademark rights in the mark or name at issue and (2) that the other party had adopted a mark or name that was the same, or confusingly similar to its mark, such that consumers were likely to confuse the two.”<sup>115</sup> The first element has recently become a larger focus for brand owners, with brands increasingly recognizing the importance of formally establishing their NFT-related

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<sup>110</sup> *Id.* at 22.

<sup>111</sup> *Id.* at 3.

<sup>112</sup> Complaint, *supra* note 106, at 3.

<sup>113</sup> *Id.* at 4.

<sup>114</sup> *Id.*

<sup>115</sup> *Tana v. Dantanna’s*, 611 F.3d 767, 773 (11th Cir. 2010) (citation omitted).

federal trademark rights through registration.<sup>116</sup> Trademark applications for NFTs and other digital assets are flooding international trademark offices.<sup>117</sup> Attorneys are naturally advising their clients to file applications for these items to protect their brands in the growing virtual world.<sup>118</sup> This led to over 1200 NFT trademark applications being filed in 2021.<sup>119</sup> Federal trademark registration in the U.S. benefits brand owners by conferring a rebuttable presumption that the mark is inherently distinctive or has acquired secondary meaning.<sup>120</sup> Registered marks also enjoy rebuttable presumptions of use in commerce and ownership back to the application filing date, and the mark is presumed to be valid if registered on the principal register.<sup>121</sup> Registration

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<sup>116</sup> See Sujha Sundararajan, *U.S. NFT Trademark Filings Soared 400X Since 2021*, FX EMPIRE (Feb 17, 2022, 8:48 AM), <https://www.fxempire.com/news/article/u-s-nft-trademark-filings-soared-400x-since-2021-902155> [https://perma.cc/RP2N-BHV3].

<sup>117</sup> *As Demand for NFTs Endures, Companies Are Looking to Trademark Registrations*, THE FASHION LAW (Sept. 22, 2021) [hereinafter *Demand for NFTs*], <https://www.thefashionlaw.com/as-demand-for-nfts-endures-saks-fifth-avenue-e-l-f-are-among-the-companies-looking-to-trademark-registrations/> [https://perma.cc/EL3C-BH2Y]; Sundararajan, *supra* note 116; *NFT trademark filings leap 550% in 6 months*, FIN. MIRROR (Feb. 17, 2022), <https://www.financialmirror.com/2022/02/17/nft-trademark-filings-leap-550-in-6-months/> [https://perma.cc/BPS9-ZHAK].

<sup>118</sup> See Ashley Bennett Ewald & Hannah Lutz, *Should I File Trademark Applications to Cover My Brands in the NFT/Metaverse/Virtual Worlds Space?*, JDSUPRA (Feb. 17, 2022), <https://www.jdsupra.com/legalnews/should-i-file-trademark-application-s-to-1057416/> [https://perma.cc/F8LH-6V6R] (“Ultimately, a new application to add coverage for the offering of virtual goods and services is not overly expensive and will likely be less costly than taking enforcement actions without an application, so if you have an inkling that this space could be important, filing an application is a good idea.”).

<sup>119</sup> Sundararajan, *supra* note 116.

<sup>120</sup> 87 C.J.S. *Trademarks, Etc.* § 249 (2022).

<sup>121</sup> *Id.*

will therefore help brands make a case for established trademark rights that can clear the first hurdle of the infringement analysis.

The uptick in trademark filings is likely catalyzed by the uncertainty surrounding new issues that have not been explicitly addressed under the current legal structure for trademark infringement. One new issue asks if trademarks associated with physical items would offer protection for digital reproductions of those items.<sup>122</sup> For example, in the MetaBirkins case, Hermès asserted that the MetaBirkins infringed on its federally registered Birkin trademarks and trade dress rights in the Birkin form.<sup>123</sup> At the heart of the argument, Hermès focused on the fact that the MetaBirkins are being marketed and sold in a manner similar to the physical handbags they represent.<sup>124</sup> After all, the MetaBirkins were offered for sale while also incorporating and exploiting the famous Birkin trademarks.<sup>125</sup> In his motion to dismiss, defendant Rothschild countered that the NFTs “are not handbags” and instead should be considered expressive works that “carry nothing but meaning.”<sup>126</sup> Although the court denied Rothschild’s motion, it held that the MetaBirkin NFTs “could constitute a form of artistic expression,” and selling

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<sup>122</sup> See Sharon Urias, *Trademark and copyright considerations for NFTs*, REUTERS (May 2, 2022 10:35 AM), <https://www.reuters.com/legal/legalindustry/trademark-copyright-considerations-nfts-2022-05-02/> [<https://perma.cc/AN7H-CK9M>].

<sup>123</sup> Complaint, *supra* note 94, at 36.

<sup>124</sup> Hermès Int’l v. Rothschild, No. 22-CV-384 (JSR), 2023 WL 1458126, at \*1–2 (S.D.N.Y. Feb. 2, 2023).

<sup>125</sup> See *id.*

<sup>126</sup> Memorandum in Support of Defendant’s Motion to Dismiss at 1, Hermès Int’l v. Rothschild, No. 1:22-cv-00384-AJN-GWG (S.D.N.Y. Feb. 9, 2022).



the images did not make them mere commodities rather than expressive works.<sup>127</sup>

Another issue that has started to raise concern about NFTs is whether the NFT comprises an actual “good” for the purposes of trademark protection.<sup>128</sup> An example can be found in the Nike case, where the NFTs were linked to a real-world sneaker and sold by StockX.<sup>129</sup> It is likely that StockX will argue that the First Sale doctrine will protect their future sale of the NFT-sneaker package.<sup>130</sup> However, Nike will likely counter that the NFTs and the sneakers are separate products that can each infringe trademarks.<sup>131</sup> The evidence for this argument lies in the increased value found in the sneaker/NFT combination, suggesting that consumers do not view the combination as similar in scope to the sneaker alone.<sup>132</sup>

#### IV. PROTECTING TRADEMARKS IN NFT MARKETPLACES

##### A. *Crossing the Threshold*

The threshold issue that will need to be addressed in all the trademark infringement lawsuits mentioned above is whether sale of NFTs constitutes “goods or services” that

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<sup>127</sup> *Hermès Int’l v. Rothschild*, 603 F. Supp. 3d 98, 104, 107 (S.D.N.Y. 2022).

<sup>128</sup> Rachel Nicholas & Daniel Ueno, *What You Need to Know about NFTs and IP*, FOR DEF., Apr. 2022, at 15, 18.

<sup>129</sup> Josh H. Escovedo, *Nike Tries to Stomp Out StockX’s Attempt to Sell NFTs of Nike Sneakers*, THE IP LAW BLOG (Feb. 17, 2022), <https://www.theiplawblog.com/2022/02/articles/ip/nike-tries-to-stomp-out-stockxs-attempt-to-sell-nfts-of-nike-sneakers/> [https://perma.cc/QSR3-VFJS].

<sup>130</sup> *Id.*

<sup>131</sup> *Id.*

<sup>132</sup> *Id.*

are “use[d] in commerce” under the Lanham Act.<sup>133</sup> The Lanham Act permits federal registration of a “trademark used in commerce” or of a “trademark that a person has a bona fide intention to use in commerce.”<sup>134</sup> Prior to 1989, trademark applications could only be filed with proof of actual use of the mark in interstate commerce.<sup>135</sup> Preparations to use a mark in connection with a good or service were insufficient to establish use in commerce.<sup>136</sup> However, the Trademark Law Revision Act of 1988 (TLRA) broadened the definition of “use in commerce,” and it is now a relatively low bar for establishing trademark rights.<sup>137</sup> The floor for commercial use is just above so-called “token” use, which involves “use made merely to reserve a right in a mark” before a trademark registration application is filed.<sup>138</sup> The legislative history of the TLRA offers additional insight into Congress’s intentions for the new definition. The House Judiciary Committee stated that “[w]hile use made merely to reserve a right in a mark will not meet [the use in commerce] standard, the Committee recognizes that the “ordinary course of trade” varies from industry to industry.”<sup>139</sup> A similar broad interpretation was

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<sup>133</sup> Sally M. Abel & Adrianna Wong, *Is there a second life for trademarks in Second Life®?*, FENWICK & WEST L.L.P., <https://www.lexology.com/library/detail.aspx?g=e2167f3f-ecff-4df3-9a74-248880064025> [<https://perma.cc/LT9K-S6N3>] (last visited Feb. 6, 2023).

<sup>134</sup> 15 U.S.C. § 1051(a)(1); TMEP § 901.01 (24th ed. July 2022).

<sup>135</sup> 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 19:109 (5th ed. 2022).

<sup>136</sup> *Aycock Eng’g, Inc. v. Airflite, Inc.*, 560 F.3d 1350, 1353 (Fed. Cir. 2009) (holding that use in commerce requirement is not met “when an applicant uses a service mark in the preparatory stages of a service’s development, but never offers the service to the public.”).

<sup>137</sup> MCCARTHY, *supra* note 135.

<sup>138</sup> Trademark Law Revision Act of 1988 (TLRA), Pub. L. No. 100-667, 102 Stat. 3935 (1988); TMEP § 901.02 (24th ed. July 2022).

<sup>139</sup> H.R. REP. NO. 100-1028, at 15 (1988).

supported by the Senate Judiciary Committee, with the report stating

The committee intends that the revised definition of “use in commerce” be interpreted flexibly so as to encompass various genuine, but less traditional, trademark uses, such as those made in test markets, infrequent sales of large or expensive items, or ongoing shipments of a new drug to clinical investigators by a company awaiting FDA approval.<sup>140</sup>

The examples provided by the House Judiciary Committee to demonstrate breadth of commercial uses that would meet the standard included infrequent sales from expensive or seasonal items or shipment of pharmaceuticals to treat rare diseases before they were approved for the FDA.<sup>141</sup>

Trademarks were originally conceived to trace defective goods back to the producer.<sup>142</sup> Over time, the focus shifted away from building collective goodwill for members of a guild and instead allowed individual producers to earn separate goodwill.<sup>143</sup> Eventually, trademarks became a way to prevent buyer confusion by enabling trademark owners to police false attribution of lower quality goods and counterfeit production.<sup>144</sup> The current definition of “use in commerce” requires two elements for goods: (1) placement of the mark “in any manner” on the goods, containers, associated displays, tags, labels, or in the case of impracticable placement, on the associated sale documents; and (2) sale or transport of

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<sup>140</sup> TMEP § 901.02 (24th ed. July 2022); S. REP. NO. 100-515, 44-45 (1988).

<sup>141</sup> H.R. Rep. No. 100-1028, at 15 (1988).

<sup>142</sup> MCCARTHY, *supra* note 135, § 5:1.

<sup>143</sup> *See id.*

<sup>144</sup> *Id.*

goods in commerce.<sup>145</sup> Services meet the “use in commerce” requirements when (1) the mark is used or displayed in sales or advertising for the services; (2) the services are provided in more than one state or in both the United States and a foreign country; and (3) the person rendering the services engages in commerce in connection with the services.<sup>146</sup> Factors that are evaluated by the U.S. Patent and Trademark Office “when determining compliance with the statutory requirement for a ‘bona fide use of a mark in the ordinary course of trade’ are: (1) the amount of use; (2) the nature or quality of the transaction; and (3) what is typical use within a particular industry.”<sup>147</sup> Meeting the “use in commerce” requirement is still controversial for digital assets, including NFTs, since questions about ownership, characterization as goods or services, and separation between creative works and their associated NFTs have not been answered.

### ***B. Ownership and Tangibility***

To reach the threshold of commercial use for trademark infringement, it must first be determined whether a purchaser of virtual goods owns “goods” or “services” that would fall under the Lanham Act. While virtual goods are intangible items that exist in a digital space, they are also items that have specific uses and values that are dependent on the consumer. In the case of NFTs, what is actually owned is a unique, digital token that cannot be replicated or divided into parts.<sup>148</sup> NFTs have core elements, including a tokenID, which is generated when the token is created, and a contract address, which is a

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<sup>145</sup> 15 U.S.C. § 1127 (defining “use in commerce”).

<sup>146</sup> *Id.*

<sup>147</sup> TMEP § 901.02 (24th ed. July 2022) (citation omitted).

<sup>148</sup> Emmanuel, Punia & Khagram, *supra* note 3.

blockchain address viewable using a blockchain scanner.<sup>149</sup> The contract can include a wallet address which helps identify the original source.<sup>150</sup> NFTs that are linked to creative works may also include directions to the internet location for viewing the works.<sup>151</sup> Anything can be digitized and connected to an NFT; the original work is only needed to create the tokenID and contract address.<sup>152</sup> Based on its contents, the NFT token likely has very little potential for protection under copyright since the ledger may not have the requisite “modicum of creativity.”<sup>153</sup> Importantly, the NFT is not the attached creative work or linked product; this work or product often has a separate owner and author and is generally protected under copyright law.<sup>154</sup> While copyright law can protect original works of authorship upon their creation, like creative works linked to NFTs,<sup>155</sup> trademark protection may be available if NFTs or associated creative works include source indicators, such as brands, that are used in commerce to distinguish a company’s goods or services.<sup>156</sup>

Creators and owners of virtual worlds would prefer to keep virtual assets from having any legal significance as goods used in commerce, since it would protect them from liability exposure that can result from disputes between

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<sup>149</sup> Andrew Guadamuz, *What do you actually own when you buy an NFT?*, WORLD ECON. F. (Feb. 7, 2022), <https://www.weforum.org/agenda/2022/02/non-fungible-tokens-nfts-and-copyright/> [https://perma.cc/W4RE-3SUU].

<sup>150</sup> *Id.*

<sup>151</sup> *Id.*

<sup>152</sup> *Id.*

<sup>153</sup> *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 346 (1991) (explaining that copyright protects the “fruits of intellectual labor” that are independently created); *see id.*

<sup>154</sup> Emily Dieli, Comment, *Tarantino v. Miramax: The Rise of Nfts and Their Copyright Implications*, B.C. INTELL. PROP. & TECH. F., June 27, 2022, at 1, 7.

<sup>155</sup> 17 U.S.C. § 102(a).

<sup>156</sup> 15 U.S.C. § 1051.

virtual goods owners.<sup>157</sup> They have relied heavily on end user licensing to control virtual items as part of a larger virtual landscape, with individuals having access to the items through licensing instead of actually owning the items.<sup>158</sup> Even virtual communities that allow participants to engage in profit-making activities have strict policies about who maintains rights to the virtual goods.<sup>159</sup> However, cases have already shown that aggressive licensing has not been sufficient to prevent disputes over virtual goods.<sup>160</sup> Taken together, it seems likely that new legal frameworks will be needed to fairly resolve these disputes and recognize the value of digital goods associated with trademarks.

One of the main arguments against establishing digital assets as “goods” under the Lanham Act is the lack of a physical product to which the source reputation can be attached.<sup>161</sup> For example, more than a decade ago, the Supreme Court in *Dastar Corp. v. Twentieth Century Fox Film Corp.* weighed in on defining goods used in commerce, and the Court appeared to categorize commercial “goods” as definitively physical objects.<sup>162</sup> This conclusion is not entirely unexpected since intangible virtual items comprise nothing more than lines of software code that have no tangible shape or packaging that can

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<sup>157</sup> Oliver Herzfeld, *What Is The Legal Status Of Virtual Goods?*, FORBES (Dec. 4, 2012, 1:09 PM), <https://www.forbes.com/sites/oliverherzfeld/2012/12/04/what-is-the-legal-status-of-virtual-good/s/?sh=11803a0a108a> [<https://perma.cc/NX2T-MW47>].

<sup>158</sup> *Id.*

<sup>159</sup> btj35, *Licensing of Virtual Goods: Misconceptions of Ownership*, GNOVIS J. (Apr. 26, 2012), <https://gnovisjournal.georgetown.edu/journal/licensing-of-virtual-goods-misconceptions-of-ownership/> [<https://perma.cc/S6Z5-AZUW>].

<sup>160</sup> See Herzfeld, *supra* note 157.

<sup>161</sup> See Urias, *supra* note 122.

<sup>162</sup> *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 31 (2003).

provide the physical connection to the trademark.<sup>163</sup> It is true that basic digital assets existing in virtual worlds and lacking a blockchain ledger can have characteristics of intangible intellectual property that could be used to argue against ownership.<sup>164</sup> These characteristics include the possibility of modification or deletion by the virtual world owners, the ability to be infinitely copied without expenditure of resources or time, and likelihood of easy integration of multiple works to transform the asset that would avoid intellectual property infringement.<sup>165</sup>

However, focusing only on tangibility misses important characteristics of NFTs that suggest that they can be treated as “goods” under the Lanham Act. At the time of *Dastar*, virtual goods were fungible and more akin to creative works than to unique, traceable products capable of deriving value from their association with their underlying brands.<sup>166</sup> What has changed is the ability of digital assets to reliably record a source for the good and the selling of virtual goods specifically based on goodwill built by a brand.<sup>167</sup> In *Dastar*, external labeling of physical videotapes was the only relevant source indicator for the digital media on the tapes.<sup>168</sup> Blockchain technology has revolutionized digital assets and allowed the creation of unique digital goods that are non-fungible. New digital goods like NFTs that are built with ledgers have essentially imported the external labeling function for source

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<sup>163</sup> btj35, *supra* note 159.

<sup>164</sup> Herzfeld, *supra* note 157.

<sup>165</sup> *Id.*

<sup>166</sup> See generally Jolene Creighton, *NFT Timeline: The Beginnings and History of NFTs*, NFT NOW (Dec. 15, 2022), <https://nftnow.com/guides/nft-timeline-the-beginnings-and-history-of-nfts/> [<https://perma.cc/LU76-L2RN>] (discussing the history of NFTs; the first NFT was created in 2014).

<sup>167</sup> See Urias, *supra* note 122.

<sup>168</sup> *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 35 (2003).

indication into the file of the digital asset itself, although in an intangible form.<sup>169</sup> Further, intangibility does not exclude NFTs from having other characteristics of “goods,” including being individually transferrable between owners, storable for indefinite periods of time, exclusively owned by a single owner, and distinguishable based on their source.<sup>170</sup>

It is notable that Bitcoin was first described after the *Dastar* decision came out, so the potential for unique blockchain-based digital goods was unknown at the time of the decision.<sup>171</sup> Also, since the *Dastar* decision, courts have recognized other types of intangible assets as goods used in commerce.<sup>172</sup> For example, in one case about trademark infringement for karaoke tracks, track maker Slep-Tone’s claims were not barred by *Dastar* because “[t]he media and format shifting operate[d] as an independent creation event, placing a new ‘good’ in the marketplace.”<sup>173</sup> In *Dastar*, production of a physical video set with compiled television footage from the public domain that was originally produced by Fox was not trademark infringement because *Dastar* was the source of the physical product and sold the product under its own brand.<sup>174</sup> Because Fox’s trademarks were not used in the

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<sup>169</sup> See generally Urias, *supra* note 122 (discussing the use of blockchain ledger in NFTs to record source and brand use of NFTs to authenticate goods and identify counterfeits).

<sup>170</sup> Kaczynski & Kominers, *supra* note 29.

<sup>171</sup> See *Frequently Asked Questions*, BITCOIN.ORG, <https://bitcoin.org/en/faq#what-is-bitcoin> [<https://perma.cc/WFH6-YQGU>] (last visited Nov. 11, 2022).

<sup>172</sup> See *Bragg v. Linden Research, Inc.*, 487 F. Supp. 2d 593, 596 (E.D. Pa. 2007); *Slep-Tone Ent. Corp. v. Sellis Enters., Inc.*, 87 F. Supp. 3d 897, 905 (N.D. Ill. 2015).

<sup>173</sup> *Slep-Tone Ent. Corp.*, 87 F. Supp. 3d at 905.

<sup>174</sup> *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 38 (2003).



video set, there was no trademark infringement.<sup>175</sup> In contrast, media-shifters making copies of Slep-Tone's tracks constituted trademark infringement by introducing the copies as a new good for which the producer and the mark holder do not match.<sup>176</sup>

Some may argue that infringing a trademark on digital goods, like NFTs, does not cause measurable harm to a trademark owner, such as loss of sales, when the trademark owner produces only physical products.<sup>177</sup> After all, it is natural to ask why and how selling a scan of a screenplay or a digital pair of shoes infringes trademarks in the real world.<sup>178</sup> However, the answer is far simpler than it might first appear. Trademarks act as a source identifier; misuse of trademarks, even in the virtual world, on products of lower quality or dubious origin can damage the goodwill and reputation that was earned by the trademark owner.<sup>179</sup> If consumers link the trademark to inferior or inconsistent products, or to fraudulent behavior, then the trademark owner's goodwill can be irreparably damaged because buyers likely expect trademark owners to police the market for products associated with their brand name.<sup>180</sup> Additionally, association of a trademark with a product can create a false assumption of endorsement by the trademark owner, which can cause confusion about source in the minds of consumers.<sup>181</sup> This type of uncontrolled invasion of a brand could threaten the brand's

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<sup>175</sup> *Id.*

<sup>176</sup> *Slep-Tone Ent. Corp.*, 87 F. Supp. 3d at 905.

<sup>177</sup> James Yang, *Trademark Law in the Virtual Realism Landscape*, 8 N.Y.U. J. INTELL. PROP. & ENT. L. 409, 422 (2019).

<sup>178</sup> *See generally* Candidus Dougherty & Greg Lastowka, *Virtual Trademarks*, 24 SANTA CLARA COMPUT. & HIGH TECH. L.J. 749, 783 (2008).

<sup>179</sup> *See* James B. Astrachan, *Who Will Protect the Consumers of Trademarked Goods?*, 46 UNIV. BALT. L. REV. 375, 377 (2017).

<sup>180</sup> *See id.* at 396.

<sup>181</sup> *See id.*

reputation, potentially dilute the brand in both the real and virtual worlds, and cause loss of sales due to proliferation of counterfeit alternatives.<sup>182</sup>

### C. *Separating Creative Content from Source of Production*

In addition to intangibility, confusion about whether NFTs are “goods” that meet the “use in commerce” requirement likely occurs because, in some ways, NFTs straddle the line between expressive and commercial purposes. NFTs are unique “digitized certificate[s]” in the form of a blockchain ledger entry of digital data, but those certificates usually link to some form of creative or expressive work, including fashion, works of art, photographs, music, and games.<sup>183</sup> The question is whether infringement by minting and selling an NFT can cross trademark law based on attached dubious branding, copyright law based on the underlying creative work, or both. Linking the creative work to the NFT has been a step in the right direction for solving copyright holders’ concerns about the proliferation of unauthorized copies of digital works, especially during the era of peer-to-peer (P2P) services that host extensive collections of copied files.<sup>184</sup> NFTs make addressing unauthorized copying easier by introducing a new way to create digital asset scarcity for a particular work.<sup>185</sup> However, addressing copyright infringement does not resolve questions about violating trademark law when brand names are used

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<sup>182</sup> Max Vern, *Second Life—A New Dimension for Trademark Infringement*, 90 J. PAT. & TRADEMARK OFF. SOC’Y 51, 54 (2008).

<sup>183</sup> Andrea S. Kramer, *Introduction to NFTs*, NAT’L L. REV. (Jan. 12, 2022), <https://www.natlawreview.com/article/introduction-to-nfts> [<https://perma.cc/HVS5-XUG4>].

<sup>184</sup> See Tonya M. Evans, *Cryptokitties, Cryptography, and Copyright*, 47 AIPLA Q.J. 219, 249 (2019).

<sup>185</sup> *Id.* at 257.

fraudulently to market NFTs.<sup>186</sup> To pursue a trademark claim, owners will likely first have to show that the token is a separate good from the creative work that can be individually considered under the law.

One of the earliest tests of the copyright-trademark divide for intangible products was articulated in *E.S.S. Ent. 2000, Inc. v. Rock Star Videos, Inc.*<sup>187</sup> This case involved a digital video game environment but asked familiar questions about whether trademarks can be infringed in expressive works.<sup>188</sup> The owner of a brick-and-mortar strip club in Los Angeles named “Play Pen” sued the maker of the video game, Grand Theft Auto, for depicting a similar strip club called the “Pig Pen” that was loosely based on the “Play Pen.”<sup>189</sup> In affirming summary judgment, the Ninth Circuit found that there was no likelihood of confusion among consumers because “[n]othing indicates that the buying public would reasonably have believed that ESS produced the video game or, for that matter, that Rockstar operated a strip club.”<sup>190</sup> The use was found to have “some artistic relevance,” which entitled the defendant to First Amendment protection as an expressive work since consumers would not confuse the source of the virtual strip club.<sup>191</sup> Instead, consumers would know that the creator produced a technologically sophisticated video game.<sup>192</sup>

Since *E.S.S. Ent. 2000*, cases involving questions about distinguishing between sources of goods and creative

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<sup>186</sup> See Urias, *supra* note 122.

<sup>187</sup> See Abel & Wong, *supra* note 133.

<sup>188</sup> *E.S.S. Ent. 2000, Inc. v. Rock Star Videos, Inc.*, 547 F.3d 1095, 1098 (9th Cir. 2008).

<sup>189</sup> *Id.* at 1097.

<sup>190</sup> *Id.* at 1100.

<sup>191</sup> *Id.*

<sup>192</sup> *Id.*

content have only increased.<sup>193</sup> One case that could have addressed similar questions to those asked about NFTs is *Bayerische Motoren Werke AG v. TurboSquid, Inc.*<sup>194</sup> TurboSquid produced a number of digital models of BMW cars and offered these virtual cars for sale to the public.<sup>195</sup> Bayerische Motoren Werke AG (BMW) filed a complaint alleging that, in making the virtual cars, TurboSquid infringed its trademarks, trade dress, and design patents for its real-world cars.<sup>196</sup> While the case was ultimately settled, it raised several questions about trademark infringement based on the characteristics of digital goods, including the design of the goods.<sup>197</sup> Courts have struggled with this issue, mostly because of the difficulty in separating source identification from creative digital product features.<sup>198</sup> However, consumers can get valuable information from intangible goods about the goods' sources that is separate from the creative digital product features.<sup>199</sup> For example, consumers could easily perceive virtual BMWs as a direct reference to the real-world automobiles, and this connection would be misleading. Similarly, NFT tokens are separate from the packaging of the digital creative works or linked physical products and serve to provide specific source identification.

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<sup>193</sup> These cases often seek to balance artistic free expression and trademark rights to determine whether the Lanham Act applies. *See e.g.*, *Stouffer v. Nat'l Geographic Partners, L.L.C.*, 460 F. Supp. 3d 1133, 1134–35 (D. Colo. 2020); *MGFB Properties, Inc. v. Viacom Inc.*, 54 F.4th 670, 677 (11th Cir. 2022); *Dr. Seuss Enterprises, L.P. v. ComicMix L.L.C.*, 983 F.3d 443, 461 (9th Cir. 2020).

<sup>194</sup> Complaint at 18, *Bayerische Motoren Werke AG v. Turbosquid, Inc.*, No. 2:16-cv-02500 (D.N.J. May 3, 2016).

<sup>195</sup> *Id.*

<sup>196</sup> *Id.*

<sup>197</sup> *See McKenna & Osborn, supra* note 9.

<sup>198</sup> *Id.* at 1460.

<sup>199</sup> *See Kaczynski & Kominers, supra* note 29.

Some have argued that trademarks used in digital assets like virtual BMWs or NFTs should be protected under the Lanham Act only when consumers would find the origin of the files, and not the creative content, to be material.<sup>200</sup> The thought is that the origin of the files often will not be important to purchasers.<sup>201</sup> However, the value of an NFT is directly tied to its brand source, meaning that an NFT token and any embedded creative content should be considered separately under trademark and copyright law. Unlike many other digital assets, the origin or source of NFTs can be material to their specific value to the consumer.<sup>202</sup> At one point in time, the perceived value for individual digital assets was expected to be low given that duplication of the content and subsequent distribution of the copies was easy.<sup>203</sup> This is not the case for NFTs, since blockchain ledgers offer transparent records of ownership that create unique and scarce assets having value to consumers.<sup>204</sup> Furthermore, NFTs have clearly separated design and production steps. The creative work or physical good that is linked to the NFT is produced and protected based on its design, while the NFT is separately minted by the company that is building and using goodwill during the sale of the NFT.<sup>205</sup> Customers buy NFTs knowing that the NFTs' values are often derived from the producers that minted the tokens, meaning that customers are specifically interested in the origin of the files.<sup>206</sup>

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<sup>200</sup> See McKenna & Osborn, *supra* note 9, at 1429.

<sup>201</sup> See *id.* at 1462.

<sup>202</sup> See Kaczynski & Kominers, *supra* note 29.

<sup>203</sup> See McKenna & Osborn, *supra* note 9, at 1462.

<sup>204</sup> See Emmanuel, Punia & Khagram, *supra* note 3.

<sup>205</sup> See Urias, *supra* note 122.

<sup>206</sup> See generally Jessica Sier, *Why Some NFTs Are Valuable and Others Aren't*, FIN. REV. (Sept. 27, 2021, 12:41 PM), <https://www.afr.com/technology/why-some-nfts-are-valuable-and-other-s-aren-t-20210917-p58sld> [<https://perma.cc/HR3C-VJFE>].

However, the *Hermès Int'l* case suggests that courts may not consider the sources of NFTs to be easily separated from their linked creative content. Although the *Hermès Int'l* jury ultimately found defendant Rothschild liable for trademark infringement,<sup>207</sup> the court held that the “title ‘MetaBirkins’ should be understood to refer to both the NFT and the digital image with which it is associated.”<sup>208</sup> The MetaBirkin NFTs therefore qualified as expressive works that were potentially entitled to First Amendment protection because “[i]ndividuals do not purchase NFTs to own a “digital deed” divorced from . . . the [image] content associated with the NFT.”<sup>209</sup> As a result, the court applied the two-part *Rogers v. Grimaldi* test for artistic works that asks (1) whether the trademark use has genuine “artistic relevance to the underlying work,” and (2) whether inclusion of the trademark “explicitly misleads as to the source or the content of the work.”<sup>210</sup> Despite the court’s initial belief that the MetaBirkin NFTs “could constitute a form of expression,”<sup>211</sup> a jury ultimately found that “the First Amendment [did] not bar liability” for trademark infringement and awarded Hermès \$133,000 in damages.<sup>212</sup> Notably, the Hermès court suggested that First Amendment analysis may not be required for all NFTs, such as those attached to digital files of “virtually wearable” items that would be used in a “non-speech commercial product” resembling their physical counterparts.<sup>213</sup> Because questions of trademark infringement are highly fact-

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<sup>207</sup> See Verdict at 1, *supra* note 105.

<sup>208</sup> *Hermès Int'l v. Rothschild*, No. 22-CV-384 (JSR), 2023 WL 1458126, at \*6 (S.D.N.Y. Feb. 2, 2023).

<sup>209</sup> *Id.* at \*5.

<sup>210</sup> See *Rogers v. Grimaldi*, 875 F.2d 994, 999 (2d Cir. 1989).

<sup>211</sup> *Hermès Int'l v. Rothschild*, 603 F. Supp. 3d at 104.

<sup>212</sup> Verdict at 1-2, *supra* note 105.

<sup>213</sup> *Hermès Int'l*, 603 F. Supp. 3d at 104 n.3.

specific, it will be important for NFT creators and brands to continue monitoring the development of this line of case law following the *Hermès Int'l* decision.

Even if the production of NFTs and their underlying creative works can be separated, there is a lingering concern that NFT tokens could be considered mere “ownership receipts” for creative works rather than digital goods that are sold using association with a brand.<sup>214</sup> Owners of intellectual property are most excited about the possibility to use blockchain-based technologies to help control their intellectual property on the internet, where copying and modifications often occur almost immediately after release to the public.<sup>215</sup> Blockchain technologies could potentially solve issues for authors and creators, such as lack of reliable information available about ownership of the work, documentation of fractional ownership rights, lack of transparency in usage or payments, and piracy.<sup>216</sup> Those that argue for NFTs to be considered only as ownership receipts often focus on the fact that blockchain-based technologies essentially comprise software code that provides a new way to store and synchronize encrypted data about purchases.<sup>217</sup> Inside that software code lies a sequence of instructions that cause a computer to perform a certain process.<sup>218</sup> However, viewing the NFTs as

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<sup>214</sup> See Subin, *NFT Ideas & Use Cases: NFT a Receipt of Ownership?*, CRONJ (Jan. 2022), <https://www.cronj.com/blog/nft-ideas/> [<https://perma.cc/98B7-KEZP>].

<sup>215</sup> See Sebastian Pech, *Copyright Unchained: How Blockchain Technology Can Change the Administration and Distribution of Copyright Protected Works*, 18 NW. J. TECH. & INTELL. PROP. 1, 15 (2020).

<sup>216</sup> See generally *id.* at 12–15 (“A blockchain-based copyright register can (a) provide right holders and users with comprehensive and reliable ownership information, and allow right holders (b) to tokenize works and rights and (c) control the usage of works.”).

<sup>217</sup> See Evans, *supra* note 184, at 262.

<sup>218</sup> *Id.* at 241.

ownership receipts treats the NFTs as mere written instructions while ignoring their documented commercial value. Software is created to contain instructions to tell a computer what to do, and it is most often this functionality, not brand association or creative content, that causes consumers to buy software.<sup>219</sup> In contrast, NFTs and some other blockchain-based assets are sold specifically for their connection to a particular brand, creator, or associated creative work.<sup>220</sup> It is also important to remember that virtual goods are just renderings of software code to produce an image.<sup>221</sup> The fact that there are no pictorial virtual goods derived from the token itself should not be a barrier to recognizing trademarks borne by an NFT.

#### ***D. Commercial Trade of Digital Assets***

NFTs share many of the characteristics from both cryptocurrency and digital products marketed in virtual worlds, which should convince the courts to recognize that NFTs are commercial in nature and protectable under trademark law. For starters, NFTs can be bought and sold with real world currency.<sup>222</sup> The court in *Bragg v. Linden Research, Inc.* found currency-based purchases to be evidence that the virtual world Second Life was a

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<sup>219</sup> See generally Manuel Vidaurre, *What is the value of software development?*, MEDIUM (Apr. 22, 2016), <https://medium.com/@mvidaurre/what-is-the-value-of-software-development-c90ac18b786d> [<https://perma.cc/8PCG-VGYU>] (discussing software behavior and ability to meet customer requirements as critical aspects in determining software value).

<sup>220</sup> Anatoli Colicev, *How Can Non-fungible Tokens Bring Value to Brands*, INT'L J. RSCH. MKTG. (forthcoming), <https://doi.org/10.1016/j.ijresmar.2022.07.003> [<https://perma.cc/8AJ4-LABM>] (last visited Feb. 8, 2023).

<sup>221</sup> See McKenna & Osborn, *supra* note 9, at 1452.

<sup>222</sup> Michael Adams, *How To Buy NFTs*, FORBES (Aug. 12, 2022, 9:41 AM), <https://www.forbes.com/advisor/investing/cryptocurrency/how-to-buy-nfts/> [<https://perma.cc/6U73-FR6P>].



commercial space.<sup>223</sup> Like the properties and virtual goods that were offered for sale in Second Life, NFTs are available for purchase in a specific online marketplace with prices fluctuating according to market forces.<sup>224</sup> NFT marketplaces have an unmistakably commercial purpose, with recent estimates of more than \$2.8 billion spent in NFT marketplaces in September 2021 alone.<sup>225</sup> Despite arguments that digital asset purchases do not constitute interstate commerce under the Commerce Clause, courts have found that sales on blockchain-related marketplaces can be in-state purchases that meet the requirements for establishing personal jurisdiction.<sup>226</sup>

The steps for purchasing an NFT also suggest commercial intent. To connect to NFT marketplaces, a buyer needs a crypto wallet, which is used to transfer cryptocurrency to purchase the NFT and hold the NFT after purchase.<sup>227</sup> The crypto wallet also provides record of ownership, “indicating ‘who owns, previously owned, and created the NFT, as well as which of the many copies is the original.’”<sup>228</sup> Additionally, the IRS has classified convertible cryptocurrency, such as Bitcoin or Ethereum, as property instead of currency.<sup>229</sup> While NFTs have not specifically been addressed by the IRS, it is reasonable to think that they will eventually be considered in a similar manner to cryptocurrencies because NFTs are also based on blockchain technology and have identifiable value to the

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<sup>223</sup> *Bragg v. Linden Research, Inc.*, 487 F. Supp. 2d 593, 596 n.5, 599–600 (E.D. Pa. 2007).

<sup>224</sup> *See Royalties*, *supra* note 62.

<sup>225</sup> *See Kramer*, *supra* note 183.

<sup>226</sup> *See Alibaba Grp. Holding Ltd. v. Alibabacoin Found.*, No. 18-CV-2897 (JPO), 2018 WL 5118638, at \*2, \*5 (S.D.N.Y. Oct. 22, 2018).

<sup>227</sup> *Kramer*, *supra* note 183.

<sup>228</sup> *Id.*

<sup>229</sup> *Id.*

owner.<sup>230</sup> These characteristics add support to the view that NFTs are commercial assets. Furthermore, even in situations involving virtual goods sold only in the virtual world and bought only with digital currency, or traded for other virtual goods or services, the commercial intent is still evident.<sup>231</sup>

## V. RECOGNIZING NFTS AS DIGITAL GOODS

### A. *Hints from the Courts*

The fundamental questions about whether NFTs fall within the Lanham Act definition for “use in commerce” must be answered by the courts so that brand owners can feel confident in their rights when policing trademark misuse and fraudulent behavior on NFT platforms. Brand owners may be racing to register their blockchain and NFT trademarks, but this registration is pointless if there is no clear path for enforcement. While clarifying legislation that defines “goods” that are “used in commerce” to include NFTs and other digital assets would be an ideal solution, the law is usually slow to catch up to technology.<sup>232</sup> Courts will likely play an outsized role in interpreting the Lanham Act for NFTs and blockchain technologies. Luckily, there are hints that courts will find that NFTs meet the “use in commerce” requirement. Virtual goods have been facing trademark infringement allegations for over a decade.<sup>233</sup> Some of the same

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<sup>230</sup> *See id.*

<sup>231</sup> Tony Onorato, Guido Asshoff, & Jaime Castillo, *Virtual Reality and Augmented Reality: A New Reality for Brand Owners?*, 11 LANDSLIDE, no. 1, 2018, at 11, 13.

<sup>232</sup> Julia Griffith, *A Losing Game: The Law Is Struggling To Keep Up With Technology*, J. HIGH TECH. L. BLOG (Apr. 12, 2019), <https://sites.suffolk.edu/jhtl/2019/04/12/a-losing-game-the-law-is-struggling-to-keep-up-with-technology/> [<https://perma.cc/4V3J-ZW8K>].

<sup>233</sup> Vern, *supra* note 182, at 52.

questions facing NFTs and virtual goods in platforms, such as the metaverse, were asked when branded virtual goods began appearing in shops within the first virtual world, which was called Second Life.<sup>234</sup> Attorneys at the time noted that unauthorized use of trademarks on items in Second Life was common, particularly when a brand made the decision not to enter the platform with their own virtual products.<sup>235</sup> Several cases relating to trademark infringement in Second Life were filed and then settled, which covered products from Taser International, Cartier owner Richemont, and virtual sex toy company Eros L.L.C.<sup>236</sup> Without decisions in these cases, the status of digital goods was not further clarified.

There have been other cases showing the courts dipping their toes into sorting out the “use in commerce” requirement as it relates to digital assets. One case from the Eastern District of Pennsylvania provides clues about the commercial activities and nature of purchases that must be examined to determine “use in commerce” for virtual goods.<sup>237</sup> In *Bragg v. Linden Research, Inc.*, the plaintiff claimed interest in a virtual property in the Second Life platform, which had been publicized by Rosedale on behalf of platform owner Linden Research, Inc.<sup>238</sup> Linden Research and Rosedale, through a press release and public interview, openly supported intellectual property rights

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<sup>234</sup> *What Lawsuits Over Second Life Tell Us About Trademarks in the Metaverse*, THE FASHION LAW (Feb. 16, 2022), <https://www.thefashionlaw.com/what-lawsuits-over-second-life-tell-us-about-trademarks-in-the-metaverse/> [<https://perma.cc/G87W-MYU4>].

<sup>235</sup> *Id.*

<sup>236</sup> *Id.*

<sup>237</sup> *See Bragg v. Linden Research, Inc.*, 487 F. Supp. 2d 593, 600 (E.D. Pa. 2007) (“Bragg has provided evidence that Rosedale helped orchestrate a campaign at the national level to induce persons, including Bragg, to purchase virtual land and property on Second Life.”).

<sup>238</sup> *Id.* at 596.

based in ownership of virtual property.<sup>239</sup> Bragg sued Linden and Rosedale over a piece of virtual land that he purchased through an “exploit,” which the defendants confiscated, along with currency that Bragg maintained in his Second Life account.<sup>240</sup> Personal jurisdiction over the defendants was found to be proper because the activities of Second Life were sufficient “minimum contacts,” and the court viewed the virtual world of Second Life as a commercial space.<sup>241</sup> In light of Linden’s recognition of intellectual property rights and the interactive nature of the platform, Second Life avatars could “buy, own, and sell virtual goods ranging ‘from cars to homes to slot machines.’”<sup>242</sup> Most significantly for this case, avatars could purchase “virtual land.”<sup>243</sup>

Since *Bragg*, courts have heard cases involving trademark disputes over cryptocurrencies.<sup>244</sup> Both NFTs and cryptocurrencies, the most famous of which are Bitcoin and Ethereum, are all built on blockchain, using similar technology and underlying principles.<sup>245</sup> The main difference is that cryptocurrency functions as a fungible currency, while NFTs are non-fungible and have information embedded in the blockchain that makes them

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<sup>239</sup> *Id.* at 595–96.

<sup>240</sup> *Id.* at 597.

<sup>241</sup> *See id.* at 595–96; Abel & Wong, *supra* note 133.

<sup>242</sup> *Bragg v. Linden Research, Inc.*, 487 F. Supp. 2d 593, 595 (E.D. Pa. 2007).

<sup>243</sup> *Id.* at 595–97, 600 (internal citation omitted).

<sup>244</sup> *See generally* Brian Boerman & Sheridan Ross, *Cryptocurrency and Trademarks: A Bit of a Challenge*, INT’L TRADEMARK ASS’N (May 15, 2020), <https://www.inta.org/perspectives/features/cryptocurrency-and-trademarks-a-bit-of-a-challenge/> [<https://perma.cc/RH76-P8UV>] (reviewing substantive application of trademark law to cryptocurrency and blockchain technology).

<sup>245</sup> Mitchell Clark, *NFTs, Explained*, THE VERGE (June 6, 2022, 8:30 AM EDT), <https://www.theverge.com/22310188/nft-explainer-what-is-blockchain-crypto-art-faq> [<https://perma.cc/DSS9-2QLJ>].

work differently from cryptocurrency.<sup>246</sup> In 2018, a New York federal court granted a preliminary injunction against a group of defendants for trademark infringement when they created a new cryptocurrency, called AlibabaCoin or Alibaba Coin.<sup>247</sup> The court found that “Alibaba has demonstrated, among other things, that it holds a registered trademark protecting its exclusive use of the term ‘Alibaba’” in connection with “computer software for use in exchanging information via global computer networks and online from a computer database and the internet.”<sup>248</sup> Furthermore, there was ample evidence that the defendants used “Alibaba” in connection with their online commercial ventures in a way that was likely to cause confusion.<sup>249</sup> This was a clear recognition that blockchain-based assets could meet the “use in commerce” requirement under the Lanham Act. The court also found that “the record contains evidence that consumer confusion is actually occurring” because online sources were expressing uncertainty about whether the AlibabaCoin was made by the Alibaba company.<sup>250</sup>

There is other evidence that blockchain technologies and cryptocurrency will not be treated differently from other types of commercial products under trademark law.<sup>251</sup> For example, in *Telegram Messenger Inc. v. Lantah, L.L.C.*, Telegram sought a preliminary injunction against Lantah for attempting to use the GRAM mark for an initial cryptocurrency coin offering.<sup>252</sup> Telegram had entered into purchase agreements with

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<sup>246</sup> *See id.*

<sup>247</sup> *Alibaba Grp. Holding Ltd. v. Alibabacoin Found.*, No. 18-CV-2897 (JPO), 2018 WL 5118638, at \*1 (S.D.N.Y. Oct. 22, 2018).

<sup>248</sup> *Id.* at \*6.

<sup>249</sup> *Id.* at \*1.

<sup>250</sup> *Id.* at \*6.

<sup>251</sup> Boerman & Ross, *supra* note 244.

<sup>252</sup> *Telegram Messenger, Inc. v. Lantah, L.L.C.*, 782 F. App’x 528, 529 (9th Cir. 2019).

investors to receive cryptocurrency coins called GRAM at their launch.<sup>253</sup> Lantah’s use of the GRAM mark was found likely to confuse consumers, and the district court compared the cryptocurrency coins to more traditional goods, stating that “Telegram certainly thought it had engaged in commerce when it recorded those sales with the SEC and the purchasers certainly thought they had engaged in commerce when they sent [Telegram] their money.”<sup>254</sup> Since NFTs are built on similar technologies and involve consumers purchasing a specific good with money (or cryptocurrency), courts should follow the *Telegram* court’s reasoning and hold that sales of NFTs amount to engaging in commerce.

### ***B. Updating Trademark Law for the Digital Age***

Although the *Hermès* court appears to recognize the commercial nature of NFTs because they are “sold in the commercial marketplace like other more utilitarian products,”<sup>255</sup> there is still a significant chance of disagreement about whether NFTs meet the “use in commerce” requirement. Digital goods, blockchain, cryptocurrency, NFTs, and other technologies simply were not contemplated when the Lanham Act was written in 1946.<sup>256</sup> While the Lanham Act provides vast flexibility for resolving trademark issues that arise in most situations, it was also developed in a world that only needed to

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<sup>253</sup> *Id.* at 530.

<sup>254</sup> *Telegram Messenger Inc. v. Lantah, L.L.C.*, No. 18-CV-02811-CRB, 2018 WL 3753748, at \*1, \*5, \*7 (N.D. Cal. Aug. 8, 2018), *aff’d*, 782 F. App’x 528 (9th Cir. 2019) (internal citation omitted).

<sup>255</sup> *Hermès Int’l v. Rothschild*, No. 22-CV-384 (JSR), 2023 WL 1458126, at \*7 (S.D.N.Y. Feb. 2, 2023).

<sup>256</sup> *See* 15 U.S.C. § 1051; McKenna & Osborn, *supra* note 9, at 1459–60.

address concerns about trademarks associated with physical goods. New provisions should be added to address several aspects of digital goods and virtual worlds, such as defining the word “goods” to include digital assets and identifying what constitutes “use in commerce” for those goods. Considering that trademark law was recently on Congress’ mind with the passage of the Trademark Modernization Act, it seems reasonable that updates to the Lanham Act could be implemented to clarify the status of digital goods like NFTs.<sup>257</sup>

Codifying “use in commerce” criteria for digital assets in legislation, along with providing support for policing trademark infringement in digital environments, will go a long way in addressing the unique challenges of digital goods and virtual worlds. Most calls for protecting intellectual property in digital goods thus far have been focused on modernizing copyright law to address the needs of authors and creators of digital works.<sup>258</sup> Like trademark law, copyright law is applied most straightforwardly to tangible property. However, concern about the unrestricted trade of digital files and growth of digital piracy is driving new conversations about how to deal with works that are not exhaustible and finite.<sup>259</sup> The music industry gained a powerful tool to prosecute copyright infringers in the Digital Millennium Copyright Act (DMCA), which provides means to serve subpoenas to a service provider to

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<sup>257</sup> See The Trademark Modernization Act of 2020 (TMA), Pub. L. No. 116-260, div. Q, tit. II, subtit. B, §§ 221–228 (Dec. 27, 2020).

<sup>258</sup> See, e.g., Rebecca Carroll, *NFTs: The Latest Technology Challenging Copyright Law’s Relevance within a Decentralized System*, 32 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 979, 1006–07 (2022); Matthew R. Farley, *Making Virtual Copyright Work*, 41 *GOLDEN GATE U. L. REV.* 1, 23 (2010).

<sup>259</sup> See Eurie Hayes Smith IV, *Digital First Sale: Friend or Foe?*, 22 *CARDOZO ARTS & ENT. L.J.* 853, 856 (2005).

identify alleged infringers.<sup>260</sup> There has not been a similar advancement in trademark law.

Recognizing digital assets like NFTs as meeting the “use in commerce” requirement would be the first step toward increasing protection for brands that wish to police trademark infringement in digital environments and NFT marketplaces. Without concretely establishing that NFTs and other digital assets can be protected under the Lanham Act, lawsuits against infringers could lead to unpredictable outcomes. Directly acknowledging digital assets like NFTs under trademark law could also generate interest in new possible enforcement options. For example, the DMCA allows a copyright holder who finds their material posted online without permission to send a takedown notice to the service provider.<sup>261</sup> Hosting services have some protection from liability but have a responsibility to take quick action to correct the alleged infringement.<sup>262</sup> The hosts are therefore incentivized to take down infringing material because they do not want to lose their protection from prosecution. Once digital assets, including NFTs, are more clearly recognized under trademark law, a similar system could be implemented to allow trademark owners to police NFT marketplaces. This system could offer solutions to owners that are likely frustrated with the failure of marketplaces to deal with endless copycats and fraudulent behavior.<sup>263</sup>

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<sup>260</sup> *Id.* at 857.

<sup>261</sup> Daniel Seng, *The State of the Discordant Union: An Empirical Analysis of DMCA Takedown Notices*, 18 VA. J.L. & TECH. 369, 376 (2014).

<sup>262</sup> *Id.* at 388.

<sup>263</sup> See Gian M. Volpicelli, *Why OpenSea’s NFT Marketplace Can’t Win*, WIRED (Feb.10, 2022, 7:00 AM), <https://www.wired.com/story/opensea-nfts-twitter/> [<https://perma.cc/9C6M-JK6Q>].



**C. *Serving Trademark Policy Goals***

Treating NFTs and other digital assets as distinct digital goods used in commerce under the Lanham Act serves the underlying objectives of trademark law. The Supreme Court has recognized two main policy goals within trademark law.<sup>264</sup> The first goal is to “protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get.”<sup>265</sup> With regard to this first goal, purchases of NFTs allow owners to invest in a particular brand using a new technology. While the investment in an NFT purchase may be largely speculative, it can also offer a new way to express brand loyalty.<sup>266</sup> Since the point of purchasing an NFT is proximity and personal ownership in a particular brand, it is imperative for the source of that brand to be verified. There is likely debate over what constitutes consistency or quality of products in the virtual world. As some commentators have suggested, it might be better to think of quality in terms of comparing the level of experience that a virtual asset owner will gain by purchasing the asset.<sup>267</sup> However, even when brand-specific experiences are provided in NFTs, it is still

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<sup>264</sup> *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 782 n.15 (1992) (quoting S. Rep. No. 1333, at 3 (1946)).

<sup>265</sup> *Id.*

<sup>266</sup> See generally Kaczynski & Kominers, *supra* note 29 (arguing that owning an NFT makes a consumer into “an investor, a member of a club, a brand shareholder, and a participant in a loyalty program all at once.”); Clark, *supra* note 245 (explaining that NFTs work like other speculative assets, where a purchaser buys the asset in anticipation of an increase in value).

<sup>267</sup> See generally Denis Bulygin, *How Do People Evaluate Virtual Goods in Social Media? The Case of Dota 2* (July 8, 2019) (Master’s thesis, Uppsala University) (on file with author) (discussing creation of “endogenous meaning” when virtual items are purchased).

important to ensure that the product received is the one that buyers intended to purchase.

Policing trademark infringement in NFTs is crucial for creating value for brand owners. This value, and the value for NFT buyers, intersects with the second goal of trademark law. In articulating this goal, the Supreme Court recognized that “where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats.”<sup>268</sup> NFTs have changed the calculus for brands by introducing a new asset class that can be used in innovative marketing to generate brand loyalty and create new, efficient, and valuable ways to interact with customers in the virtual space.<sup>269</sup> Brands can use NFTs as access points for events, merchandise, and even direct interaction between creators and owners.<sup>270</sup> While it is still early in our introduction to NFTs and the ways that they can be used by their creators, brand owners are realizing the potential profit and long-term buyer-seller relationships that can be formed using this new technology.<sup>271</sup> These benefits provide a massive incentive for brands to police the quality of NFT offerings and protect their marks in virtual worlds and marketplaces, which is reflected in the huge number of trademark applications that have been filed for NFTs and related digital assets.<sup>272</sup> Allowing trademark enforcement for NFT products could also discourage bad actors from openly trading on the goodwill of established brands to market and

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<sup>268</sup> *Two Pesos*, 505 U.S. at 782 n.15 (quoting S. Rep. No. 1333, at 3 (1946)).

<sup>269</sup> Kaczynski & Kominers, *supra* note 29.

<sup>270</sup> *Id.*

<sup>271</sup> See *Demand for NFTs*, *supra* note 117; Sibiga, *supra* note 52.

<sup>272</sup> Sundararajan, *supra* note 116.

sell NFTs that lack the brand association and experience that NFT buyers are looking to purchase.

## VI. CONCLUSION

Clarifying the status of NFTs and other digital assets will be increasingly important for navigating the virtual world and ensuring brand protection when and where they are sold. NFT marketplaces are just getting started, with brands poised to take advantage of their technology and popularity to build deeper relationships with their customers. For the first time, digital goods like NFTs can function like tangible, finite goods since blockchain technology offers security and scarcity for each individual digital asset. Given our increasing interaction with virtual worlds and marketplaces, NFTs and other blockchain-based assets will likely impact many areas of daily life in the future. Brand owners should be afforded the same protection in these spaces that they enjoy for tangible goods produced in the real world. The eagerly awaited *Hermès Int'l* verdict has shed some light on how courts will treat NFTs that incorporate others' trademarks, although the future applications of this case are far from settled.<sup>273</sup> Courts, legislators, and marketplaces all still have important roles in making sure that brand owners can protect their trademarks in digital spaces and that infringers' bad behavior is not rewarded by refusing to recognize NFTs as digital goods used in commerce.

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<sup>273</sup> Stefan Mentzer, Hallie Kiernan & Anna B. Naydonov, *Infringement is still infringement, even in the metaverse: New York jury finds "MetaBirkin" infringing, not protected artistic expression*, WHITE & CASE (Feb.10, 2023), <https://www.whitecase.com/insight-our-thinking/infringement-still-infringement-even-metaverse-new-york-jury-finds-metabirkin> [<https://perma.cc/FV8S-5YBG>].