

Demystifying NFTs Episode 2

PLUS Staff: [00:00:00] Welcome to this PLUS Podcast, Demystifying NFTs: Episode Two. We would like to remind everyone that the information and opinions expressed by our speakers today are their own, and do not necessarily represent the views of their employers, or of PLUS. The contents of these materials may not be relied upon as legal or financial advice.

And now, I'd like to turn it over to Alice Budge.

Alice Budge: Hi everyone. I'm Alice Budge from Specialist Risk Group, one of the London Market Brokers. Thanks for joining us again for our second episode on Demystifying NFTs. Today we're going to tackle all things intellectual property and media law with Kissel Straton and Wilmer's resident media lawyer partner Jenni Stivrins and her colleague, Vito Marzano.

And last time we really delved into just the basics of NFTs around that in layman terms. And this time, we're going to go into much more detail. So, stay tuned and I'll pass over to you, Jenni.

Jennifer Stivrins: Thanks so much, Alice. As you noted, today's episode is focused really on the law, [00:01:00] particularly in the US as it deals with media and intellectual property aspects of NFTs. So, we thought the best way to look into this would be to go through four of the main cases that have proceeded to different extents in the US courts.

Alice Budge: Great. And before we dive into that case law, though, it might be helpful for our listeners if we can understand what types of intellectual property rights we're talking about here.

Vito Marzano: Yes. So, with NFTs, US courts have at least to date - that we're aware of - been concerned about two different rights. Those are copyrights and trademark rights.

Alice Budge: And how do they differ in the eyes of the law then?

Vito Marzano: Both are types..., both are IP, Intellectual Property Protection, but they protect different things.

So, with copyright, the law is protecting original works of creators. These can be used for books, movies, music, screenplays and scripts, paintings, and

software, et cetera. Copyright does not really require extensive registration. In fact, copyright “exists” from the moment the work is created.

You don't even actually have to register it. Of course, the [00:02:00] registration can confer certain benefits including the ability to file an infringement lawsuit and the availability of statutory damages.

Alice Budge: Okay, great. So, what kind of damages are we actually talking about, just so I can get some more clarification?

Is that statutory damages piece really significant?

Jennifer Stivrins: It can be it, and it depends on the type of infringement. So, under the copyright act without registration, you're limited to recovering actual damages, which can be very difficult to prove or can be nominal at best. If your copyright is registered, however, the copyright act then allows a rights holder to recover both statutory damages and attorney's fees.

That attorney's fees piece is obviously significant. And then the statutory damages range from \$750 to \$30,000 per use, but they can go up to \$150,000 per use if the infringement is deemed willful.

Alice Budge: So, you absolutely, definitely want to register a copyright then. If you don't want to be left without that. [00:03:00] And what about trademarks then? Is that protection different or does it fall into the same?

Vito Marzano: So, with trademarks, the laws protecting business are assets and the trademark itself, has, helps to differentiate products and services of one business or brand from another, from others, rather.

Typically, by using designs, logos, symbols, et cetera. Think here of the McDonald's "M". The golden arches if you will. Registration is more extensive or difficult for a trademark as it is for copyright. Again, registration is important for the purpose of protecting a trademark right.

Under trademark law, which in the US comes from the-- I never say this right, The Lan, The Lanman Act?

Jennifer Stivrins: Lanham Act.

Vito Marzano: Lanham Act, sorry. It's one of those words that you always read and never actually hear anyone ever say to you. Um, there comes from the

Lanham Act. A rights holder can recover (1) disgorgement of profits or essentially giving back, which is essentially giving back the money they made off of the infringement mark, (2) actual damages, and (3) attorneys' fees. Also under the Lanham Act, attorneys' fees are [00:04:00] only granted in really exceptional cases, generally where there's a willful, deliberate fraudulent or, malicious infringement. It's a bit of a higher mens rea there.

Alice Budge: Okay. Great. Firstly, I feel like I want to try saying Lanham now.

Okay. Feel like...

Vito Marzano: It's that h always gets me.

Alice Budge: Oh yes. A silent H. It's such, such a sneaky one. Okay, that's great. That's helpful in regards to explaining copyrights and trademarks in, in the States and giving us some understanding on that. But how does it actually coincide with NFTs: our topic at hand?

Jennifer Stivrins: Sure. So, we'll connect them. So, we talked about in the first episode that NFTs can be a marker for many things and represent many things. But the NFT itself and the image that's connected to it is what typically we see coming under fire where that image allegedly uses in whole or in part some sort of intellectual property, that belongs to or is protected by, someone else.

So, a rights holder. That sounds a little bit abstract, but as we go through the case law, it will make more sense. As [00:05:00] noted at the outset, we're going to talk through four of the main NFT cases in the US and discuss how the courts so far have dealt with IP protection in conjunction with NFT usage of IP.

So, the first case we're going to talk about is The Playboy Enterprises case, which was filed in the Southern District of New York, November 2021.

Alice Budge: Brilliant. Are we talking about the Playboy that I'm very much thinking about right now?

Jennifer Stivrins: We are talking about that Playboy.

Alice Budge: Brilliant.

Jennifer Stivrins: And because I love the name of their NFT so much, Alice, do you know what the Playboy NFT is called?

Alice Budge: Gosh, it's going to be something really rude and sexual, isn't it? And I'm going to have a horrible guess.

Jennifer Stivrins: I won't make you guess. So, they're called Rabbitars. So, the little Playboy Bunny avatars are called Rabbitars.

Vito Marzano: That's kind of cute sounding though.

Jennifer Stivrins: I love this name. Absolutely love this name. Anyway, so Playboy Enterprises International sued [00:06:00] www.playboyrabbitars.app and playboyrabbit.com, and the owners and operators of those websites in an attempt to stop the defendants from counterfeiting Playboy trademarks in connection with the unauthorized sale of fake Playboy Rabbitars NFTs through their website. The website was using identical versions of Playboy trademarks and nearly identical versions of Playboy's legitimate online retailer of Rabbitars NFTs, which if anyone wants to look them up, that's at www.playboyrabbitars.com.

Alice Budge: Not on your work computer though, right?

Jennifer Stivrins: Yeah, not on your work computer.

Vito Marzano: I just want to ask a clarifying question. So, when we say fake Playboy Rabbitar NFTs, we're not talking about the NFT being fake?

Jennifer Stivrins: Correct. Actual NFTs ripping off essentially the gateway NFT.

Vito Marzano: Okay. So, this was a pretty easy one for the courts as defendants had essentially ripped or copied the plaintiff's entire lawsuit* [*correction: website]. Also, the defendants failed to [00:07:00] respond to the suit filed, which is not the best idea, it's generally not favored by the courts.

So, in October 2022, the court granted a default judgment in favor of the plaintiff. The court found the defendant liable for trademark counterfeiting, unfair competition, and false designation of origin in violation of the Lanham Act, as well as trademark infringement, unfair competition, violation of New York Law (common law).

The court found that their actions were willful and, as a result, granted statutory damages of \$30,000 per registered trademark at issue, which was a total of \$1,050,000. The court also granted permanent injunction.

Alice Budge: So, to summarize, if you create an NFT that is an exact copy of someone else's NFT, and then refuse to show up to court to defend yourself regarding this, the court will find you automatically liable.

So that sounds very straightforward and makes your job sound very basic and easy. Is it all always like that—that easy?

Jennifer Stivrins: Yeah, but totally agreed. The result in Playboy was pretty much a [00:08:00] no-brainer given the defendant's actions, but I promise you we have better cases to talk about.

So, the next case we're going to talk about was a much closer call and I think raised a lot of really good questions as it dealt with two entities who probably and potentially both could have ownership of the IP at issue in connection with the NFTs minted.

Vito Marzano: Right, so the next one is Miramax v Tarantino. The case also filed in November 2021, but this time in the Central District of California, but has a bit more depth to it. So, this case involves the rights to the film Pulp Fiction. Quentin Tarantino, the film's director, was auctioning off exclusive NFTs associated with the film via The Secret Network—namely seven uncut Pulp Fiction scenes.

Interestingly though, the NFTs were actually a collection consisting of seven NFTs, each containing a high-resolution digital scan of Quentin's original handwritten screenplay pages for a single scene from his screenplay, Pulp [00:09:00] Fiction. There would be no other embellishment or additions to the actual screenplay scans themselves, um, which I was quoting partially directly from the filings.

But the NFT would also include a drawing that would be inspired by some element from that scene. Despite the filing of the lawsuit, the first Tarantino Pulp Fiction NFT, Royale with Cheese—which it's about 11:00 a.m. here and now I'm hungry—sold for \$1.1 million in January 2022.

Alice Budge: So that sounds quite an insane amount of money then.

And so, the NFT derives from the film and the work in the film, and both Miramax and Tarantino both have rights to it though.

Vito Marzano: Exactly. So, Miramax brought the lawsuit for breach of contract, copyright infringement, trademark infringement, and unfair competition.

Jennifer Stivrins: Yeah. And the breach of contract piece is pretty interesting here because the contract that Miramax is trying to enforce, the original rights agreement, was entered into in 1993.

So in this agreement, Tarantino granted to Miramax, in exchange for [00:10:00] what I assume was a huge chunk of money, in perpetuity throughout the universe all rights, including all copyrights and trademarks in and to the film, and all elements thereof in all stages of development and production now, or hereafter known, including without limitation, the right to distribute the film in all media now or hereafter known theatrical, non-theatrical, all forms of television, home video, et cetera. And excluding only a limited set of rights, which were reserved to Tarantino. Now that's a lot of lawyer talk and good job on the Miramax attorneys, but they basically, he gave Miramax a lot of rights here. But there were some reserved rights.

And those reserved rights were related to the soundtrack album to the film, music publishing, live performance, print publication, which included books, comic books, novelization and audio and electronic formats, interactive media, theatrical and television sequel and remake rights [00:11:00] and television series and spinoff rights.

So, he wasn't left with no rights at all.

Alice Budge: Okay, great. And you mentioned 1993. I'm either really slow to the game on NFTs, I might even, they weren't around them, weren't being contemplated. Cause otherwise I've got a lot catching up to do. But obviously if it was, if they were the agreement at, they weren't minted until 2012 or 2014. Um, so why can we now rely on that?

Jennifer Stivrins: So that's right. So, the court had a lot of work to do here to answer what I think is a pretty interesting and novel question. And to determine who gets the NFT rights? Which rights in that contract, where would an NFT fall under? So, would those be the rights that Tarantino granted to Miramax because it was distribution of part of the film?

Remember Miramax writes, "included all elements of the film." Or could the court determine that the rights would be in those reserved to Tarantino? And again, Tarantino reserved rights relating to print publication in electronic

formats, as well as interactive media. Don't [00:12:00] you think an NFT of a handwritten script with new artwork could land there?

And then further Tarantino's position was that because he had a separate copyright for the screenplay itself, that all of those rights remained with him.

Alice Budge: Okay. So, it's starting to get quite juicy between the two of them. Where did the court come out on this one, then?

Vito Marzano: We hate to say because I think we as lawyers do not like [not] having an answer to things, but we don't have the answer. The parties settled out of court in September 2022. Uh, frankly, we were surprised that this matter was litigated as long as it was, which was just about a year. It was clear from the language in the complaint that Miramax did not want to be suing Mr. Tarantino when it said, "Tarantino's conduct has forced Miramax to bring the lawsuit against a valued collaborator." Also, after the complaint was filed and previously noted, the first NFT sold for \$1.1 million. But shortly thereafter the remaining six were canceled with Secret Network citing "extreme market volatility." So, by the time of the settlement, there wasn't much going forward risk that remained. I do want to [00:13:00] point out one thing. This came up with me and Jennifer last week. I've actually never seen Pulp Fiction.

Jennifer Stivrins: Shameful.

Vito Marzano: Much to like her chagrin.

Jennifer Stivrins: You guys are of a different era than I. Alice, have you seen Pulp Fiction?

Alice Budge: I don't think. Do you know what, don't think I have. Is it, does she wear a yellow outfit in it?

Jennifer Stivrins: No, that's Kill Bill.

Alice Budge: Oh gosh.

Vito Marzano: At this point, so many people have told me that I must see it.

Jennifer Stivrins: Yes.

Vito Marzano: Which now I'm like, now I'll never—just be able to say it.

Jennifer Stivrins: Yes. This is your NFT homework for the week, go watch Pulp Fiction.

Alice Budge: Noted. Okay, thank you. So far, we've talked about seemingly, completely illegal ripping of Rabbitars, followed by default judgment in the Playboy case was closed because the other guy didn't turn up to court. And then a close call copyright and trademark fight into the Tarantino versus Miramax case, which was settled out of court.

Do we by any chance have any cases that have been fully litigated and come to a judgment?

Jennifer Stivrins: We do, and [00:14:00] I mentioned this briefly on our last episode. So, this case was filed in January 2022 in the Southern District of New York by Hermès and Hermès Paris against Mason Rothschild. And we just had a verdict this past February, so a lot to talk about here. The facts in this one are really pretty straightforward. Hermès is a famous designer, fashion line dating back to 1837. It's well known for many things, but most notably probably is its Birkin Handbag, which was first created in 1984 and first sold in 1986. Um, the defendant artist created a line of NFTs, which he called Meta-Birkins, which were 100 digital collectibles on the Ethereum blockchain, which featured that Birkin design.

And he made them look different than the traditional Birkin. A lot of them were furry, they were a little bit odd, but very obviously the Birkin design, and he called them Meta-Birkins. Hermès alleges [00:15:00] that the Meta-Birkins reached about \$1.1 million in total sales, and that the creation and marketing of the Meta-Birkins constituted trademark infringement, false designation of origin, trademark dilution, cybersquatting, injury to business reputation and dilution, common law trademark infringement and misappropriation and unfair competition.

Alice Budge: Okay, that's great. I mean, firstly, I can't believe that Jane Birkin created this bag just because she couldn't find a suitable bag for a plane journey.

Jennifer Stivrins: I know, so it was such a fun origin story.

Alice Budge: Yeah, I love that. So those are obviously the Hermès claims, but what was the defendant's defense then?

Vito Marzano: So first was the damages. Rothschild noted that the first 100 were priced at \$450 each and he'd also receive 7.5% of secondary sales. He

estimated that he made about \$125,000 from the initial sales and royalties, not the \$1.1 million that Hermès alleged.

The substantive defense was interesting on a couple of fronts. [00:16:00] Rothschild argued that Hermès could not meet the two-prong Lanham Act test for trademark protection. The test established in the *Gruner* case asked (1) whether the plaintiff's mark is entitled to protection, and (2) whether the questioned use of the mark is likely to cause consumer confusion.

Here, Rothschild said that there is no way that his digital NFT art, which depicts a bag that were in fact not made by Hermès, would cause consumer confusion. Beyond that, though, Rothschild also made a constitutional argument under the First Amendment, arguing that his work should be protected artistic expression or interpretation.

He famously likens his work to out of Andy Warhol's famous Campbell's Soup artwork.

Alice Budge: So, he sounds like quite a confident guy then.

Vito Marzano: He thinks he's Andy Warhol.

Alice Budge: An interesting parallel on obviously what they both put forward. But what did the court say in the end?

Jennifer Stivrins: So, it was a closer call than expected, and it did go all the way to trial despite that both parties filed for summary [00:17:00] judgment.

So, this went to a jury. The trial started on January 30, 2023, and we had our verdict on February 8, 2023. The verdict, on the other hand, was not a close call at all. The jury found for Hermès as to the three remaining claims, which were trademark infringement, the trademark dilution claim, and the cybersquatting claim.

And they awarded Hermès \$110,000 in trademark infringement and dilution, and another \$23,000 in cybersquatting damages. So \$133,000 in total.

Vito Marzano: Yeah. So, while we do have a jury finding in favor of the rights holder here, the damages are far less than I think we were expecting to see.

Jennifer Stivrins: Yeah, that's exactly right.

And there is a lot of vocal opposition to this verdict from the artist community, so I very much expect that this isn't the last we've seen of the issue and really is just the first page of a book here. We'll have to keep a close eye on other cases that raise these similar issues. In the [00:18:00] meantime, maybe this is the cost of doing business for Mr. Rothschild, who certainly increased his visibility and artist cred via this NFT release.

Alice Budge: Very interesting. Personally, I think I'd rather have an actual Birkin handbag, obviously with a retail price of about \$13,000 starting rate, um than an Meta-Birkin NFT, which I think the first one sold for 43,000 USD.

But then again, people who collect these things are obviously collecting these high-end handbags and NFT artworks for a similar reason, hoping that the value will increase in the future.

Jennifer Stivrins: Yeah, I think that's right. And as we noted, we're closely watching other cases that are winding their way through the courts on this issue.

The last one we're going to talk about today is the Nike versus StockX case filed in the Southern District of New York in February 2022. And this one has an interesting wrinkle because it deals with the digital art piece of the NFT as well as the NFT having a tie to [00:19:00] rights in to something that exists in the physical world.

So, with that, I'll let Vito walk us through the facts on who is StockX and what is this NFT about.

Vito Marzano: This case. Okay. So, this case again contains causes of action for trademark infringement, false designation of origin, unfair competition, trademark dilution, and then under New York law, injury to business reputation and dilution, and common law trademark infringement and unfair competition.

StockX is an online resale sneaker retailer that has a subsidiary that allows individuals who sell other items such as designer clothes, collectibles, electronics, watches, and so forth. And it's not a small company. In 2021, the company was valued at over \$3.8 billion. StockX claims to use an authentication process that sets it apart from the eBays of the world.

Alice Budge: So how does this connect it to NFTs?

Vito Marzano: I knew you were going to ask that. In January 2022, StockX came out with something called The Vault [00:20:00] NFT Collection. Each

NFT in The Vault is tied to an actual physical item that StockX sells. In the case of this lawsuit, we're talking about the Nike Jordan 1 sneakers. StockX's position is that NFTs are not "virtual products" or "digital sneakers." But more akin to a *key* to access the underlying stored item in The Vault with no other form of intrinsic value. The NFTs are tied to a good that has already been authenticated by StockX.

Jennifer Stivrins: Right. That's exactly right. So, in StockX's answer to the complaint, which the complaint filed by Nike, they [StockX] argue fair use.

And they say there's really no difference between StockX and other major retailers that use images and descriptions of products to sell those products.

Alice Budge: So, if a major sporting goods retailer or department store can list Nikes for sale online, why can't StockX do the same via an NFT?

Jennifer Stivrins: That's exactly their argument.

Alice Budge: How did the court then come down on this one?

Jennifer Stivrins: So, it [00:21:00] hasn't yet. Despite this case being ongoing for over a year, we're not very close to an answer in this one at all. So, in May of last year, Nike filed a first amended complaint to add counterfeiting and false advertising claims. It said that it purchased four pairs of fake Air Jordan 1s from The Vault NFT collection.

So StockX files an answer in June. It says Nike's claims are meritless. It cites to its authentication process, which it claims has "revolutionized the industry." And noting that if any customer reasonably suspects a fake, StockX will investigate it and issue a refund or replacement. StockX also notes that its verification process is understood by its own customers.

And that it has been praised by consumers, commentators, and industry participants. And this is interesting. These specifically include Nike. So, Nike itself has basically [00:22:00] rubber-stamped and said, "your authentication process is great" to StockX and now they're arguing about it. But since that time, since the answer was filed, the case has been just absolutely mired in discovery disputes.

The current deadlines as of today, March 16th recording, are the close of fact discovery on March 21st, followed by a post-fact discovery conference with the

court on April 7th, and then expert discovery scheduled to close on July 14th. As an aside here, the court is clearly tired of both parties in this matter.

And they have now said formally via order, they will not allow for any further adjournment requests absent exceptionally good cause. And there will be absolutely no further extensions on the discovery calendar. So, we are waiting to see what's next in StockX.

Alice Budge: So, July 14th, the big day, the big reveal, and we should have an answer to see what happens at the end.

Jennifer Stivrins: We'll see. [00:23:00] Yeah.

Alice Budge: I can't wait. Hopefully maybe in a future episode we'll be able to give you all feedback on that.

Vito Marzano: I was going to say we'll definitely be watching I'll definitely be watching this one closely and we'll come back with you with updates.

Alice Budge: Great. I'm not a trainer wearer, or sneaker wearer as you say in America.

I might need to do my research on what these look like. Anyhow, thank you so much guys again for coming on and speaking to us specifically about this topic. Next week, we are going to be talking about whether NFT is seen as a commodity, security, or other. Um, we've got our email address, which we have put, we will be putting on LinkedIn or on the PLUS website.

So, if you've got any questions, as ridiculous as they might be, please send them through to us and we will do our best to answer them in one of our later episodes when we do a Q&A episode. And thank you so much guys.

Vito Marzano: Thank you.

Jennifer Stivrins: Thanks, Alice. This was fun.

Vito Marzano: As always.

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