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Trademark issues in the Metaverse: a view from the US

Charles R. Macedo, Max Vern, and David P. Goldberg of Amster, Rothstein & Ebenstein LLP examine recent cases of conflict between platform owners over trademark infringement and conflicts involving NFTs to provide a US perspective on handling trademarks in the metaverse.

I. Introduction

In the 1990s, personal computers became more affordable and powerful, and with the ascent of the internet, computer games migrated online. 10 years later, online games inspired the creation of online multimedia platforms that did not involve knights battling dragons, but ordinary people living their lives, such as Sims or Second Life. This was the dawn of the metaverses.

There are competing visions of how they will develop, with Meta and Microsoft creating proprietary platforms while Sandbox and Decentraland develop open-ended user-governed platforms. But all these metaverses amount to programming code sitting on a server, governed by contracts in the form of Terms of Use and by intellectual property ("IP") law.

These metaverses have bright futures, and this article provides a brief but instructive overview of representative trademark cases tackling issues that US-based IP owners and users have faced in navigating these metaverses. The questions raised and solutions suggested should be broadly applicable.

II. Trademark conflicts between platform owners and users – *Minsky v. Linden Research*

Second Life ("SL") is an online platform, launched in 2003 and owned by Linden Research, Inc. ("Linden"), that allows users to create avatars and interact with each other in a virtual world. Among other things, SL users can create and sell virtual property and services.

Of course, everything on such multimedia platforms exists only virtually, as lines of programming code. When such platforms are structured like computer games, with user actions limited by game rules, then IP rights are limited to the owner. However, on platforms like SL, where users can create or import objects into the platform, questions about the ownership of virtual IP arise. Platform owners address these issues in their Terms of Use, but not all disputes can be anticipated.

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The SL platform gave us a taste of the disputes that may arise in such metaverses in *Minsky v. Linden Research, Inc.*, No. 08-cv-0819 (N.D.N.Y. Aug. 14, 2008).

In his Complaint, Richard Minsky asserted that SL developed its community by enticing users to join SL and start businesses to make money. Once someone downloads the software and opens an account, they become a "resident" of SL. Residents can buy and sell Linden Dollars and exchange them for real-world currencies. Linden operates a currency exchange for this purpose and the SL website purportedly encourages such activity.

This aspect of SL appealed to Minsky, who developed his business by opening an art gallery in SL and developing the brand SLART for his SL and real-world activities. Although SLART clearly means "Second Life Art," Minsky claimed that he arbitrarily coined the mark. Minsky's ventures under the mark included running the SLART Gallery, registering the domain slartmagazine.com, and publishing reviews using the SLART mark. Minsky even registered his mark with the US Patent & Trademark Office ("USPTO").

Minsky's dispute with Linden arose when another SL resident started using SLART. Although the resident eventually removed the offending work, this incident opened Pandora's box. In

communications with Minsky, Linden asserted that he did not have the right to register marks containing SL as an acronym for SECOND LIFE. In response, Minsky sued Linden for infringement, dilution, and contributory infringement of the SLART mark, and asked the court for a Temporary Restraining Order, which was granted. After additional motion practice, the case settled.

Although it would have been instructive to have received a definitive judgment on the issues raised, since *Minsky*, platform owners have tightened their Terms of Use to prevent users from acquiring rights in trademarks including their platform's name.

Among the other lessons learned from *Minsky* were that traditional IP notions cannot be simply applied, but need to be adapted when considering metaverses like SL.

Today, issues like what constitutes "use in commerce" for trademark purposes within the metaverse and do the Communications Decency Act ("CDA") and Digital Millennium Copyright Act ("DMCA") apply to metaverses, are even more complex, since users may operate in more than one clearly delimited platform operated by a single governing entity like Linden.

In this environment, the Terms of Use are crucial and platform owners must carefully specify rules to govern and avoid legal disputes with users.

III. Trademark conflicts involving NFTs and digital images – *Yuga Labs, Inc. v. Ripps*

Recently, US courts' attention has turned towards Non-Fungible Tokens ("NFTs"), the building blocks of the next generation of metaverses. Basically, an NFT includes an entry on a blockchain representing the ownership of rights in an associated physical or digital item, like a digital art file. One example is the Bored Ape Yacht Club NFTs, which provide unique digital images of comically bored apes that have become a status symbol and been purchased by celebrities, including Eminem and Madonna. Because NFTs link digital files to secure records of authenticity and ownership, they have become essential commercial tools to sell digital files in our developing multiverses.

Unsurprisingly, the emergence of NFTs has prompted trademark infringement lawsuits. One recent suit involving digital images was filed by Yuga Labs, Inc. ("Yuga"), the developer of the Bored Ape Yacht Club NFTs. *Yuga Labs, Inc. v. Ripps*, No. 22-04355 (C.D. Cal. June 24, 2022).

Yuga has pending US Trademark Applications for BORED APE YACHT CLUB and BAYC covering goods and services related to its NFTs and has common law rights in those marks.

According to Yuga, defendant Ryder Ripps created and sold images that are the same as those associated with the Bored Ape Yacht Club NFTs, with the exception that each image was entitled RR/BAYC instead of "BAYC" or "Bored Ape Yacht Club." These actions, they allege, amount to classic trademark infringement, since Ripps sold the same or related products, in the same place, under the same marks.

> **"On platforms like SL, where users can create or import objects into the platform, questions about the ownership of virtual IP arise."**

This case is still in its early stages. Because an Answer has not yet been filed, we do not know what defenses Ripps will raise. However, if Yuga's allegations are true, it seems that Yuga has a strong case of trademark infringement based on a relatively straightforward application of traditional trademark law principles.

Not all recent cases in the pipeline are so clear-cut.

IV. Trademark conflicts involving NFTs and physical goods – *Hermès International v. Rothschild*

Another instructive lawsuit, which involves NFTs and physical goods, is *Hermès International v. Rothschild*, No. 22-CV-00384 (SDNY Mar. 2, 2022). The suit alleges trademark infringement, dilution, and cybersquatting by an artist self-named Mason Rothschild, who makes and sells Metabirkins NFTs.

Graphic 1

Graphic 1 (above) left shows an example of a real world Hermès BIRKIN handbag from a US Trade Dress Registration protecting its unique appearance. Graphic 1 right shows an example of a NFT minted by Rothschild, called the Baby Birkin NFT. The Baby Birkin was a single NFT featuring the image of a 40-week-old fetus inside a transparent BIRKIN bag. The one-off

Résumés

Charles R. Macedo and **Max Vern** are partners, and **David P. Goldberg** is an associate, at Amster, Rothstein & Ebenstein LLP. Their practices focus on intellectual property law, and they are excited to help clients obtain, defend, and enforce trademark and other rights for NFT and Metaverse-related projects.

Baby Birkin NFT was auctioned on May 2021 for $23,500. It was then resold for $47,000.

Other examples of the Metabirkins NFTs feature Hermès' BIRKIN handbag covered in fur, as seen in Graphic 2 (below):

Metabirkins' Baby Birkin Handbag NFT

Figure 5.

Amended Complaint, Par. 79

Graphic 2

Rothschild moved to dismiss Hermès' Complaint under the theory that his NFTs are "artwork" protected by the First Amendment to the US Constitution under *Rogers v. Grimaldi*. *Rogers* holds that, when allegedly infringing trademarks are used in an artistic context, courts should balance the "public interest in avoiding consumer confusion" against the "public interest in free expression" to avoid intruding on First Amendment values. Explaining further, Rothschild argued that Hermès wanted to stop him from creating fanciful pictures that comment on its handbags, calling those artworks "MetaBirkins," and promoting those artworks, but that trademark law should not give Hermès control over Rothschild's art in the face of First Amendment guarantees regarding the right to respond to corporate messaging in the market-place of ideas.

Whether Rothschild would have prevailed is unclear. The court denied Rothschild's Motion to Dismiss, since the Amended Complaint included "sufficient allegations of explicit misleadingness … as a function of likelihood of confusion," but also ruled that the *Rogers* test would apply. The parties then settled this matter, so the court never ruled on the substantive issues raised.

Hermès' hurdles in protecting its real-world product in the metaverse shows that obtaining trademark protection for virtual goods and services beforehand will be important not just to protect those virtual goods and services, but also to enforce corresponding rights in real-world goods and services.

The case also raises the question of whether virtual platforms and marketplaces that sell Metabirkins, such as the NFT market OpenSea, will develop private trademark dispute resolution mechanisms, like those devised for Amazon retailer disputes.

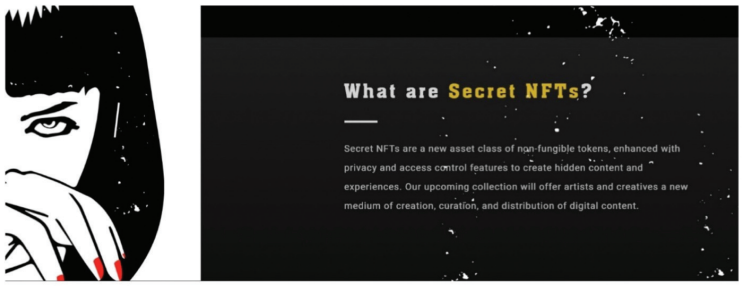
V. Trademark-Related contract disputes involving NFTs – *Miramax v. Tarantino*

Another recent litigation involving NFTs involves the type of trademark-related contract disputes we are likely to see in the metaverses. In *Miramax LLC v. Tarantino*, No. 21-08979 (C.D. Cal. Nov. 16, 2021), the dispute centered on whether Miramax or director Quentin Tarantino had the right to mint NFTs for "Pulp Fiction."

Miramax's Complaint quoted Tarantino's website, explaining: "The collection holds secrets from Pulp Fiction …. Each NFT contains one or more previously unknown secrets of a specific iconic scene from Pulp Fiction. The privileged person who will purchase one of these few and rare NFTs will get a hold of those secrets and a glimpse into the mind and the creative process of Quentin Tarantino." Miramax claimed that Tarantino's NFTs sought to capitalize on Miramax's rights in Pulp Fiction, caused confusion, mistake, and deception as to the source of the NFTs, and deceived the public into believing that the NFTs originated from or were authorized by Miramax.

Miramax, LLC v. Quentin Tarantino, **Civ. A. No. 2:21-cv-08979-FMO-JC, ECF 1, Complaint, page 11 (C.D. Calif. Nov. 16, 2021)**

Graphic 3



Miramax, LLC v. Quentin Tarantino, **Civ. A. No. 2:21-cv-08979-FMO-JC, ECF 1, Complaint, page 12 (C.D. Calif. Nov. 16, 2021)**

Graphic 4

Although framed in the context of IP rights, this dispute was really a contract dispute as to whether the right to mint NFTs fell under the "Original Rights Agreement" granted to Miramax or remained under the "Reserved Rights" retained by Tarantino. Tarantino alleged that he provided Miramax only with limited rights, reserved all publishing rights in his screenplay, published the screenplay for years without complaint, and had the right to publish digital copies of his screenplay through the sale of NFTs.

Tarantino submitted a Motion for Judgment on the Pleadings. However, the case settled before the Motion was decided.

While a court decision on the substantive issues would have been enlightening, one lesson to be learned is to be careful how contract law is used as a gap filler or loophole to IP rights granted in contracts. As metaverses develop and artists exploit their prior creations in these virtual worlds, careful review of contract rights will be necessary, and new negotiations may be required, to clearly define who owns IP rights in the metaverses.

VI. Conclusions

Although metaverses are arguably 20 years old, legally speaking, we are still at the dawn of metaverse trademark law. While some cases seem to involve a straightforward application of traditional trademark law principles, such as *Yuga Labs*, others raise novel issues that courts have not yet addressed, such as *Hermès*, largely because those cases were quickly settled by the parties.

There are signs in the US that the legislature may step in. In June 2022, the US Congress asked the USPTO to launch a joint study with the US Copyright Office into IP issues raised by NFTs and the metaverse, including acceptable classification and use requirements for NFT and metaverse trademarks, whether the DMCA shields platform providers from liability with respect to uncurated metaverse content, etc.

That said, we expect the bulk of these issues will eventually be resolved in the courts, where actual trademark controversies will be fought out, and that it will still take some time before we have relative clarity on the challenge of how to apply traditional trademark law principles to these new metaverses.

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