

Outside Counsel

IP Rights in the Metaverse: An Evolving (Virtual) World

The metaverse, an immersive virtual experience building on the Internet and the physical world, has become a prominent force in branding and marketing for companies struggling to keep up in an ever so globalized economy. Fashion brands, and particularly luxury retail houses, are capitalizing on the popularity of virtual world games among younger generations by collaborating with gaming companies like Roblox and Fortnite in producing lines of virtual fashion goods.

Last May, Gucci hosted the Gucci Garden Experience on Roblox allowing users to purchase virtual Gucci items for their personal avatars to wear in the virtual world.

DYAN FINGUERRA-DUCHARME is the co-chair of Pryor Cashman's trademark group, where she focuses her practice on complex intellectual property matters, trademark, trade dress, false advertising, and copyright disputes. ABLA BELHACHMI is a summer associate at the firm.



By
**Dyan Finguerra-
DuCharme**



And
**Abia
Belhachmi**

Balenciaga also teamed up with Fortnite to create a line of in-game virtual clothing that also corresponded to a real world physical collection. Brands like Nike and Louis Vuitton have also followed the virtual fashionwear trend. For many of these brands, the metaverse presents an opportunity to attract new consumers and market and build beyond the constraints of physical space.

Parallel to this digital expansion has been a surge of intellectual property issues. However, the realm of virtual worlds is no stranger to this occurrence. Second Life, a once popular online

role-playing game by Linden Lab, was the subject of a few copyright infringement controversies involving CopyBot, a third-party debugging module that was repurposed by users to copy real world designs and textures, including those protected by real world trademark and copyright law, into its virtual world. Although Linden Lab's Terms of Service expressly prohibited users from using CopyBot to reproduce other user's in-world assets, many users allege that Linden Lab failed to police and enforce infringement. Although seemingly innocuous, this matter was complicated by the fact that Linden Dollars, the currency backing the Second Life digital economy, could be converted into real world money.

In the since settled and dismissed case of *Eros, LLC and Shannon Grei v. Linden Research*, plaintiffs alleged damages from

direct and secondary infringement by Linden Lab of various virtual assets created by Eros and Shannon Grei. The plaintiffs claimed that the lack of supervision and enforcement allowed other users to usurp their digital creations, to which the plaintiffs claim copyright ownership, and profit off the in-world sales, which had a direct analog to plaintiff's real world profit.

Second Life presented the issue of enforcing and defining an intellectual property regime in a virtual world that had connection to real life people, intellectual property rights and commerce. Twenty years after the initial popularity of Second Life, these issues continue to prop up as the metaverse continues to evolve. A few cases of alleged trademark infringement currently occupy the legal spotlight and have the power to shape the landscape of intellectual property protection in the metaverse.

A New York federal court case filed by Hermès against Mason Rothschild, an LA based artist, alleges that Rothschild's line of 100 MetaBirkin non-fungible tokens (NFTs), which reference the iconic Birkin Bag in various furry and colorful designs, infringes on Hermès BIRKIN word mark

and trade dress under the Lanham Act.

Rothschild is no stranger to the world of NFTs. Prior to this legal battle, Rothschild previously created and sold the Baby Birkin—a stylized Birkin NFT featuring an image of a fetus on the bag for almost \$23,500. Hermès has since sought to protect its brand in the NFT space. Hermès's complaint further claims false designation of origin, trademark dilution, and cybersquatting, in addition to other state law claims under New York law.

As fashion brands and celebrities await for the courts to make a decision in these matters, many brands, including Nike, have taken steps to protect their intellectual property in preparation for the metaverse boom.

In response, Rothschild filed a motion to dismiss the action contending that his MetaBirkins are “art” guaranteed full protection under the First Amendment and references to the name “MetaBirkin” solely operate as titles for his artwork as opposed to source identifiers for the NFTs.

In his motion, Rothschild also argued that *Rogers v. Grimaldi* is the applicable standard—a precedent set over 30 years ago

which requires balancing the public interest in protecting free expression with potential violations under the Lanham Act. Even though Judge Jed S. Rakoff denied the motion to dismiss, the court held that the *Rogers* test is the appropriate standard because the use of MetaBirkin as title and descriptor of the NFTs is analogous to the advertisement and marketing of the film at issue in *Rogers*. Nonetheless, the court found that that Hermès complaint still alleges sufficient factual allegations that Rothschild's use of the mark is not artistically relevant and is explicitly misleading as the source of the NFTs.

Footnote 13 of the order curiously mentions that the *Rogers* test may not apply if the NFTs actually linked to virtually wearable Birkin handbags since these may constitute “non-speech commercial product[s].” This idea may play a role in the way courts view static digital images as compared to digitally wearable products in the metaverse.

In a similar vein, Nike has also initiated a metaverse-related action against StockX, a popular resale platform, alleging trademark infringement, false designation of origin, unfair competition, and trademark dilution. The action con-

cerns StockX's collection of "Vault NFTs"—digital images of various sneakers, including Nike branded shoes, that correspond to physical sneakers kept in StockX's facility vault.

According to StockX, customers can purchase a Vault NFT, which operates as a "digital receipt" that can be redeemed for the physical pair of sneakers it corresponds to or can be sold and transferred to other users for the same redemption opportunities. Nike asserts that these NFTs constitute new unauthorized products citing various provisions of StockX's terms of service (which have since been amended) that allegedly confer additional benefits and promotions to the NFTs in addition to being redeemable for the physical sneakers.

In response, StockX has argued that its use of the NIKE mark and images of its sneakers is nominative fair use and is protected under the first sale doctrine as the NFTs have no intrinsic value outside of functioning as "claim tickets" for the physical products to which they refer. Nike recently amended its complaint to also include claims of counterfeiting and false advertising. These allegations relate to StockX's warranty that the sneakers sold on

their platform are "100% authentic."

The issue of copyright ownership transfer by way of NFTs has also been an emerging issue, recently presenting itself in the California federal court case, *Miles Park McCollum v. Opulous et al*, 2:22CV00587. Miles Park McCollum, professionally known as the rapper Lil Yachty, has filed an action for trademark infringement, unfair competition, false representation and various other right of publicity claims under California law, against Opulous, a company, which according to the complaint, "brings decentralized finance to the music industry," allowing consumers to obtain ownership interest in a musician's copyrighted work using NFTs as the means to transfer and maintain that ownership.

Lil Yachty alleges that after talks for a potential partnership with Opulous failed to crystallize, Opulous, headed by its founder and CEO, Lee James Parsons, went ahead and used Lil Yachty's name and likeness in its promotional materials, without his consent, and falsely represented that Lil Yachty's copyrighted musical works would be offered for sale on the Opulous platform. Opulous has since filed a motion to

dismiss for lack of jurisdiction, with a hearing date expected on Aug. 1, 2022.

As fashion brands and celebrities await for the courts to make a decision in these matters, many brands, including Nike, have taken steps to protect their intellectual property in preparation for the metaverse boom. A long litany of famous brands have filed trademark applications in connection with downloadable virtual goods for use in online virtual worlds. Others concerned about preemptive protections have advocated for virtual world platforms to begin creating non-judicial policies to deal with eventual intellectual property issues. Today, all eyes are on the metaverse as the legal questions it poses will fundamentally change the contours of intellectual property law.