

NFTs and Trademark Matters in the Metaverse

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French Fashion House Defends its Trademark Rights in Connection with Artist's NFT Minting

In January 2022, the heritage fashion house Hermès lodged a complaint in New York federal court against California artist Mason Rothschild for his use of its BIRKIN bag name and design. Unlike with the typical recipient of a BIRKIN bag infringement claim – such as a counterfeit producer or competing handbag designer – Rothschild's allegedly infringing works cannot be held, opened, or worn. The case, *Hermès International, et al. v. Mason Rothschild*, represents one of multiple recent disputes between fashion house and non-fungible token (“NFTs”) creator attempting to implement a brand's trademarks into a new digital frontier – the metaverse. Rothschild's NFT works in the present case, coined the “MetaBirkins,” represent a series of 100 NFT images featuring the iconic BIRKIN bag design covered in a variety of colorful furs.

In its complaint, Hermès asserts that Rothschild's MetaBirkins infringe upon and dilute its federally registered BIRKIN trademarks as well as its trade dress rights in the BIRKIN bag form. At the heart of its argument, Hermès focuses on the fact that the MetaBirkins are being commercialized in a manner akin to the valuable “in-real-life” products for which they represent. The MetaBirkins are marketed and offered for sale just like the real thing, all the while incorporating and exploiting the famous BIRKIN marks in connection therewith. Hermès claims that the MetaBirkins “falsely create the impression that the goods sold by [Rothschild] are authorized, sponsored, or approved by Hermès when, in fact, they are not.” In an attempt to cue the case up as a classic example of trademark infringement, Hermès conceptualizes the MetaBirkin NFTs as valuable assets able to be marketed and sold no differently than the actual BIRKIN bag.

In response to the complaint, Rothschild submitted a motion to dismiss on February 9m 2022 with the intent of having the case tossed out in its entirety as a matter of law. Integral to his argument, Rothschild asserts that the MetaBirkins are artworks that provide commentary “on the animal cruelty inherent in Hermès' manufacture of its ultra-expensive leather handbags.” The motion to dismiss goes on further to reiterate that the NFTs “are not handbags” and that “they carry nothing but meaning.” Of course, Rothschild's argument takes the stance that his MetaBirkins are not commercializable assets in the first instance (as Hermès sees them), but rather Rothschild's speech, art, and expression, all of which are protectable under the First Amendment. To back up this argument, Rothschild relies on the precedent set forth in *Rogers v. Grimaldi*, which permits the use of

trademarks in artistic works provided that the trademarks have no artistic relevance or otherwise overtly create a false designation of origin. Rothschild also cites *Dastar Corp. v. Twentieth Century Fox Film Corp.*, which holds that only tangible, physical goods are actionable under the Lanham Act. Of course, given the amorphous and quickly-evolving nature of NFTs, it is unclear whether the *Dastar* case applies to the present facts, or whether it is distinguishable.

Leaning on free speech and artistic expression, Rothschild has now presented a countering position to that of *Hermès* for the court to consider – namely, does the highly commercial nature of NFT works fall closer to artworks and speech or commercial goods.

Nike and Stock X Clash over Sales of NFTs Depicting Nike Trademarks

Athletics giant Nike filed suit against online sneaker marketplace StockX on February 3, 2022 alleging trademark infringement and dilution in response to the sneaker marketplace's recent NFT venture. Like many instances of NFT integration in businesses that deal in tangible goods, StockX's use of NFTs is marketed as a utility to its members. Specifically, the new NFT initiative serves the purpose of allowing for customers to purchase a shoe through an authenticated NFT, which evidences such ownership without having the need to physically possess and store the shoe itself. Shoes subject to the NFTs are said to be "stored in [StockX's] brand new, climate-controlled, high-security vaults inside StockX facilities." Customers, who use the StockX platform more like an exchange (treating sneakers like stock rather than wearables), are likely to utilize the new service in order to buy and sell (or "flip") shoes at a quicker rate. In StockX's words, "You take possession of the NFT immediately after the transaction is complete, meaning it is the fastest way to flip. And with no shipping costs, and market-leading low seller fees at a fraction of the cost, there's a lower hurdle for profitability."

Despite the apparent utility of StockX's NFT integration, Nike identified in its complaint that this functionality is not yet active, and may otherwise be flawed. According to Nike, StockX has not activated the redemption process for NFT owners, meaning the purchase of a sneaker NFT today would not entitle the owner to the physical shoe it allegedly represents. Separately, Nike points to what it calls "murky terms" which permit StockX to unilaterally redeem an NFT for an "experiential component," which would deprive the NFT owner of ever possessing the corresponding shoe. These inconsistencies could support the notion that StockX's NFT business is predominantly focused on selling sneaker NFTs as yet another collectible asset, and not as a functional extension of its platform.

This is the narrative that Nike has set forth in order to support its argument that StockX's NFT practices are misappropriating Nike's trademarks in an effort to economically gain from the goodwill of the NIKE brand. Further to this point, Nike emphasized that in October 2021 it filed for NIKE trademarks for use in connection with "digital sneaker NFTs" – goods that it claims are directly conflicting with StockX's NFTs and therefore Nike's exclusive right to pursue. If StockX's NFT program is not found to conform to its stated business function, Nike will likely zero in on this fact and exert its rights in the NIKE brand. Although StockX has not yet filed a response, their approach is expected to emphasize the utility of their NFT initiative as a natural extension of the First Sale Doctrine, which entitles them to resell authentic Nike products and otherwise use Nike's related trademarks in connection with the marketing and sale of such goods.

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