

STINSON

# AT THE CORNERS

## IN THIS ISSUE

02

### META BAGS: NFT COMPLICATIONS AND CONSIDERATIONS FOR TRADITIONAL BRAND OWNERS

David S. Kim and Abigail Flores

03

### PASS INTERFERENCE: POTENTIAL TAX IMPLICATIONS OF NIL COLLECTIVES IN COLLEGE SPORTS

Ethan Sanders, Erick Orantes and Staci Campbell

05

### THE LINE UP

Aalok Sharma

## CONTACTS



### Staci Campbell

**LAW CLERK**

[staci.campbell@stinson.com](mailto:staci.campbell@stinson.com)

*Staci is licensed in Florida.*



### Abigail Flores

**ASSOCIATE \ ST. LOUIS**

[abigail.flores@stinson.com](mailto:abigail.flores@stinson.com)

314.345.7034



### David S. Kim

**PARTNER \ ST. LOUIS**

[david.kim@stinson.com](mailto:david.kim@stinson.com)

314.259.4569



### Erick Orantes

**ASSOCIATE \ KANSAS CITY**

[erick.orantes@stinson.com](mailto:erick.orantes@stinson.com)

816.691.2627



### Ethan Sanders

**ASSOCIATE \ KANSAS CITY**

[ethan.sanders@stinson.com](mailto:ethan.sanders@stinson.com)

816.691.2628



### Aalok Sharma

**PARTNER \ MINNEAPOLIS**

[aalok.sharma@stinson.com](mailto:aalok.sharma@stinson.com)

612.335.1428

STINSON

STINSON LLP \ STINSON.COM

# META BAGS: NFT COMPLICATIONS AND CONSIDERATIONS FOR TRADITIONAL BRAND OWNERS

DAVID S. KIM AND ABIGAIL FLORES

In yet another example of the law trying to keep up with technology, the U.S. District Court for the Southern District of New York issued a decision in *Hermès International, et al. v. Mason Rothschild* that examines traditional trademark concepts in connection with non-fungible tokens, or “NFTs.” This helped to provide a glimpse of how courts will treat the sale of NFTs and other digital assets in the future.

Artist, self-proclaimed marketing strategist, and entrepreneur, Mason Rothschild created a collection of digital images of faux-fur-covered Hermès Birkin bags he called “MetaBirkins.” Rothschild then began selling the MetaBirkins as a series of NFTs at prices similar to the elusive and coveted physical bags themselves. To promote the NFTs, Rothschild created social media accounts and websites using the MetaBirkin name. Rothschild even went so far as to describe his creative inspiration as an experiment to see if he could “create that same kind of illusion that [the Hermès Birkin bag] has in real life as a digital commodity.”

Provoked by these actions, Hermès, the owner of the Birkin trademark for luxury handbags, filed a claim for trademark infringement and dilution of the Birkin mark. Hermès appeared to have a strong case, considering the amount of actual confusion expressed by consumers on social media, as

well as in the traditional media, with major magazines and newspapers mistakenly reporting a partnership between Rothschild and Hermès. However, Rothschild threw a wrinkle into Hermès’ position when he brought a motion to dismiss for failure to state a claim. He argued that Second Circuit precedent required dismissal of Hermès’ trademark claims on First Amendment grounds because his digital images were protected artistic expressions and not actual handbags. Thus, the key issue before the court was whether Rothschild was selling commercial products under the Birkin mark or creative works of art that were titled “MetaBirkin.”

While the court sided with Rothschild and went with the latter interpretation – because the digital images “could constitute a form of artistic expression” – they summarily denied Rothschild’s motion to dismiss because of the unresolved factual disputes. Under *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989), use of a trademark in a work of art is not an infringement as long as (i) the name is artistically relevant to the work and (ii) the use of the trademark does not explicitly mislead as to the source or content of the work. In this case, the court found that the MetaBirkin name might not be artistically relevant and, even if it were, Rothschild’s use of it might still be explicitly misleading and point to

allegations of Rothschild’s intent to exploit the popularity and goodwill of the Birkin mark and might be used as evidence of actual confusion.

This case is certainly one to watch as it brings up many interesting questions about the future of trademark law in the digital age. Will brand owners be able to enforce their trademark rights against new forms of digital art? How much confusion will the NFT marketplace introduce for traditional brand owners? Notably, the use of NFTs did not affect the court’s decision in the MetaBirkins case. However, the court did note that *Rogers* might not apply if the NFTs were attached to a virtually-wearable handbag – a non-speech commercial product.

The court’s balancing act between trademark protection and First Amendment concerns will likely influence both brand owners and artists, at least in the near future. For example, many brand owners have already been racing to file trademark applications for the anticipated use of their marks with NFTs and/or virtual goods in the metaverse. With consumers becoming increasingly interested in digital experiences, it is critical to understand the metes and bounds of our intellectual property and actively police both the physical and digital world in order to keep up with any changes in technology and the law.

# PASS INTERFERENCE: POTENTIAL TAX IMPLICATIONS OF NIL COLLECTIVES IN COLLEGE SPORTS

ETHAN SANDERS, ERICK ORANTES AND STACI CAMPBELL

Conference realignments. TV deals continuing to soar. Name, image and likeness. If there is one thing that has recently come to define college sports, it is the constant flux and the ebb and flow of change permeating the landscape, both on and off the field. In the wake of the National Collegiate Athletic Association's (NCAA) adoption of an "Interim Name, Image, and Likeness Policy" (NIL) on June 1, 2021, athletes, athletic departments, coaches and universities have all been working to adapt – some more successfully than others – to the continually shifting state of college sports. One off-field area that the implementation of NIL has already begun to affect is the tax implications of NIL collectives, both for athletes and universities.

In the year since the NCAA implemented NIL, many universities seized the opportunity to attract better athletes to their programs via NIL "collectives." As of July 1, 2022, over 120 collectives have formed or are in the process of forming, and 92% of the 65 Power Five schools have begun the process.<sup>1</sup> Typically organized and designed as charitable organizations, the collectives free up additional funds from boosters and alums to players, providing that players contribute some time to the collective's charitable work.<sup>2</sup> For example, the University of Texas started a nonprofit charity

organization called Horns with Heart, guaranteeing scholarships of \$50,000 to each offensive lineman. Horns with Heart is funded by the Clark Field Collective, which has already collected over \$10 million from boosters to support NIL activities for Texas athletes.<sup>3</sup> In Tennessee, Governor Bill Lee signed an amendment to the state's NIL law, removing barriers to coaches or university officials attending NIL events or universities to fundraise for NIL collectives.<sup>4</sup> Alabama has also repealed its NIL law, allowing universities to work directly with NIL collectives, and other states such as Florida, Kentucky and Virginia are attempting to pursue the same route, via amendment or repeal.<sup>5</sup>

The rapid rise of these collectives prompts the question of how they will be treated under the U.S. tax code. While some NIL collectives have classified themselves as for-profit entities, many others have sought, and obtained, tax-exempt 501(c)(3) status under the Internal Revenue Code, allowing boosters and other contributors to enjoy tax deductions for their donations. The most pervasive model of a tax-exempt NIL collective consists of athletes choosing a charity to which they will contribute services, in exchange for payment (such as the \$50,000 scholarship at the University of Texas) from the NIL collective. Collectives following this model have

successfully attained tax-exempt 501(c)(3) status, such as the Hoosiers For Good NIL collective with Indiana University.<sup>6</sup> All donations to Hoosiers For Good by boosters and alums are now tax-deductible.

Although the Internal Revenue Service (IRS) has granted tax-exempt 501(c)(3) status to some NIL collectives, this does not answer the more pressing question of whether those collectives would survive an IRS audit of their charitable status after an examination of their actual activities and operations. The IRS has not issued a position or any guidance on whether the NIL collectives can maintain their tax-exempt status, and the granting of the tax-exempt status is considered by some as merely a procedural action rather than any concrete opinion by the IRS, since such status is granted based on statements describing the NIL's exempt purposes and its proposed activities made in the tax-exempt application. The IRS can later revoke an organization's tax-exempt status if it concludes that the organization does not operate in accordance with the stated exempt purpose in its application or if the IRS determines that the organization's activities serve private interests or provides private benefits to individuals or organizations.

Over a year into the NIL era, there remains a fair amount of regulatory

uncertainty regarding NIL activities by both athletes, universities and boosters. Beyond the NCAA and state governments, the IRS may issue further guidance and delve deeper into the makeup and pursuits of NIL collectives, particularly because they are holding themselves out as charitable organizations. Regardless of the swift changes continuing to ripple through college sports, athletes, universities and university donors should take note of what could very well be merely the beginning of a long and winding road to how NIL collectives will operate under tax laws. Accordingly, college athletes, organizations and boosters should carefully prepare and take action to avoid costly litigation under both state specific laws and potential IRS guidance. Collectives should also be aware of the additional regulatory burdens associated with tax-exempt 501(c)(3) status, such as complying with various annual filing requirements with the IRS and allowing public inspection of exemption applications, determination letters and annual returns. They will need to be mindful of the public perception that a collective is just being used to allow large donors to enjoy tax deductions for donations that are then routed to players through the collective.

---

<sup>1</sup> Pete Nakos, ON3.COM, July 6, 2022, <https://www.on3.com/nil/news/what-are-nil-collectives-and-how-do-they-operate/>.

<sup>2</sup> These NIL collectives in college sports, operating as charitable organizations, are notably different from the obviously for-profit “name image and likeness” endorsement arrangements entered into by pro athletes, such as Stephen Curry with Under Armor or Patrick Mahomes with State Farm.

<sup>3</sup> Mike Bianchi, THE ORLANDO SENTINEL, December 9, 2021, <https://www.orlandosentinel.com/sports/mike-bianchi-commentary/os-sp-gators-billy-napier-boosters-texas-longhorns-mike-bianchi-column-20211209-dxihyozk7jf6tph2siojhvmkwm-story.html>.

<sup>4</sup> Adam Sparks, THE KNOXVILLE NEWS SENTINEL, April 25, 2022, <https://www.knoxnews.com/story/sports/college/university-of-tennessee/2022/04/26/tennessee-nil-law-allows-colleges-facilitate-payments-vols-vanderbilt-memphis/7423300001/>.

<sup>5</sup> *Id.*

<sup>6</sup> Zach Osterman, THE INDIANAPOLIS STAR, April 18, 2022, <https://finance.yahoo.com/news/hoosiers-good-helps-connect-iu-191722213.html>.

## THE LINE UP

### AALOK SHARMA

**01** **\$2.5 BILLION.** The future of live sports will take place on streaming television. In a first-of-its-kind contract, Major League Soccer (MLS) announced a 10-year deal with Apple for \$2.5 billion. Under the agreement, all MLS regular season matches will be broadcast online. Linear television, however, will continue to have a large role, as it is expected that traditional broadcast partners will still have access to approximately 25 regular season games. MLS's move to streaming is not unexpected. The National Football League (NFL) has maintained a deal with Amazon for Thursday Night Football, and it is widely anticipated that YouTube TV will make a bid for NFL's Sunday Ticket.

**02** **25.** A Decentralized Autonomous Organization (DAO) obtained an interest in a team within the BIG3 basketball league by purchasing 25 non-fungible tokens (NFTs). A DAO is an ownership structure consisting of token holders who control the organization via preset rules and voting structures through smart contracts. In theory, DAOs operate a more democratic business organization, though they are largely unregulated outside of a handful of jurisdictions. DAOs will become more prevalent in the sports industry, though some traditional sports teams and leagues may hesitate to interact with DAOs, as the regulatory environment for crypto and digital assets continues to change.

**04** **\$600 MILLION.** The Venture Capital firm Andreessen Horowitz announced the formation of a new \$600 million fund dedicated to gaming startups, with a focus on Web 3.0 platforms. The fund, titled Games Fund One, will focus on video games that have a social network connection like the successful gaming titles Fortnite, Roblox and Minecraft. Andreessen Horowitz notes that gaming is driving innovation with monetization, with focuses on "microtransactions, battle passes, and web3 tokens." Horowitz's announcement is not a surprise, as more companies are looking to diversify their investments in the gaming space, although regulatory enforcement in this space is likely, as more consumers allege confusion, fraud and theft.

**06** **THREE.** In a three-year legal saga, Ohio State University (OSU) was granted a registration for the word "The." The term "The" is commonly used by OSU athletes who claim they went to "The" Ohio State University. The dispute with the U.S. Patent and Trademark Office (USPTO) began when the USPTO initially declined to grant the registration because "The" failed to function as a trademark, as OSU was only using the word ornamentally. Additionally, the USPTO declined to grant the registration because American fashion designer Marc Jacobs filed a trademark application for an earlier mark covering certain clothing lines. In order to assuage the USPTO's concerns, OSU narrowed the registration to show its sponsorship. The university also entered into an agreement with Marc Jacobs relating to the word "The." The registration now permits OSU to use the trademark on t-shirts and hats relating to the school's athletic program. Like many schools, OSU is protective of its branding, which generates over \$12.5 million each year for the school.

**03** **550.** In an ongoing dispute regarding NFTs, Nike is suing an online sneaker retailer, StockX, for trademark infringement, dilution and unfair competition. In particular, StockX sells NFTs that are directly linked to a physical pair of Nike sneakers on StockX's platform. Nike claims that StockX is using its valuable trademarks to promote StockX's NFTs. To date, Nike has identified at least 550 NFTs that infringe its marks. In response, StockX claims that the NFTs are no different than "images and descriptions of products" and that the NFTs function as a voucher to obtain a physical pair of NFT sneakers. The lawsuit is not expected to be resolved anytime soon, as there is sparse case law involving trademark infringement and NFTs.

**05** **FOUR AND 12.** Earlier this summer, Kansas Governor Laura Kelly signed SB84 into law, which permits sports wagering in Kansas. Only eleven days after Kansas sportsbooks began accepting bets, Kansas had already placed over \$39 million in bets, driven by the start of the NFL and college football seasons. The Kansas Lottery is overseeing sports wagering, with the expectation that bettors will be able to place bets by the first week of the NFL season. Kansas imposes a 10% tax on any sports betting revenue, thereby making it an attractive location for sportsbooks.

For more information on these and other esports, sports technology & wagering topics, please subscribe to our quarterly *At the Corners* newsletter.

**SUBSCRIBE**

## LOCATIONS

### MINNEAPOLIS

50 South Sixth Street  
Suite 2600  
Minneapolis, MN 55402  
612.335.1500

### KANSAS CITY

1201 Walnut Street  
Suite 2900  
Kansas City, MO 64106  
816.842.8600

### DALLAS

2200 Ross Avenue  
Suite 2900  
Dallas, TX 75201  
214.560.2201

### ST. LOUIS

7700 Forsyth Boulevard  
Suite 1100  
St. Louis, MO 63105  
314.863.0800

### PHOENIX

1850 N. Central Avenue  
Suite 2200  
Phoenix, AZ 85004  
602.279.1600

### WASHINGTON, DC

1775 Pennsylvania Avenue NW  
Suite 800  
Washington, DC 20006  
202.785.9100

### DENVER

1144 Fifteenth Street  
Suite 2400  
Denver, CO 80202  
303.376.8400

### OMAHA

1299 Farnam Street  
Suite 1500  
Omaha, NE 68102  
402.342.1700

### WICHITA

1625 North Waterfront Parkway  
Suite 300  
Wichita, KS 67206  
316.265.8800

### NEW YORK

1325 Avenue of the Americas  
27th Floor  
New York, NY 10019  
212.763.8491

### JEFFERSON CITY

230 West McCarty Street  
Jefferson City, MO 65101  
573.636.6263

### BISMARCK

424 South Third Street  
Bismarck, ND 58504  
701.221.8600



**STINSON**

STINSON LLP \ STINSON.COM