Katten

# KATTISON AVENUE

Advertising Law Insights From Madison Avenue and Beyond

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## Letter From the Editor

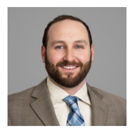
Spring is in full bloom and advertising and intellectual property matters are popping up like tulips across industry sectors and in the metaverse. In this issue of *Kattison Avenue*, we cover the FTC's move to flex its deceptive advertising enforcement muscle and the EU's privacy crackdown on the widely used Google Analytics. We examine "idea theft" and how claims by inventors align with advertising agency pitches to clients. We also review how courts are interpreting "fresh, local and quality" assertions. Finally, we focus on issues to watch as trademark disputes crop up in the metaverse. We wish you good health and hope you have many opportunities to enjoy the beauty of spring and some lazy summer afternoons to come.

**Jessica G. Kraver**

## In This Issue



## FTC Goes on Penalty Offense, Warns of Hefty Fines for Deceptive Advertising



By Michael Justus

The Federal Trade Commission (FTC) is ramping up enforcement of deceptive advertising with formal notices to new industries, to companies using influencers and by harking back to notices it released more than 50 years ago.

Last year, the US Supreme Court held in *AMG Capital Management* that Section 13(b) of the FTC Act (the Act) does not permit the FTC, in federal court, to seek equitable monetary relief.[1] In response, the FTC has focused its claims for monetary relief on its Penalty Offense Authority under Section 5 of the Act. To do so, the FTC sends companies a "Notice of Penalty Offenses" listing conduct determined to violate the Act in prior administrative orders. If a company engages in such conduct after receiving the Notice, the FTC may seek civil penalties of up to $43,792 per violation.

Since *AMG Capital*, the FTC has sent out Notices of Penalty Offenses to over 700 companies relating to use of endorsements and testimonials (including by influencers); to over 1,000 companies that advertise "money-making opportunities" to address claims regarding participants' potential earnings and risks; and to 70 for-profit educational institutions to address claims regarding graduates' job prospects and earnings. Those industries are watching carefully for follow-up enforcement actions by the FTC, seeking monetary remedies based on the Notices.

In April 2022, the FTC used its Penalty Offense Authority to bring enforcement actions for large monetary awards in a *different* industry. The FTC challenged two major retailers' alleged claims of "bamboo"

content in textile products, and related environmental benefit claims. The FTC is seeking court orders imposing penalties of $2.5 million and $3 million, respectively, in these cases.

Perhaps even more interesting than the "bamboo" cases, themselves, was the FTC's concurrent announcement that it is "reviving" numerous other Notices of Penalty Offenses issued in the 1970s and 1980s that "remain valid and relevant today." The FTC specifically listed prior Notices regarding textiles, energy savings, fur products, home improvement products, auto rentals, bait and switch, toys, and weight reduction. The FTC warned that "[b]usinesses in these industries should familiarize themselves with the Commission's determinations in these areas."

It is now clear, if it was not already, that the FTC is serious about leaning on its Penalty Offense Authority to obtain significant monetary penalties for allegedly deceptive advertising practices. For companies in the above-listed industries, there is some urgency to reviewing advertising for compliance with FTC rules. Businesses in other industries would also be wise to take this opportunity for a compliance check-up before the next round of Notices arrives.

(1) *AMG Capital Management v. FTC*, 141 S. Ct. 1341 (2021).

# EU Data Protection Authorities Find Google Analytics Violates GDPR

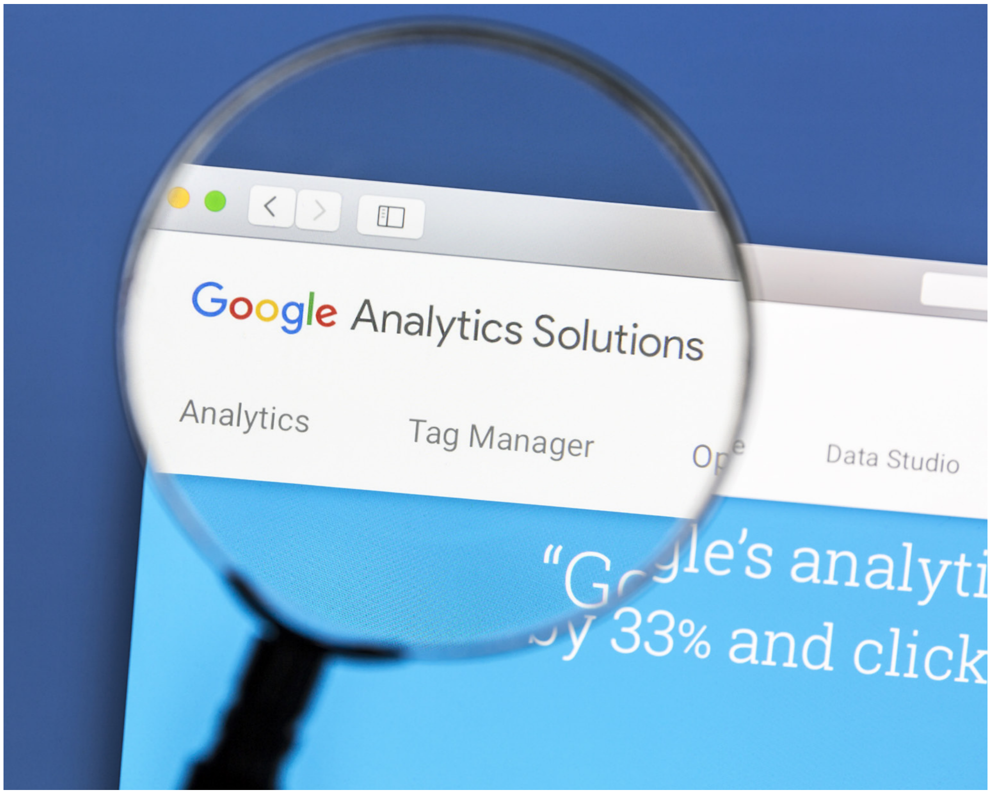
By Dagatha Delgado

In our first edition of the Katten Kattwalk/Kattison Avenue crossover issue, we discussed how data protection authorities (DPAs) have been increasingly focusing their attention on cookies and similar tracking technologies. To make matters more complicated, two European DPAs have now found that the widely used Google Analytics violates the EU General Data Protection Regulation (GDPR).

Not too long after the Court of Justice of the European Union (CJEU) issued its decision in *Schrems II*, which invalidated the EU-US Privacy Shield, Austrian advocacy group, *noyb*, submitted 101 complaints to 14 DPAs throughout the EU. The complaints focused on the use of Google Analytics or Facebook Connect, and transfers of EU data to the United States.

The Austrian DPA is the first of likely more decisions to find that Google Analytics violates the GDPR's cross-border transfer rules. To summarize the decision, the Austrian DPA first found that Google Analytics identifiers can be "personal data" (as defined under the GDPR). In particular, the DPA indicated that the identifiers can be combined with other elements, such as IP address, device data and clickstream data, and can be used to distinguish website visitors. Second, the DPA found that the Austrian-based website operator in question was a data controller and, by implementing Google Analytics on its website, the operator had transferred data outside of the EU to data processor, Google, located in the United States. It is important to note that the case was filed in August 2020, when the Google entity was US-based. Since the end of April 2021, Google Analytics has been provided by Google Ireland Limited (based in Ireland).

Third, in assessing the Chapter V transfer mechanism in place, the Austrian DPA held that merely entering into standard contractual clauses (SCCs) with a US data importer is not sufficient and, to ensure an adequate level of protection, supplemental transfer measures must be implemented. In assessing the supplemental measures at hand, the DPA found that Google had not met its burden of proof to demonstrate how the measures prevented the possibility of the US government from accessing the EU data. Notably, the DPA also found that the use of encryption was insufficient to protect the data as Google maintained the encryption keys and Google still had an obligation to provide data to the US government under Section 702 of the Foreign Intelligence Surveillance Act (FISA). Accordingly, the DPA found that the website operator as controller violated the GDPR, not Google.




Just weeks later, the French DPA reached a similar decision, finding that data collected through the use of Google Analytics that is then transferred to the United States violates the GDPR's cross-border transfer requirements. However, the French DPA went a step further to say that its finding also applies to similar tools used by website operators that result in transfers of EU data to the United States.

Other DPAs are expected to issue decisions similar to those of the Austrian and French DPAs. As the Future of Privacy Forum noted, the "Dutch DPA and the Danish DPA have published notices immediately after the publication of the Austrian decision to alert organizations that they may soon issue new guidance in relation to the use of Google Analytics, specifically referring to the Austrian case."

Organizations across the globe are now facing the question of how to respond to the recent decisions. Given how widely used the product is, it seems unlikely that organizations will simply stop using the product. Some companies are considering requesting consent from individual website visitors (not just consent to place cookies, but also to transfer the data to the United States). Others are taking the wait-and-see approach, especially as Google has announced changes to Google Analytics.

For the time being, it is unclear exactly how website operators will respond to the recent decisions. What is clear is that all organizations (businesses, non-profits and government entities) are hopeful that the EU and United States agree to the new trans-Atlantic data agreement (TADA), which would replace the former EU-US Privacy Shield, sooner rather than later.

# Do Not Pass 'Go'

## *How a Board Game Decision Is Applicable to Idea Theft Disputes in the Advertising Industry*

By David Halberstadter

At first blush, the recent lawsuit filed by a toy inventor against toy and game company, Hasbro, would seem to have little to do with the advertising industry. In fact, however, the decision by the Southern District of New York has *everything* to do with advertising. The court's discussion of the circumstances under which a board game inventor could become entitled to royalties from the company to whom he pitched his ideas is highly relevant to the relationship between advertising agencies and advertisers, as well. This article offers a roadmap for how both agencies and advertisers can minimize disputes and examines the potential for subsequent claims of idea theft.

In *Wexler v. Hasbro Inc.*,[1] toy and game inventor David Wexler alleged that Hasbro unlawfully used two of his ideas without paying him royalties. Wexler asserted claims for breach of contract, misappropriation, unfair competition, and unjust enrichment. As the allegations underlying Wexler's complaint are described below, readers familiar with the process by which advertising agencies submit marketing ideas to advertisers will immediately see the parallels.

## The Pitch

Many professional toy inventors, including Wexler, pitch ideas to toy companies in the hopes that a company will license and develop their proposal in return for royalties. Hasbro, a global toy and game company, regularly meets with outside inventors who present their ideas to representatives from Hasbro's "Products Acquisitions" department.

In a series of meetings between 2007 and 2015, Wexler pitched various toy and game ideas to Hasbro. One of the ideas was "a branded collection of combined games, each of which is controlled by Hasbro, and uses combined play pattern of the original games and the games' names together as the name of the new product." At each of the meetings, Wexler presented illustrative examples of games that could be included in the collection (for example, Monopoly combined with Trouble, Jenga combined with Twister, and a Candy Land/Chutes and Ladders mash-up). In one meeting, Wexler specifically pitched a mash-up of Connect 4 and Nerf.[2] Hasbro ultimately passed on the mash-up idea generally and each of the pitched examples.

However, from 2019 to 2020, Hasbro sold at Target stores a line of products under the name "game mash+ups." The products included combinations of Monopoly and Jenga, Taboo and Speak Out, Guess Who? and Clue, Candy Land and Connect 4, and Twister and Scrabble.[3] In 2019, Hasbro also began selling a game called "Connect 4 Blast!," the stated goal of which was "to dislodge discs from a stand-alone Connect 4 grid by blasting Nerf projectiles at it."[4]

Wexler claimed that Hasbro had made use of both his general “mash-up” idea in connection with the products marketed under the “game mash+ups” line and the specific combination of Connect 4 and Nerf that he had pitched during one meeting. Following discovery, Hasbro moved for summary judgment on all of Wexler’s claims, and the court granted the motion.

## The Applicable Law

The court observed that, while each of Wexler’s claims comprised a number of different critical elements, two elements were common to all four of them: a showing that Wexler’s ideas were “novel” and that the defendant actually used his ideas, rather than similar ideas pitched by another person or developed independently by Hasbro.[5] And for those claims to survive summary judgment, Wexler was required to demonstrate the existence of a genuine dispute of material fact as to both “novelty” and “use.”[6]

For example, the court observed that under New York law, an implied contract claim based upon the submission of an idea requires a showing of both novelty of the idea and the defendant’s use of that idea.[7] Similarly, the tort of misappropriation of ideas requires proof of a legal relationship between the parties, an idea that is novel and concrete, and the defendant’s use of it.[8] Given that “unfair competition encompasses the principle that one may not misappropriate the results of the skill, expenditures and labors of a competitor,” the court continued, “misappropriation is considered the ‘cornerstone’ of an unfair competition claim” and “courts often treat an unfair competition claim as part and parcel of a plaintiff’s misappropriation claim.”[9]

Finally, to prove unjust enrichment under New York law, the court concluded, a plaintiff must establish that “(1) defendant was enriched, (2) at plaintiff’s expense, and (3) equity and good conscience militate against permitting defendant to retain what plaintiff is seeking to recover.”[10] Because the basis for Wexler’s unjust enrichment claim was that Hasbro used and exploited his ideas and that it would be unjust for Hasbro “to retain the value of Plaintiff’s novel and creative general and specific Mash-Up ideas and applications without compensating Plaintiff,” the court reasoned that, if his ideas were not novel, or if Hasbro did not use them, Wexler would have no claim for unjust enrichment.[11]

## The District Court’s Rulings

Having identified “novelty” and “use” as the lynchpins of all of Wexler’s claims, the court had little difficulty concluding that Wexler’s mash-up idea was not novel. First, the court found that Wexler’s basic idea to combine elements of two Hasbro games was generic. Although Wexler had proposed specific

## Case to Watch: Whose Idea Is ‘Ballin?’

Apropos of points made in “Do Not Pass ‘Go,’” a graphic designer filed an idea theft suit against Nike, Inc. in the US District Court for the Southern District of Texas. In the March 31 suit, the graphic designer claims Nike stole his idea for an NCAA “March Madness” promotional campaign. The plaintiff, who ironically uses the pseudonym “Adobe Bryant” (an obvious riff on Kobe Bryant’s name), claims to have submitted his concepts to Nike in April 2020, by providing a Nike marketing executive a link to a pitch deck that Bryant uploaded to Dropbox. The Nike executive purportedly viewed the deck several times, but never contacted the plaintiff either to accept or reject his submission.


*Figure 1 Adobe Bryant proposal*

The proposed campaign idea was to make use of the common basketball term “ballin” by putting the letter “b” and the letters “in” in one tone, and the letters “all” in a different tone, so as to read as both “ballin” and “b all in.” Nike purportedly used Bryant’s concept in its design for the official cover-shirts worn (during warm-ups, over the team uniforms) by a majority of the schools who competed in the 2022 NCAA March Madness playoffs. (See related images for a comparison of the plaintiff’s proposed tees with the tees created by Nike.)


*Figure 2: Nike apparel*

Bryant has alleged claims of trademark infringement, unfair competition and false designation of origin under the federal Lanham Act (15 U.S.C. § 1125(a)), as well as state law claims for unjust enrichment and quantum meruit. *Jones v. Nike Inc. et al.*, Case No. 22-cv-00103 (S.D.Tex. filed March 31, 2022).

*—David Halberstadter*

combinations of games, Hasbro did not use any of those specific combinations, except for the Connect 4 Blast! Product, which the court discussed separately.[12]

Moreover, the elements comprising Wexler's mash-up idea – *i.e.*, that (i) each game would combine elements of two preexisting games, (ii) the two preexisting games are "Hasbro classics," (iii) the name of the new product would utilize the names of its two component games and (iv) the collection would be a line of products – were "so common and commercially available in the toy and game industry that a reasonable jury would have to conclude that the idea is not unique and is 'nothing more than a variation on a basic theme.'"[13] Having determined that Wexler's mash-up idea was not novel, the court found it unnecessary to consider whether Hasbro used it.[14]

With respect to Wexler's Connect 4/Nerf idea, the court instead focused on whether a material factual dispute existed as to whether Hasbro had used it. Hasbro offered in support of summary judgment evidence of its independent development of its own Connect 4 Blast! Product by an in-house developer who had never seen and was completely unaware of any inventor submissions by Wexler.[15]

Wexler was unable to refute Hasbro's independent development evidence, resulting in the summary disposition of this claim. Having found that Hasbro did not use Wexler's idea, the court found it unnecessary to address whether his Connect 4/Nerf idea was novel.[16]

## The Application to the Advertising Industry

It is routine in the advertising industry for advertisers to solicit marketing ideas from advertising agencies and for agencies to prepare elaborate presentations of their proposed marketing campaigns in an effort to secure an exclusive agency representation agreement. Certainly (and ideally), many of the marketing ideas agencies pitch to potential advertisers are highly creative and novel; but their presentations may also include more generic advertising techniques and strategies, concepts that are common to the advertiser's particular industry or market, or ideas that derive from the unique characteristics and qualities of the advertiser's own goods or services. Advertisers frequently provide specific objectives and campaign themes to the agencies whose pitches they solicit. In addition, advertisers of goods and services often solicit marketing proposals and presentations from multiple, competing agencies, as well as develop their own concepts in-house.

It is not surprising, therefore, that advertising agencies that receive a "pass" from the advertisers to whom they pitched their ideas may come to believe their ideas were wrongfully used without compensation when the advertiser subsequently launches a marketing campaign that bears similarities to what the agency pitched. In fact, in the view of many advertising agencies and industry groups, it is not uncommon for an advertiser to have one agency implement ideas pitched by another.[17] And, of course, advertisers do not want to be subjected to potential litigation simply because they engaged a different agency that presented similar marketing ideas.


So how can advertising agencies and advertisers reduce the risks of such disputes?

First, it is essential that agencies who make pitches and advertisers who solicit them carefully document and maintain records of the pitches they make and take. When the pitch occurred, who was present for it, what ideas were actually pitched and what materials were left with the advertiser, if any, is critical information to have in the event of a future claim. If the advertiser provided the agency with any information in advance of the pitch, this should be carefully documented as well.[18]

Second, advertisers and agencies should retain records evidencing the development history of the advertising campaigns they eventually produce. If the campaign is the result of one agency's pitch in a competitive situation in which other proposals were rejected, it will be important to both the advertiser and the agency that was hired to be able to later demonstrate what concepts the retained agency initially pitched, how the campaign was revised and embellished over the course of its development, and who at the advertiser provided creative input (and what input he or she provided). If elements of the campaign were developed in-house, it is also important to be able to identify who originally suggested the idea, what inspired that person to come up with his or her concept, what, if any, source materials he or she relied on, and whether he or she had exposure to other agency presentations prior to conceiving of his or her idea.

Third, agencies and advertisers both should consider entering into submission agreements when possible.[19] The document does not need to be the Magna Carta. Even a brief but thorough submission agreement can, among other things:

- Establish the ownership of both the ideas that the advertiser may have provided to the agency in anticipation of the pitch and the ideas that the agency pitches;
- Express the parties' agreement that neither of them will make use of the other's novel ideas;[20]
- Have the agency making the pitch acknowledge that the advertiser will be receiving pitches from other agencies and that it generates many marketing ideas in-house; and have the agency agree that the advertiser is free to use similar ideas that are pitched by other agencies or independently generated in-house, without any obligation to the pitching agency;
- Have the advertiser receiving the pitch acknowledge that the agency makes pitches to many advertisers and that, unless the agency is engaged exclusively by the advertiser, it is free to incorporate its own creative ideas into pitches for other potential clients; and
- Have the agency making the pitch represent and warrant that the ideas and materials it is submitting are original to the agency and/or do not infringe upon the rights of any third parties.

Finally, it is important to note that the *Hasbro* decision was based on New York law. While many of the court's legal conclusions would apply to the same claims under the laws of other states, including California, there is one critical distinction: In California, it is well-established that an idea *does not* have to be novel for it to be the basis of an implied contract.[21] So an advertising pitch that takes place in California can be based on completely banal, generic ideas and still potentially give rise to an implied obligation on the part of the recipient of the pitch to pay for those ideas if the recipient actually uses them. This is all the more reason for advertisers and agencies to enter into an express agreement, where their rights and obligations to each other are clearly defined.

(1) Case No. 20-cv-1100 (S.D.N.Y. Filed February 7, 2020, Decided March 11, 2022).

(2) For those unacquainted with Hasbro's product line, Connect 4 requires players to take turns placing discs in a grid, to achieve the ultimate goal of four discs in a row. "Nerf" refers to a type of soft foam rubber used to make a variety of toys, including projectiles that are shot from Nerf brand "blasters."

(3) Wexler conceded that he never proposed to Hasbro any of the specific combinations in the line of products sold at Target, with the exception of the mash-up of Connect 4 and Nerf. Wexler, Docket No. 79 at *3.

(4) Although Connect 4 Blast! also was sold at Target, it was not part of the "game mash+ups" product line.

(5) *Wexler*, Docket No. 79 at *5.

(6) *Id.; see generally Paul v. Haley*, 183 A.D.2d 44, 52–53 (2d Dep't 1992) (lack of novelty in an idea is fatal to any cause of action for its unlawful use).

(7) *Id.* at *5-6; *see Nadel v. Play-By-Play Toys & Novelties, Inc.*, 208 F.3d 368, 376 (2d Cir. 2000).

(8) *Id.* at *6-7; *see Turner v. Temptu Inc.*, 586 F. App'x 718, 722 (2d Cir. 2014) (collecting cases).

(9) *Id.* at *7; *see also Stuart's, LLC v. Edelman*, 196 A.D.3d 711, 714 (2d Dep't 2021); *Ruder & Finn Inc. v. Seaboard Sur. Co.*, 52 N.Y.2d 663, 671 (1981); *Nadel*, 208 F.3d at 373 n.2; and *Paul v. Haley*, 183 A.D.2d 44, 52–53 (2d Dep't 1992).

(10) *Id.* at *8; *see Briarpatch Ltd., L.P. v. Phoenix Pictures, Inc.*, 373 F.3d 296, 306 (2d Cir. 2004).

(11) *Id.*

(12) *Id.* at *8.

(13) *Id.* at *9-15; *see also AEB & Assocs. Design Grp., Inc. v. Tonka Corp.*, 853 F. Supp. 724, 734 (S.D.N.Y. 1994).

(14) *Id.* at *8.

(15) *Id.* at *16.

(16) **Id.** at *15, n. 29.

(17) *See, e.g.*, "Pitches and stolen riches: ad agencies reveal how clients have ripped them off," by John McCarthy, *The Drum*, February 25, 2022; "Half of PR agency leaders have encountered idea theft," *Pitchmark*, June 5, 2019; "Pitch or ditch: stolen ideas, fees and the dark side of pitching," *Marketing*, December 13, 2017.

(18) This first recommendation is intended for advertisers that are well-run, well-organized and genuinely do not intend to make use without compensation of the ideas that agencies pitch to them. It may, however, be a double-edged sword for less scrupulous and fast-moving advertisers whose employees may take lots of pitches without coordinating with one another or who tend to make quick or even spontaneous advertising decisions in reaction to recent events.

(19) *See* sample advertising agency pitch letter/agreement; a discussion of agency-client nondisclosure agreements and another discussion of agency-client nondisclosure agreements.

(20) Typically, the advertiser will want to ensure that an agency will not disclose the advertiser's information to one of its competitors or use that information in preparing a marketing campaign for a competitor. And an agency typically will want to ensure that the advertiser will not make use of any novel ideas that they agency presents without engaging that agency to implement its own ideas or, at least, without compensating the agency for its ideas.

(21) *See Stanley v. Columbia Broadcasting System*, 35 Cal.2d 653, 674 (1950) ("The policy that precludes protection of an abstract idea by copyright does not prevent its protection by contract. . . . Even though the idea disclosed may be 'widely known and generally understood,' it may be protected by an express contract providing that it will be paid for regardless of its lack of novelty.") (Traynor, J., dissenting), *approved by Desny v. Wilder*, 46 Cal.2d 715, 733 (1956) ("The principles enunciated in the above quotation from Justice Traynor's dissent are accepted as the law of California"); see also *Chandler v. Roach*, 156 Cal.App.2d 435, 443 (1957) ("We see no necessity to add the elements of novelty and concreteness to implied-in-fact contracts with reference to authors."); *Blaustein v. Burton*, 9 Cal.App.3d 161, 183 (1970) ("An idea which can be the subject matter of a contract need not be novel or concrete.").

# ‘Fresh, Local, Quality’ — How Unverifiable Opinions Evade False Advertising Claims

By Matthew Hartzler

For a consumer, the words “Fresh. Local. Quality.” attached to a product might draw connotations of craft beer, artisan goods or farm-to-table restaurants. But could a competitor sue under the Lanham Act if those “local” goods are actually shipped over from a neighboring state? When the Tenth Circuit Court of Appeals recently evaluated these words used to promote a bakery’s bread, it deemed the tagline not actionable as false advertising and merely opinion. A lack of “verifiable *factual* meaning” prevented the words from being deemed true or false — no matter what the tagline might evoke.[1]

Along with bringing trade secret theft and trade dress infringement claims, Bimbo Bakeries USA, Inc. (Bimbo Bakeries) alleged that United States Bakery (US Bakery) engaged in false advertising when it used the tagline “Fresh. Local. Quality.” to advertise US Bakery’s bread in stores and on its delivery trucks. Following a trial in which Bimbo Bakeries provided survey evidence on what consumers believed “local” meant, a jury deemed US Bakery’s tagline false advertising and awarded Bimbo Bakeries over $8 million in damages. On review, the Tenth Circuit was unimpressed with the outcome.

Bimbo Bakeries focused its argument on the fact that US Bakeries claimed its bread was “local.” However, US Bakeries baked some of its bread outside of the states in which they were sold. This was true for the loaves sold in California as well as in Utah following a bakery closure in that state. Through consumer survey evidence, Bimbo Bakeries defined “local” as “baked in-state” and argued that all out-of-state bread was therefore falsely advertised as “local.”

The appellate panel assessed that “Bimbo Bakeries’ survey, which asked consumers about the meaning of ‘local,’ cannot somehow convert the word into a statement of fact” and that “the word ‘local’ cannot be adjudged true or false . . . .”[2]

Only statements of fact are actionable under the Lanham Act.[3] A plaintiff alleging false advertising must prove that the promotional statement is either false or misleading. And only factual statements are inherently able to be proven true or false.

“Local” proved especially challenging for the Court due to definitions failing to provide how large that area or place can be. The dictionary definitions offered by Bimbo Bakeries — “relating to or occurring in a particular area, city, or town” and “pertaining to or characterized by place or position in space; spatial” — had no clear outer boundary.[4] “In the absence of mile markers, literal or figurative, we are unable to assess a locality claim as a factual matter. We are left with the conclusion that ‘local’ is simply a statement of opinion with which others may agree or disagree without generating legal liability.”[5]

## Opinion — Something Other Than Puffery?

The Court deemed “quality” as “quintessential puffery outside the Lanham Act,” but the panel did not describe “local” as puffery.[6] Puffery, which has long been deemed non-actionable

under the Lanham Act, "is an exaggeration or overstatement expressed in broad, vague, and commendatory language."[7] Claims deemed puffery are generally ones of product superiority such as "America's Favorite Pasta," and it is not clear that "local" necessarily fits that category of bragging or boasting.[8]

In the Southern District of California, a district court assessed a similar situation: Whether a brewer describing its beer as "artfully crafted" was actionable under California's unfair competition laws.[9] That court concluded that the statement lacked a specific meaning and merely stated the brewer's subjective opinion on its beer, allowing the brewer to escape liability.

There is no hard line between opinion and puffery though. A recent Ninth Circuit Court of Appeals decision deemed a five-star rating system in a guidebook to be unquantifiable assertions that are "classic, non-actionable opinions or puffery."[10]

## Context Can Create Factual Statements from Opinion

The analysis cannot stop there. What appears to be puffery or opinion can be transformed into verifiable fact depending on the context. In a legal battle between pizza chains, the tagline "Better Ingredients–Better Pizza" appears on its face to be innocuous puffery. However, when the line was used as part of a larger, comparative ad campaign against its rival, the Fifth Circuit Court of Appeals held that opinion had transformed into a statement of fact in the mind of a reasonable consumer: The "better pizza" came from specific, "better ingredients." Because the advertising explained that the pizza comes from identified fresh ingredients, fresh dough, and filtered water, the Court of Appeals felt that

context had defined "better." As a result, the tagline took on the "characteristics of a statement of fact."[11]

In *Bimbo Bakeries*, the Court found that even when considering all the context, the entire tagline "is simply US Bakery's opinion about its product."[12] The generality and subjectivity of "fresh" and "quality" water down whatever specific meaning a consumer might place on "local." The rest of the visual advertising context did not imply or provide meaning to the term given that there were no comparative statements to other brands and no reference to a state or city. When the brand's Salt Lake City bakery was active, it paired the tagline with the slogan "Freshly baked in Utah," but it ceased using that when that baking facility closed.

## Consumer Misunderstanding Cannot Generate False Advertising Claim Alone

The appellate panel conceded that some segment of consumers might have been misled into believing that US Bakeries baked its bread in state: "But not every subjective interpretation of ambiguous language is actionable false advertising."[13]

Quoting the Eighth Circuit's opinion on "America's Favorite Pasta," the panel noted that "the Lanham Act protects against misleading and false statements of fact, not misunderstood statements."[14] It summarily concluded, "When the language in question is incapable of objective verification as to truth or falsity, it is not a statement of fact, and no amount of misunderstanding will give rise to an action under the Lanham Act."

(1) *Bimbo Bakeries USA, Inc. v. Sycamore*, 29 F.4th 630, 644–45 (10th Cir. 2022) (emphasis in original).

(2) *Id.*

(3) *Verisign, Inc. v. XYZ.COM LLC*, 848 F.3d 292, 302 (4th Cir. 2017) ("[I]n order to be 'false' in any way cognizable under the Lanham Act, a statement must also be one of fact.").

(4) *Bimbo Bakeries*, 29 F.4th at 645.

(5) *Id.*

(6) *Id.* at 647.

(7) *Castrol Inc. v. Pennzoil Co.*, 987 F.2d 939, 945 (3d Cir. 1993).

(8) *Am. Italian Pasta Co. v. New World Pasta Co.*, 371 F.3d 387 (8th Cir. 2004).

(9) *Parent v. MillerCoors LLC*, No. 3:15-CV-1204-GPC-WVG, 2015 WL 6455752, at *9 (S.D. Cal. Oct. 26, 2015).

(10) *Ariix, LLC v. NutriSearch Corp.*, 985 F.3d 1107, 1121 (9th Cir. 2021) (quoting Prager Univ. v. Google LLC, 951 F.3d 991, 1000 (9th Cir. 2020)).

(11) *Pizza Hut, Inc. v. Papa John's Int'l, Inc.*, 227 F.3d 489, 501–02 (5th Cir. 2000).

(12) *Bimbo Bakeries*, 29 F.4th at 647.

(13) *Id.*

(14) *Id.* at 646 (quoting *Am. Italian Pasta Co. v. New World Pasta Co.*, 371 F.3d 387, 393–94 (8th Cir. 2004)).

# Trademark Infringement in the Metaverse

## *Nike Sues Online Resale Platform Alleging Infringing Use of Logo in StockX NFT*

By Katie E. O'Brien

In the 3D virtual world known as the metaverse, pioneering enterprises are exploring ways to capitalize on this new frontier's growing popularity. As expected, the use of company marks and brands is becoming an issue to watch. Take Nike's recent lawsuit against online resale platform StockX. The suit alleges StockX NFTs that incorporate images of Nike sneakers infringe on Nike's famous trademarks. The complaint presents novel legal issues that, once decided, have the potential to define the scope of trademark rights in the world of NFTs.

### What is an NFT?

Before we get into infringement, we need to understand the landscape in play. Non-fungible tokens, or NFTs, are unique digital assets stored on the blockchain, which is a digital and non-centralized ledger that publicly discloses who owns a particular NFT. NFTs act as a digital representation of ownership of tangible and nontangible items in the real world, such as artwork, real estate, and video game skins. Each NFT has a unique address associated with its owner that enables proof of ownership. NFTs can exist in any form of digital media, ranging from images to songs. Among some of the famous examples are the Bored Ape Yacht Club NFTs, which act as both a digital avatar and a ticket to an exclusive online social club.

While the first NFT was minted back in May 2014, they have only recently gained mainstream attention following celebrity buy-in and reports of NFTs selling for millions of dollars. In 2021, a crypto entrepreneur purchased Twitter founder Jack Dorsey's first-ever tweet as an NFT for $2.9 million. As pricy NFTs garnered mainstream attention, many were left wondering why someone would pay millions of dollars to purchase what appears to be a simple image or video that is readily available to view online for free. While it is possible to screengrab and download copies of digital art that someone has purchased as an NFT, the NFT purchaser still remains the owner of the original work and such ownership is recorded on the blockchain. While someone may have a print of one of Monet's impressionist landscapes hanging in his or her living room, only one original copy of the painting exists and ownership of that original carries significant value despite the existence of copies.

### Nike Swooshes In

Nike brought an action in February 2022 for trademark infringement against StockX, a large online resale marketplace. StockX is a streetwear reseller that, unlike other marketplaces, also acts as an intermediary that provides authentication services to its customers. Recently, StockX expanded this

*Bored Ape Yacht Club NFTs are represented by a digital avatar of a uniquely designed ape. The middle image is a Bored Ape owned by Tonight Show host, Jimmy Fallon, who purchased the NFT for over $200,000.*


*StockX's Nike NFTs.*

authentication service by launching its own collection of NFTs, which it claims are linked to authenticated physical goods. Many of the NFTs being minted by StockX are comprised of images of Nike sneakers. Nike alleges such use of Nike's famous marks constitutes trademark infringement, false designation of origin, and trademark dilution, among other violations.

The case hinges on whether StockX's NFTs represent proof of ownership of physical goods or whether the NFTs themselves are virtual products.

StockX contends its NFTs are simply a method to track ownership of physical Nike products sold on the StockX marketplace and held in StockX's custody. In denying that its NFTs are virtual products, StockX points to its redemption process in which NFTs may be redeemed by an owner at any time in exchange for delivery of the physical shoes. Importantly, this novel method for tracking ownership facilitates a more efficient and sustainable resale process. Instead of physical goods that are frequently sold and traded among consumers being repeatedly shipped following each sale, users can simply sell and exchange an NFT.

Nike argues that StockX's Nike-branded NFTs are themselves virtual products, and not simply a representation of ownership of physical Nike sneakers. While StockX touts its customers' ability to redeem an NFT in exchange for possession of the physical product as evidence that their NFTs act simply as proof of ownership, such redemption process is currently unavailable, with no indication as to when, if ever, such service will become available. Instead of presenting a new and efficient method for trading goods, Nike alleges that StockX is minting NFTs to profit from Nike's goodwill and reputation in the streetwear scene. Indeed, the potential profit from selling Nike-branded NFTs is significant – a physical pair of Nike Dunk Low shoes have a resale price of $282 on StockX, but the StockX NFT purportedly linked to this shoe has traded for over $3,000, an almost 1,000 percent price difference between the physical shoe and the NFT. Nike concludes that the StockX NFTs are collectible virtual products, created and distributed by StockX using Nike branding without authorization.

Nike has a particularly strong interest in avoiding brand confusion in this case, as it recently acquired RTFKT Studios (pronounced "artifact"), a digital art and collectibles creative studio engaged in the creation of NFTs, in the hopes of combining blockchain technology with sneaker culture and fashion. Through this new acquisition, Nike has released NFTs through RTFKT, including collectible digital sneakers. Notably, Nike additionally has multiple pending trademark applications before the US Patent and Trademark Office to register its sneakers as virtual goods.

The Nike case is poised to be key to the development of metaverse jurisprudence because of its potential to address the scope of a trademark owner's right to regulate unauthorized uses of its marks in NFTs. While the outcome of this case remains to be seen, other major brands are already seeking protection of their branding in this emerging space by filing trademarks to specifically protect virtual goods and services. Given the nascent uncertainty of how our current legal framework will apply in the metaverse, seeking registration for virtual goods and services is a prudent step for brand owners as we conduct business in the fast-growing digital economy.

## Katten's Advertising, Marketing & Promotions Practice

*Katten represents advertisers, advertising and promotions agencies, technology developers, content producers, and media and entertainment companies, in reimagining the connection to consumers. From clearance, privacy and regulatory obligations to smooth product launches and brand integration, we address concerns in a variety areas, including: ad, marketing and promotional programs; agency-client relationships; branded entertainment; contests and sweepstakes; internet distribution; licensing and vendor agreements; litigation (comparative and false advertising, First Amendment issues, Lanham Act, unfair competition laws, etc.); privacy and data security; talent and production agreements; user-generated content; and sponsorships.*

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