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New York Federal Jury Rejects First Amendment Defense in "MetaBirkins" NFT Standoff

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Introduction

Perhaps no other area in the technology sector – save perhaps the recent explosion of generative AI models – has raised as many thorny intellectual property issues as the proliferation of Non-Fungible Tokens, or NFTs, many of which are based on, refer to, or even incorporate expressive works. Leading the charge have been cases addressing whether NFT makers who utilize other parties' trademarks can turn to the First Amendment as a defense to trademark infringement. This inquiry rests on the now decades old *Rogers* test established by the Second Circuit in 1989. The *Rogers* test allows defendants to raise a free speech defense if their use of a mark is artistically relevant to their work and does not explicitly mislead consumers as to its source.[1]

In the recent *Yuga Labs* case out of the Central District of California in which NFT makers tried to justify their use of plaintiff's "Bored Ape" trademarks as commentary against plaintiff's alleged racist tendencies, the court rejected the defendants' attempt to dismiss the case on free speech grounds under *Rogers*.[2] The court held that defendants failed to make the threshold legal showing that their use of the marks was part of an expressive work because the defendants' NFTs merely pointed to the same digital images that made up plaintiff's NFT collection, and because defendants' sale of their NFTs amounted to "commercial activities designed to sell infringing products, not expressive artistic speech protected by the First Amendment."[3]

In contrast, in *Hermès International v. Mason Rothschild*, the United States District Court for the Southern District of New York found that *Rogers* potentially protected defendant's NFTs both at the motion to dismiss and summary judgment stages, but declined to reach a conclusion due to issues of material fact.[4] Finding the case ripe for trial, the case proceeded to a jury. On February 8, 2023, a jury found the defendant liable for trademark infringement, trademark dilution, and cybersquatting, after deliberating for three days, in a highly watched trial overseen by Judge Jed. S. Rakoff.[5] Rejecting defendant's free speech defense, the jury ordered defendant to pay $110,000 for trademark infringement, as well as $23,000 in damages for cybersquatting.[6] This alert analyzes the summary judgment decision that set the stage for trial, and provides some takeaways concerning the legal landscape for NFTs moving forward.

Factual Background

Hermès International pitted the high-end luxury fashion brand Hermès, maker of the iconic Birkin bag, against an individual defendant known as Mason Rothschild, who created a collection of digital images, each depicting a blurry faux-fur Birkin bag, which he called "MetaBirkins."[7] Rothschild sold each MetaBirkin image as a unique NFT.[8] Before even minting the MetaBirkin NFTs, Rothschild allowed customers to browse his website (featuring previews of the digital images sold via the NFTs), where they were able to purchase the MetaBirkin NFTs.[9]

After successfully selling the rights to his first one hundred NFTs, Rothschild considered minting another one hundred MetaBirkin NFTs, later revising that number to nine hundred.[10] In conversations with an associate, Rothschild remarked that he was "sitting on a gold mine," and referred to himself as a "marketing king."[11] He even discussed the idea of selling other NFTs based on luxury products, such as a collection of NFTs called "MetaPateks," modeled after the well-known watches made by Patek Philippe.[12] In total, Rothschild produced one hundred MetaBirkin NFTs, which he sold for over $1.1 million.[13]

Hermès filed suit against Rothschild in January 2022, claiming that the NFTs infringed its trademarks in the word "Birkin," as well as in the design of the Birkin bag itself.[14] Among other claims, Hermès also brought a claim for trademark dilution.[15]

Judge Rakoff's Summary Judgment Opinion

Like the court in *Yuga Labs*, Judge Rakoff started his analysis with the threshold question of whether Rothschild had made an artistic or expressive use of the underlying material subject to the *Rogers* test. The court explained that "as long as the plaintiff's trademark is used to further plausibly expressive purposes, and not to mislead consumers about the origin of a product or suggest that the plaintiff endorsed or is affiliated with it, the First Amendment protects that use."[16] Unlike in *Yuga Labs*, Judge Rakoff determined that the *Rogers* test *was* potentially applicable to the NFTs.

Applying the *Rogers* framework, the court explained that summary judgment against Rothschild was inappropriate because "defendant ha[d] identified admissible evidence supporting its assertion that Rothschild's use of Hermès' marks did not function primarily as a source identifier that would mislead consumers into thinking that Hermès originated or otherwise endorsed the MetaBirkins collection."[17] The court pointed to the images of the Birkin bags covered with fur as suggesting artistic expression, and to statements by Rothschild that distanced himself from Hermès and purported to characterize the expressive nature of his project.[18] For example, Rothschild disclaimed on his website any connection to Hermès.[19] Additionally, in an interview, "Rothschild characterized the NFT collection as 'an experiment to see if [he] could create that same kind of illusion that [the Birkin bag] has in real life as a digital commodity.'"[20] (In *Yuga Labs*, by comparison, the court found defendants' use not to implicate *Rogers* despite defendants' explanation that their use of plaintiff's mark served as a form of "appropriation art," and despite disclaimers on at least one of their websites that the project was meant to be satire.)[21]

Judge Rakoff then turned to the two *Rogers* factors, and found genuine issues of material fact to exist with respect to both. As to whether Rothschild's use of Hermès' mark was artistically relevant to the underlying work, the court found that reasonable minds could differ as to "whether Rothschild's decision to center his work around the Birkin bag stemmed from genuine artistic expression or, rather, from an unlawful intent to cash in on a highly exclusive and uniquely valuable brand name."[22] On the one hand, Rothschild had made comments to investors suggesting an intent to exploit the Hermès brand, such as that he was "in the rare position to bully a multi-billion dollar corp[oration]."[23] On the other hand, as described above, Rothschild also made comments early on that the MetaBirkins collection was an artistic experiment.[24] In either event, the court made it clear that Rothschild's pecuniary motives alone did not bar the application of *Rogers*.[25] Because of competing evidence, and because the issue of artistic relevance is "a mixed question of law

and fact," the court found the issue apt for jury determination.[26]

As for the second factor of the *Rogers* test, which considers whether a defendant's work "induces members of the public to believe that it was created or otherwise authorized by the plaintiff," the court turned to the Second Circuit's well-known Polaroid factors for examining the likelihood of confusion.[27] Here, relevant considerations included the strength of the Hermès mark, the similarity between the "Birkin" and "MetaBirkins" marks, the likelihood of Hermès itself moving into the NFT space, and whether Rothschild exhibited bad faith.[28] Because of the quantity and fact-intensive nature of the factors, the court explained that where the *Rogers* test is applicable, there will likely be genuine issues of material fact even at late stages of litigation, and found this case to be no different.[29] Therefore, the court put these issues through to trial.

After three days of deliberation, the jury found for Hermès. As reported, Judge Rakoff evidently remarked to counsel for each side: "I have no idea how this case will turn out, which is the way I like it."[30] Ultimately, he left it to the jury to decide whether Rothschild "callously intended to profit from an endeavor that appeared to be artistic but was in fact a 'fabrication.'"[31] While the jury apparently rejected the artistic nature of Rothschild's use, Judge Rakoff's pre-trial uncertainty as to the result signals that other courts may also struggle to decide future cases.

Key Takeaways

- Both *Hermès International* and *Yuga Labs* suggest that, at least for now, courts will apply traditional trademark analyses to issues in the NFT space.
- Coincidentally, the metes and bounds of the *Rogers* test (as applied to NFTs or any other uses of trademarks) are themselves currently somewhat up in the air. In *Jack Daniel's Properties Inc. v. VIP Products LLC*, U.S., No. 22-148, the U.S. Supreme Court will revisit – and potentially narrow – the *Rogers* test as it applies to products that are both expressive and commercial. While the case involves humorous physical goods and not NFTs or other digital products, the Court's decision has the potential to impact the *Rogers* analysis in the NFT space as well.
- While the *Yuga Labs* decision was decided at the motion to dismiss stage and involved less favorable facts than in *Hermès International* (dueling NFTs vs. digital versions of physical goods), it suggests that some courts may be more hesitant than others to apply *Rogers* in the NFT space – or may at least set a higher bar for establishing an expressive purpose (particularly if the Supreme Court raises that bar more generally in its *Jack Daniel's* decision).
- Either way, as illustrated by Judge Rakoff's summary judgment opinion, whether NFT makers can actually prevail on a First Amendment defense is an extremely fact intensive inquiry that in many circumstances may be left open for a jury to decide – meaning protracted litigation even where the brand owner's trademark claims or the NFT seller's First Amendment defense proves meritorious.
- While the Second Circuit applies the well known *Polaroid* factors for examining likelihood of confusion as part of the last step of the *Rogers* test, the Ninth Circuit may focus on "(1) the degree to which the junior user uses the mark in the same way as the senior user; and (2) the extent to which the junior user has added his or her own expressive content to the work beyond the mark itself."[32] While the inquiries touch upon the same basic concepts, different considerations may guide the NFT analysis depending on where a case is litigated.

[1] *See Rogers v. Grimaldi*, 875 F.2d 994, 999 (2d Cir. 1989).

[2] *Yuga Labs, Inc. v. Ripps*, No. CV 22-4355-JFW(JEMX), 2022 WL 18024480, at *5 (C.D. Cal. 2022).

[3] *See id.*

[4] *Hermès International v. Mason Rothschild*, No. 22-CV-384 (JSR), 2023 WL 1458126, at *5-7 (S.D.N.Y. 2023).

[5] Joe Miller, Adrienne Klasa, & Cristina Criddle, *Hermès wins landmark lawsuit over 'MetaBirkin' NFTs,* Financial Times (Feb. 8, 2023), https://www.ft.com/content/5f40179e-7124-4479-8124-df193c49c276.

[6] *Id.*

[7] *Hermès International*, 2023 WL 1458126, at *1.

[8] *Id*. at *2.

[9] *Id*.

[10] *Id.*

[11] *Id*.

[12] *Id*.

[13] *Id*.

[14] *Id*. at *3.

[15] *Id*.

[16] *Id*. at *4.

[17] *Id*. at *5.

[18] *Id*. at *6.

[19] *Id*.

[20] *Id*.

[21] *Yuga Labs,* 2022 WL 18024480, at *2, 5.

[22] *Hermès International*, 2023 WL 1458126, at *8.

[23] *Id*.

[24] *Id*.

[25] *Id*. at *7.

[26] *Id*. at *8.

[27] *Id*.

[28] *Id*. at *9.

[29] *Id*.

[30] Pete Brush, *Jury Mulls If 'MetaBirkin' NFTs Are Art Or TM Infringement*, Law360 (Feb. 6, 2023), https://www.law360.com/media/articles/1573451?nl_pk=5e694e66-1739-4302-9843-76bb58c1d53d&utm_source=newsletter&utm_medium=email&utm_campaign=media&utm_content=2023-02-07&read_more=1&nlsidx=0&nlaidx=9.

[31] *Id*.

[32] *Yuga Labs,* 2022 WL 18024480, at *5 (quotations omitted).

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