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New District Court Decision Provides Useful Guidance on Application of Trademark Law to Virtual Goods

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On May 18, 2022, U.S. District Judge Jed S. Rakoff of the Southern District of New York issued a decision in an ongoing dispute between the international luxury fashion house Hermès and the self-described artist operating under the name Mason Rothschild involving the artist's line of non-fungible tokens (NFTs) termed "MetaBirkins." This litigation is one of the first significant trademark actions involving NFT offerings. Importantly, Judge Rakoff denied the artist's motion to dismiss the trademark claims. While Judge Rakoff's decision denying the artist's motion to dismiss does not resolve the merits of Hermès's claims, it offers some of the first available insight into how courts will consider trademark claims regarding NFTs.

In *Hermès International, et al. v Mason Rothschild*, Hermès sued the artist operating under the name Mason Rothschild in federal court in the Southern District of New York for producing and selling NFTs that he called MetaBirkins, each of which was a digital image of the Hermès Birkin handbag depicted as if made of fur; the artist also sold MetaBirkins and other NFTs through social media channels and digital storefronts under the MetaBirkin name. No. 22-cv-384 (JSR), Dkt. 24 (S.D.N.Y. Jan 14, 2022). Hermès argued that selling these MetaBirkin NFTs infringed and diluted Hermès's Birkin trademark, falsely designated the origin of the NFTs as if they were Hermès-authorized digital products, injured and diluted Hermès's business reputation. Hermès also asserted a claim for cybersquatting based on Rothschild's use of the domain name metabirkins.com for the website used to offer the NFTs. *Id.*

The artist moved to dismiss. *Id.* Dkt. 26, 27. The artist principally argued that the use of the term "MetaBirkin" was protected expression under the Second Circuit's seminal case *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989), which held that use of a famous trademark (in that case, a trademark composed of a celebrity name) in connection with a work of art does not infringe trademark rights so long as (1) the name is "minimally artistically relevant" to the product, and (2) the use does not "explicitly mislead" as to content, authorship, sponsorship, or endorsement. *Id.* The artist argued that calling his products "MetaBirkins" was at least minimally relevant to his claimed project of interrogating the fashion industry's animal cruelty and the nature of luxury and value, and that the term was not explicitly misleading, regardless of whether some observers may have been actually confused. Hermès opposed the motion to dismiss, emphasizing the extensive commercial use the artist had made of the MetaBirkin label, including selling other products under that label and operating digital storefronts and marketing campaigns using the name. *Id.* Dkt. 31. Hermès also emphasized evidence of actual confusion among consumers and industry observers about the origin and authorization of the MetaBirkin NFTs. *Id.* And Hermès pointed to the artist's own statements, including in an interview with *Yahoo! Finance*, in which he referred to the MetaBirkin as a "digital commodity" and said that there was not "much difference" between having the "crazy handbag" in real life or, "now," being "able to bring that into the metaverse with these

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iconic NFTs," and complained about people selling counterfeit MetaBirkins NFTs competitively with his NFTs. *Id.* Hermès argued that the Second Circuit's *Rogers* case should not apply to "commodities" sold in commerce like the MetaBirkin NFTs. *Id.* Hermès also argued that, even if the *Rogers* case applied, the court should still evaluate whether the MetaBirkin label misled the public by applying the "venerable *Polaroid* factors," a set of criteria from a 1961 Second Circuit decision that courts use to evaluate whether a defendant's mark will confuse the public. *Id.* The artist's reply brief insisted that the *Rogers* case should apply because the MetaBirkin NFTs were artworks, and should apply equally to the works themselves and to speech marketing those works. *Id.* Dkt. 38. The artist also argued that if the *Rogers* test applied, the court should ignore the Second Circuit's *Polaroid* multi-factor test, because the only question should be whether the MetaBirkin label *explicitly* misled the public, not whether it could actually mislead the public. *Id.*

Judge Rakoff heard oral argument on May 4, 2022 and issued a short-form order on May 5, 2022 denying the motion to dismiss. *Id.* Dkt. 49. On May 18, 2022, Judge Rakoff issued a memorandum order providing the reasoning for his decision. *Id.* Dkt. 50. Judge Rakoff held that the Second Circuit's *Rogers* test applied because the MetaBirkin NFTs, "digital images of handbags," "could constitute a form of artistic expression," regardless of the fact that the artist also used the label to market and advertise those artworks. *Id.* Notably, Judge Rakoff held that "Rothschild's use of NFTs to authenticate the images" does not "change the application of *Rogers*: because NFTs are simply code pointing to where a digital image is located and authenticating the image, using NFTs to authenticate an image and allow for traceable subsequent resale and transfer does not make the image a commodity without First Amendment protection any more than selling numbered copies of physical paintings would make the paintings commodities for purposes of *Rogers.*" *Id.*

Judge Rakoff declined to rule at the motion to dismiss stage whether the MetaBirkin label qualified as minimally artistically relevant, as the *Rogers* case requires to protect a defendant. The court acknowledged that the threshold for artistic relevance under the *Rogers* case is "low," but also observed that Hermès had alleged the artist "entirely intended to associate the 'MetaBirkins' mark with the popularity and goodwill of Hermès's Birkin mark, rather than intending an artistic association." *Id.* Judge Rakoff cited the artist's own statements to the press about his efforts to "create that same kind of illusion that [the Birkin bag] has in real life as a digital commodity." *Id.*

Regardless of whether the MetaBirkin label qualified as artistically relevant, Judge Rakoff held that Hermès had adequately alleged that the MetaBirkin label was explicitly misleading, which was sufficient to state a claim that the *Rogers* test does not protect Rothschild's conduct. Accordingly, the court denied the motion to dismiss. *Id.* Judge Rakoff explicitly rejected the artist's argument that courts in the Second Circuit should ignore the longstanding *Polaroid* likelihood-of-confusion factors in determining whether a mark is explicitly misleading under the *Rogers* test. Moreover, the court concluded that Hermès had adequately alleged specific facts under the *Polaroid* factors to support a conclusion that the MetaBirkin label was misleading. Judge Rakoff further concluded that, even if the artist was correct that the *Polaroid* factors should not apply, the motion to dismiss would still fail under the *Rogers* test because Hermès had adequately alleged sufficient actual confusion and sufficient efforts by the artist to mislead the public, including the artist's own statements to the press. *Id.*

Judge Rakoff's decision was clearly influenced by the commercial nature of Rothschild's activities, with an eye to potential future sales of virtual goods in a metaverse or enhanced reality context. The court noted that the NFTs might *not* qualify as artworks "if the NFTs were attached to a digital file of a virtually wearable Birkin handbag, in which case the 'MetaBirkin' mark would refer to a non-speech commercial product (albeit not one that is, as yet, considered ordinary or quotidian)." *Id.* 12 n.3. But because Hermès only suggested that the artist might in the future sell "virtually wearable 'MetaBirkins,'" Judge Rakoff declined to consider that issue for purposes of the motion to dismiss. *Id.* As Judge

Rakoff recognized, the increasing prevalence of virtual objects and their potential applications and uses in connection with “metaverse” technologies will require further analysis.

This decision marks one of the earliest decisions by any court in a trademark dispute arising from non-fungible tokens and provides a first set of indications regarding how courts will evaluate NFT-related trademark claims. Additional lawsuits involving NFTs are already working their way through the courts. Judge Rakoff’s decision will likely be considered as those other disputes reach the point of judicial decisions.

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