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# Trademark Litigation

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## Federal Court Rules NFTs Entitled to First Amendment Protection in Trademark Case

In one of the first trademark cases involving NFTs (non-fungible tokens), the U.S. District Court for the Southern District of New York's May 18, 2022 opinion in *Hermès International, et al. v. Mason Rothschild* sheds new light on how courts might assess trademark rights in connection with NFTs and digital products.

Hermès, owner of the famous BIRKIN trademark for luxury handbags, sued Mason Rothschild for trademark infringement after he created and sold NFTs of digital images of furry handbags, which he called "MetaBirkins." The MetaBirkin NFTs sold for prices comparable to Hermès' BIRKIN handbags (*i.e.*, tens of thousands of dollars).

Notably, Rothschild had allegedly previously described the bags as a "tribute to Herm[è]s' most famous bag, the Birkin," and stated that he wanted to see if he could create the "same kind of illusion" as the physical BIRKIN bags with the MetaBirkin NFTs. Hermès also submitted evidence that the media and consumers alike mistakenly believed that the MetaBirkin NFTs were actually associated with Hermès.

Rothschild moved to dismiss Hermès' amended complaint for failure to state a claim, arguing that

Hermès could not prevail as a matter of law due to First Amendment protections afforded to artwork under *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989). Under *Rogers*, an artist's First Amendment rights essentially trump a trademark owner's rights to prevent the use of its mark in the title of an artwork *unless* "the title has no artistic relevance to the underlying work whatsoever, or, if it has some artistic relevance, unless the title explicitly misleads as to the source or the content of the work."

## First Amendment Protection vs. Trademark Protection

Subsequent case law expanded the *Rogers* test to any trademark claims against expressive works, *i.e.*, beyond use of a mark in the title. Hermès, on the other hand, argued that the sale of NFTs was purely commercial, meaning that *Rogers* was inapplicable, and the traditional likelihood-of-confusion test should apply to determine whether Rothschild's use of "MetaBirkin" infringed Hermès' trademark rights.

Thus, the key issue before the court was whether the MetaBirkin NFTs should be treated as (i) expressive works (whereby the NFTs merely authenticate ownership of digital artwork), which require the balancing of trademark rights with First Amendment rights under *Rogers*, or (ii) non-expressive, commercial products, which call for application of the Second Circuit's standard

*Polaroid* likelihood-of-confusion test.

Finding that Rothschild's MetaBirkins were digital images capable of constituting a form of artistic expression, the court held that the images were entitled to First Amendment protection and therefore applied *Rogers*. However, the court denied Rothschild's motion to dismiss because Hermès sufficiently alleged that Rothschild's use of "MetaBirkins" either has no artistic relevance to the underlying work whatsoever, or, even if it has some artistic relevance, it explicitly misleads as to the source or the content of the work. The court noted that, in assessing the "explicitly misleading" prong, it should look to the standard *Polaroid* factors to assess whether there is a likelihood of confusion, but that any likelihood of confusion must be "sufficiently compelling to outweigh the public interest in free expression."

## Takeaways for the Possible Treatment of NFTs

This decision sheds new light on how courts in future cases might treat the sale of NFTs and digital/virtual products in the metaverse in two significant ways:

First, the court was not persuaded that the use of NFTs in connection with the MetaBirkin digital images rendered the sale "commercial" such that the First Amendment shouldn't apply. Rather, it noted NFTs are merely code pointing to the location of digital images (which are protected by the First Amendment) and authenticating the images, and "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*.” Accordingly, merely attaching an NFT to an otherwise expressive work may not be sufficient to defeat the application of *Rogers*’ First Amendment protections when third-party trademarks are used in expressive works or their titles.

Second, the court stated in a footnote that *Rogers* might *not* apply “if the NFTs were attached to a digital file of a virtually wearable Birkin handbag, in which case the ‘MetaBirkins’ mark would refer to a non-speech commercial product.” Here, Hermès’ complaint did not sufficiently allege that Rothschild was actually selling virtually wearable bags under the MetaBirkin mark, nor that he would do so in the “immediate foreseeable future.” This is particularly notable for brand owners seeking to enforce trademark rights against virtual products (*i.e.*, that are wearable and usable by avatars in the metaverse) bearing confusingly similar marks.

Lastly, the court noted that the plaintiff’s additional claims for trademark dilution and

cybersquatting will “rise and fall with the First Amendment defense to the trademark infringement claims” and the application of the *Rogers* test.

As of the date of writing this article, it appears Rothschild will seek to appeal the decision.

While every case will turn on its own facts, *Hermès* provides some helpful initial guidance for potential litigants as to how a court may enforce trademark rights against virtual goods in the metaverse and the use of NFTs in connection with the sale of digital assets.

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*Kasey Boucher’s practice focuses principally on trademark and unfair competition matters, including the full range of counseling, clearance, prosecution, and enforcement of trademarks and brands. Kasey has a particular interest in emerging technologies, which allows her to advise clients on their implications on trademark rights, in terms of both the opportunities and challenges that those technologies present to brand owners. She also advises clients on advertising law issues such as promotions, sweepstakes and contests, gift cards*

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