February 17, 2023

Jury Finds That First Amendment Protection Does Not Bar Creator's Trademark Infringement Liability for the Sale of MetaBirkins NFTs

On February 8, 2023, the jury in *Hermès International* v. *Rothschild*, 1:22-cv-384-JSR (S.D.N.Y.) issued a verdict—the first in a trial between a trademark owner and the creator of Non-fungible tokens ("NFTs")—in favor of *Hermès*, finding that Defendant Mason Rothschild, who had created a series of NFT images labeled "MetaBirkins," was liable for trademark infringement, trademark dilution and cybersquatting of *Hermès*'s iconic "Birkin" trademark, and awarded *Hermès* $133,000 in damages.[1] Notably, the jury found that the First Amendment protection afforded to artistic expressions did not bar Rothschild's liability.[2] The verdict marks the first recognition of trademark infringement associated with NFTs in the United States.

Hermès is a French luxury brand known for its Birkin handbag, first sold in the United States in 1996, with a price ranging from tens of thousands to hundreds of thousands of dollars[3] and a cult following of those who can afford them and those who can't. Hermès owns the "Birkin" word mark and the Birkin trade dress representing the distinctive design of the bag.[4] Rothschild is a self-described marketing strategist and entrepreneur[5] who created a collection of a hundred unique digital images—of handbags that resemble Birkin bags covered in faux fur—titled "MetaBirkins," and then used NFTs to sell these images to online buyers.[6] NFTs are digital records of ownership on a blockchain; they function as a digital deed. Each individual buyer of a MetaBirkin has an NFT recording their sole ownership of their particular Metabirkin image on the blockchain (together, "MetaBirkins NFTs").[7] As of June 2022, these MetaBirkins NFTs had sold for over $1.1 million.[8] Rothschild also received a creator fee for each resale of the MetaBirkins NFTs.[9]

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1 Jury Verdict, 22-cv-384-JSR, Dkt. 144 (Feb. 8, 2023).

2 Jury Verdict, 22-cv-384-JSR, Dkt. 144 (Feb. 8, 2023).

3 Summary Judgment Order at 2–3, 22-cv-384-JSR, Dkt. 127 (Feb. 2, 2023).

4 Amended Complaint ¶¶ 34–35, 22-cv-384-JSR, Dkt. 127 (Mar. 2, 2022); Summary Judgment Order at 7.

5 Summary Judgment Order at 3.

6 Summary Judgment Order at 4.

7 Summary Judgment Order at 4; Jury Instructions at 14, 22-cv-384-JSR, Dkt. 143 (Feb. 7, 2023).

8 Summary Judgment Order at 6.

9 Summary Judgment Order at 6.

Hermès sued Rothschild in the Southern District of New York in January 2022, alleging, among other claims, that the MetaBirkins NFTs infringed Hermès's "Birkin" word mark and diluted the distinctive quality and goodwill associated with this mark. Hermès also alleged that Rothschild's use of a website with the domain name "metabirkins.com" constituted cybersquatting. Although Hermès alleged that the MetaBirkins NFTs infringed the Birkin trade dress, Hermès framed this as an "aggravating factor" to the trademark infringement, and asserted that "it was Rothschild's unauthorized use of the BIRKIN ***name*** for NFTs that . . . gave rise to this action."[10] The actual images of these MetaBirkins were hidden from buyers at the point of sale—they saw only an image of a white cloth draped over an object in the shape of a handbag, and it was only after the NFTs were recorded (or minted) on the blockchain that the actual images of the handbags became visible to the buyers.[11]

Prior to the jury trial, the court denied Rothschild's motion to dismiss and the parties' cross-motions for summary judgment. The threshold issue in those motions was whether the MetaBirkins NFTs were artworks entitled to First Amendment protections or mere commodities, which are not. In both opinions, the court held that the MetaBirkins NFTs constituted artistic works that should be evaluated under the speech-protective test set forth in *Rogers* v. *Grimaldi*, 875 F.2d 994, 1000 (2d Cir. 1989) (the "*Rogers* test"), as opposed to the general test for commodities as set out in *Gruner + Jahr USA Pub., A Div. of Guner + Jahr Printing & Pub. Co.* v. *Meredith Corp.*, 991 F.2d 1072 (2d. Cir. 1993).[12] In particular, the court found the following evidence as indicative of the artistic nature of the MetaBirkins NFTs: (a) the MetaBirkins images depict Birkin bags covered with fur, which Rothschild characterized as a critique of fashion companies' efforts to go fur-free; (b) Rothschild claimed the MetaBirkins NFTs was an artistic experiment; (c) after receiving a cease-and-desist letter from Hermès, Rothschild placed a prominent disclaimer on his website stating that his project was not affiliated with Hermès; and (d) Rothschild's publicist asked the publications that had mistaken the Hermès affiliation to issue corrections.[13] The court noted that an artistic work is not stripped of First Amendment protection merely because the artist seeks to market and sell his creative output, finding that such protection is not granted only to "starving artists."[14]

Under the *Rogers* test, Rothschild's MetaBirkins NFTs would not be entitled to First Amendment protection if the use of the "Birkin" word mark and trade dress (together, "Hermès's mark") was either (1) not "artistically relevant" to the underlying artwork—in other words, Rothschild's decision to center his work around the Birkin bag did not stem from genuine artistic expression, but rather, from an unlawful intent to cash in on Hermès's brand name; or (2) used to explicitly mislead the public that they were associated with Hermès.[15] The court found that there were genuine factual disputes with respect to both elements and therefore reserved those questions for the jury.

Regarding the first element, the court noted that, on the one hand, Hermès argued that Rothschild's alleged artistic purpose was just a sham, and that his statements to investors showed a clear intent to exploit the fame of the Birkin bag. For example, Rothschild told investors that he "doesn't think people realize how much you can get away with in art by saying 'in the style of,'" and that he was "in the rare position to bully a multi-billion dollar corporation."[16] On the other hand, Rothschild contended that his artistic purpose was clear from other public statements he made that the MetaBirkin NFTs were "part of his artistic experiment to see how people with money and influence who drive the culture would respond to" the MetaBirkin NFTs, and

10 Summary Judgment Order at 7, fn. 5.

11 Summary Judgment Order at 5–6.

12 Summary Judgment Order at 8–18.

13 Summary Judgment Order at 15–17.

14 Summary Judgment Order at 18.

15 Summary Judgment Order at 19, 21.

16 Summary Judgment Order at 21.

"whether they actually would ascribe value to the ephemeral MetaBirkins in the same way they attached value to the physical Birkin bags."[17]

Regarding the second element, the court instructed that it involves consideration of consumer confusion under the eight factors set forth in *Polaroid Corp* v. *Polaroid Elecs. Corp*, 287 F.2d 492 (2d Cir. 1961) (the "*Polaroid* factors"), including (1) the strength of Hermès's mark; (2) the similarity between the Hermès's mark and the MetaBirkin mark; (3) whether the public exhibited actual confusion about Hermès's affiliation with the MetaBirkins NFTS; (4) the likelihood that Hermès would move into the NFT space; (5) the competitive proximity of the products in the marketplace; (6) whether Rothschild exhibited bad faith in using Hermès's mark; (7) the respective quality of the MetaBirkin and Hermès's marks; and (8) the sophistication of the relevant consumers.[18] To override First Amendment protection, the court found that consumer confusion "must be clear and unambiguous."[19] The court further noted that these factors require a fact-intensive and context-specific analysis that is typically more suited for the jury.[20] On the third factor, for example, Hermès pointed to a study it commissioned that found a 18.7% net confusion rate among potential consumers of NFTs as well as anecdotal evidence of actual confusion by social media users, such as statements like "Birkin NFT is the future of fashion," whereas Rothschild disputed the methodology of the study and contended that the anecdotal evidence Hermès presented was consistent with a lack of consumer confusion as well.[21]

At trial, the court asked the jury to focus on the second element of the *Rogers* test. It first instructed the jury to consider the *Polaroid* factors to determine whether the MetaBirkins NFTs would likely confuse potential customers in thinking that they were connected with, associated with, sponsored by or approved by Hermès.[22] The court then instructed that, if they were to find that such likelihood of confusion exists, they should further consider whether Rothschild intentionally misled the consumers. The court explained that since "[i]t is undisputed . . . that the MetaBirkins NFTs, including the associated images, are at least some respects works of artistic expression," Rothschild "is protected from liability . . . unless Hermès proves by a preponderance of the evidence that Mr. Rothschild's use of the Birkin mark was not just likely to confuse potential consumers but was intentionally designed to mislead potential consumers."[23] "In other words," the court explained, "if Hermès proves that Mr. Rothschild actually intended to confuse potential customers, he has waived any First Amendment protection."[24] After an eight-day trial, the jury ultimately determined that not only were the MetaBirkins NFTs likely to cause consumer confusion, but also that Rothschild intentionally misled the consumers with respect to the MetaBirkins NFTs' association with Hermès. Therefore, the jury found that the First Amendment protection does not bar Rothschild's liability.[25]

A number of large consumer and fashion brands have expanded into the NFT market in the past year, including Gucci, Balenciaga, Coca-Cola, Adidas, and Nike, to name a few. Unlike the mere digital images of MetaBirkins created by Rothschild, some of these brands create virtually "wearable" products, such as Adidas's Virtual Gear collection that can be worn by virtual avatars in other inter-operable identity-based projections and virtual worlds.[26] One unanswered question raised by the *Hermès International* v. *Rothschild* case is whether the MetaBirkins NFTs would still be considered artistic expressions warranting the application of the *Rogers* test if the underlying assets associated with the NFTs were not mere digital images of handbags, but

17 Summary Judgment Order at 21.

18 Summary Judgment Order at 23.

19 Summary Judgment Order at 23.

20 Summary Judgment Order at 23–24.

21 Summary Judgment Order at 24.

22 Jury Instructions at 15–17.

23 Jury Instructions at 21.

24 Jury Instructions at 21.

25 Jury Verdict, 22-cv-384-JSR, Dkt. 144 (Feb. 8, 2023).

26 https://www.forbes.com/sites/stephaniehirschmiller/2022/11/16/adidas-launches-first-nft-wearables-collection/?sh=58099eee37fe

digital files of a handbag that could also be worn, for example, by avatars in the virtual world. In the court's opinion denying Rothschild's motion to dismiss, it noted that Rothschild seemed to concede that the *Rogers* test might not apply "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."[27] The court ultimately did not analyze this issue, however, because Hermès did not allege that Rothschild "uses, or will in the immediate foreseeable future use, the mark to sell non-speech commercial products."[28]

The developing market for NFTs is in uncharted legal territory, with numerous unanswered questions as to how traditional First Amendment and intellectual property principles should be applied to the blockchain technology. The verdict in *Hermès International* v. *Rothschild* represents an important initial step in establishing how those principles should be applied to this new art form. For trademark owners, it provides greater assurance that the traditional framework of trademark protection, and its accompanying legal tools, will likely follow them into this new virtual world. For artists, the case serves as a cautionary tale that although the emergence of NFTs has opened up new avenues to promote and exploit their works, not all forms of digital artistic expression will be subject to First Amendment protection.

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[27] Order on Motion to Dismiss at 12, fn. 3, 22-cv-384-JSR, Dkt. 50 (Mary 18, 2022).

[28] Order on Motion to Dismiss at 12, fn. 3, 22-cv-384-JSR, Dkt. 50 (Mary 18, 2022).

This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

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