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# Brand Licensing

## Courts Offer More Guidance on Enforcing Rights to Brands and Images Used with NFTs

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Non-fungible tokens (NFTs) serve as agile mechanisms to verify an underlying asset's authenticity and/or ownership linked with it.

For now, minting NFTs to commercialize digital artwork on blockchain domain names continues to be one of the most common schemes for their use.

### Background

In a recent jury trial, the U.S. District Court for the Southern District of New York ruled in favor of Hermès' International in its lawsuit against artist Mason Rothschild. Defendant Rothschild produced and sold MetaBirkin NFTs, which are digital versions of Hermès' furry Birkin bags. Plaintiff Hermès argued that the MetaBirkin NFTs infringed its BIRKIN trademark. Rothschild countered that the NFTs were artwork and therefore protected by the test set forth in *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989), which held that use of a name or mark for artistic purposes does not necessarily constitute infringement. Specifically, the *Rogers* test provides that claims of infringement will not apply to titles of creative works 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." *Id.* at 999. In 2022, prior to setting a trial date, the U.S. District Court for the Southern District of New York denied Rothschild's motion to dismiss the case but held that the *Rogers* test applied, setting the stage for the trial.

Hermès did not bring its claims under copyright law but rather trademark law and introduced evidence at trial supporting its claims of likelihood of confusion, including survey evidence, marketing methods and trade channels. Additionally, Hermès introduced evidence showing that Rothschild's endeavor was not purely artistic but heavily commercialized as he encouraged others to market his Metabirkins to drive up their value. And, although not currently selling NFTs in the marketplace, Hermès also offered evidence that it contemplates entering the virtual reality market with its own digital products, thus staking its trademark claim in the metaverse as well as the physical realm.

The jury found Rothschild liable for trademark infringement, trademark dilution and unlawful cybersquatting. The jury also found that Rothschild's Metabirkin NFTs failed to qualify as protected speech under the First Amendment.

Late in 2022, the U.S. District Court for the Central District of California ruled on a pre-trial motion (*Yuga Labs, Inc. v. Ripps*,

No. CV 22-4355-JFW(JEMX), 2022 WL 18024480, at \*1 (C.D. Cal. Dec. 16, 2022)) that the *Rogers* test does not apply to digital artwork NFTs.

Plaintiff Yuga Labs Inc. (Yuga), the creator and marketer of the well-known "Bored Ape Yacht Club" collection of NFTs (Yuga Bored Ape images), filed a complaint against conceptual artist Ryder Ripps (Ripps) due to his use of Yuga's BORED APE YACHT CLUB trademark and other marks, including logos and acronyms (BAYC marks) in connection with Ripps' own Ryder Ripps Bored Ape Yacht Club (RR/BAYC) NFT collection. Ripps claims that the Yuga Bored Ape images were created as part of an alt-right conspiracy. Yuga denies this.

In contrast to *Hermès v. Rothschild*, the California District Court held that the *Rogers* test exemption was not applicable due to the fact that the RR/BAYC's images do not constitute an expressive artistic work as they are exact copies of Yuga's Bored Ape images. The court said the contents of Ripps' website "are all commercial activities designed to sell infringing products, not expressive artistic speech protected by the First Amendment." 2022 WL 18024480, at \*5. On December 27, 2022, Ripps filed a series of counterclaims (the Ripps Counterclaim), which includes two eye-opening legal questions related to the plaintiff's copyrights in and to its digital artwork.

### Artificial Intelligence and Digital Artwork

Ripps claims that a controversy exists as to whether Yuga Bored Ape images are entitled

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to copyright protection due to the Yuga Bored Ape images having been generated by an automated computer algorithm. Ripps alleges that no humans were involved in determining which of the 10,000 Yuga Bored Ape Images were selected from more than 1.3 billion possible permutations, “except perhaps with respect to a few custom BAYC Images that Yuga may have produced with human involvement.” Case No. 2:22-cv-04355-JFW-JEM, Dkt. No. 65, ¶ 79 (C.D. Cal. Dec. 27, 2022).

As explained in Holland & Knight’s recent blog post, “Image-Generating AI: Trends and Legal Challenges,” <https://www.hkklaw.com/en/insights/publications/2022/12/imagegenerating-ai-trends-and-legal-challenges> the U.S. Copyright Office deems as copyrightable material works that are partially and not wholly created by artificial intelligence (AI). This criteria harmonizes with the recent court decision refusing patent applications listing AI as the inventor in *Thaler v. Vidal*, 43 F.4th 1207, 1209 (Fed. Cir. 2022). Hence, the scope of protection for the Yuga Bored Ape images will be an important precedent in the virtual landscape as to how the court interprets the nature of images partially or completely created by AI.

## Copyright Ownership and NFT Holders

The Ripps Counterclaim further addresses the question as

to whether plaintiff Yuga retains copyrights in the Yuga Bored Ape images that it sold and no longer owns.

According to defendant Ripps, Yuga’s terms and conditions and its public statements support the notion that purchasers of the Yuga Bored Ape images retain all intellectual property (IP) rights in their NFTs.

These aforementioned legal questions could set important precedents as to the rights that copyright claimants hold in regards to NFTs.

On the other hand, the complaint initially filed by plaintiff Yuga Labs did not include copyright claims. However, (1) Yuga Labs did file Digital Millennium Copyright Act (DMCA) takedown notices on copyright infringement grounds against Ripps and (2) Yuga Labs does own a few US copyright registrations for the Yuga Bored Ape images.

## Issues for Brands and Images Used on NFTs Yet To Be Resolved

The courts addressing the disputes in *Hermes v. Rothschild*, *Yuga Labs v. Ripps* and similar cases will help set some parameters and guideposts, but other issues are yet to be resolved. These include the applicability use of disclaimers to differentiate one set of images from other NFT collections, the first-sale doctrine and fair use principles.

## Takeaways

Among other factors—such as the interoperability of blockchain ledgers and platforms—once the IP legal questions related to NFTs are clearer, enterprises and industries will have more direction as to use of NFTs and commerce on virtual landscapes.

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