

OUTSIDE COUNSEL

NFTs and Blockchain-Enabled Goods Are Not Above the Law

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The highly publicized case involving Yuga Labs and creators Ryder Ripps and Jeremy Cahen provides an important signal that courts are willing to apply established legal doctrines to the dynamic and still-maturing marketplace for blockchain-enabled collectibles.

The decision, holding that Ripps' and Cahen's controversial NFT project infringed Yuga Labs' trademarks, develops the precedent set by the *MetaBirkins* case: namely, that use of another party's trademark as part of an NFT is not necessarily protected by the First Amendment.

Despite the court punting on the availability and degree of copyright protection for algorithmically generated visual assets, the case sends a strong message to creators that unless their NFT project embodies significant artistic expression, the

unauthorized use of third-party intellectual property may result in liability.

The Ripps case, together with other recent NFT caselaw, also provides a stark warning to those seeking to take advantage of the nascency of the Web3 industry—existing law applies to NFTs just as it does to more traditional assets.

Background

Yuga created arguably the world's most recognized NFT collection: the Bored Ape Yacht Club (BAYC), a series of 10,000 images of apes with combinations of attributes in varying levels of rarity. Yuga claimed ownership over several unregistered trademarks that it alleged it used in connection with BAYC from April 2021, including "BORED APE YACHT CLUB."

In November 2021, Ripps began publicly criticizing Yuga's use of purported racist, neo-Nazi, and alt-right imagery and naming conventions in the BAYC NFT project. Around May 2022, defendants created their own NFT collection, called the Ryder Ripps Bored Ape Yacht Club (RR/BAYC) NFTs. Defendants claim they created the RR/BAYC NFTs for expressive purposes, including bringing attention to Yuga's purported use of the offensive content.

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Yuga sued defendants in the Central District of California, bringing a variety of claims including trademark infringement, false designation of origin, false advertising, unfair competition, and cybersquatting. Ripps asserted defenses including First Amendment, nominative trademark “fair use,” and unclean hands.

On March 15, 2023, Yuga moved for partial summary judgment with respect to the unfair competition and cybersquatting claims, as well as several affirmative defenses. The court granted Yuga summary judgment in part.

The ‘Yuga’ decision confirms that NFTs are “goods” under the Lanham Act, and therefore trademark infringement principles apply to them in the same manner as for other types of goods.

The Yuga decision comes on the heels of the *MetaBirkins* case, in which a Southern District of New York case jury found that the NFTs representing “MetaBirkins”—stylized digital depictions of handbags created by defendant artist Mason Rothschild, allegedly to critique the luxury manufacturer’s use of animal materials—were not artistic expression protected under the First Amendment, and instead infringed plaintiff Hermès’ BIRKIN and HERMÈS trademarks and trade dress.

Rejection of First Amendment and Trademark Fair Use Defenses

The Yuga court comprehensively rejected defendants’ First Amendment defense holding in a strongly worded passage:

[T]he RR/BAYC NFTs do not express an idea or point of view, but, instead, merely point to the same online digital images associated with the BAYC col-

lection. Indeed, even defendants’ token tracker uses an exact copy of Yuga’s BAYC Marks without any expressive content. Similarly, defendants’ NFT marketplace sales and Ape Market website contain no artistic expression or critical commentary. ... These are all commercial activities designed to sell infringing products, not expressive artistic speech protected by the First Amendment. ... Defendants’ sale of RR/BAYC NFTs is no more artistic than the sale of a counterfeit handbag.

In determining that the *Rogers v. Grimaldi* test did not apply to the RR/BAYC NFT project, the court explained that while there is a “low bar for artistic relevance,” this bar is not “infinitely low,” and it had not been cleared where the BAYC Marks were used as the “centerpiece” of the RR/BAYC project, “unadorned with any artistic contribution by” defendants as the junior users.

The court also found that a disclaimer used to identify Ripps as the creator and describe the RR/BAYC NFTs as satire worked against defendants—showing that defendants were aware that their “use of the BAYC Marks was misleading.”

This result was somewhat harsher than in the *MetaBirkins* case, where the Southern District of New York determined that the *Rogers v. Grimaldi* test *did* apply to the NFT-associated artworks at issue, but the jury ultimately found that the scales did not tip in favor of artistic expression.

The court also rejected the affirmative defense of nominative “fair use,” because defendants used BAYC’s marks to “prominently and boldly” market and sell their own NFTs by capitalizing on consumer confusion or appropriating the cachet of Yuga’s product rather than simply using a BAYC Mark as the only available language to describe its alternative offering. Moreover, defendants used the BAYC Marks without modi-

fication, thereby suggesting that Yuga sponsored or endorsed the RR/BAYC NFTs.

Implications for the Future

Trademark Law and Blockchain-Enabled Goods: The Yuga decision confirms that NFTs are “goods” under the Lanham Act, and therefore trademark infringement principles apply to them in the same manner as for other types of goods. This holding could be extended to other uses of blockchain technology, such as crypto and metaverse products (including skins and other wearables), where protectable trademarks may be infringed.

Recent cases indicate that courts are likely to continue to apply traditional legal principles in the NFT space, and to afford creators little leniency where they conclude that minimal artistic expression is evident in a disputed NFT project or other blockchain-enabled goods.

Moreover, the Yuga decision provides additional guidance regarding the hazy line between infringement under the Lanham Act and freedom of protectable artistic expression with respect to blockchain-enabled goods. That said, the decision does not establish a “bright line” test for NFTs or other digital goods, and the application of the *Rogers v. Grimaldi* test in the digital goods context will continue to respond to the specific facts of the alleged infringement.

It remains to be seen whether a court would reach the same conclusion as in the Yuga case if an allegedly infringing NFT reflected a greater degree of artistic expression than was evident in the RR/BAYC NFTs and the MetaBirkins NFTs.

What is clear, however, is that that use of another’s trademark as part of an NFT project

may create exposure to liability if the artistically expressive elements of the project are deemed outweighed by consumer confusion.

The Yuga decision represents a further post-MetaBirkins caution to artists that the amount and nature of artistic expression necessary to tip the *Rogers v. Grimaldi* scale in their favor is not definitively known.

Traditional Legal Principles Apply to NFTs: The decisions in Yuga and MetaBirkins parallel the holding of another recent decision in a seminal NFT dispute, *Free Holdings Inc. v. McCoy et al.* In that case, renowned artist Kevin McCoy defended claims asserted in relation to the sale of his Quantum NFT through Sotheby’s for \$1.47 million.

In its decision, the Southern District of New York held that traditional legal principles regarding property ownership apply to NFTs, and rejected the plaintiff’s “attempt to exploit open questions of ownership in the still-developing NFT field to lay claim to the profits of a legitimate artist and creator.”

Taken in combination with the Yuga court’s conclusion that trademark law applies in full force to NFTs and the MetaBirkins court’s finding of infringement, this small but growing body of precedent emphasizes that NFTs are subject to the legal rights and protections associated with other assets.

The *Quantum*, *Yuga*, and *MetaBirkins* decisions provide timely and pointed warnings to those seeking to take advantage of perceived gaps between technology and the law, indicating that violation of third parties’ intellectual property and other legal rights will not be tolerated.

The Copyright Elephant in the Room: An intriguing aspect of the Yuga case is the copyright issue

that was *not* addressed. With their counterclaim seeking a declaratory judgment of no copyright in the BAYC images, defendants highlighted an outstanding legal question about the copyrightability of algorithmically generated images.

On March 17, 2023, the court dismissed that counterclaim, finding simply that because Yuga had not *registered* any copyrights in those images, there was “no case or controversy as to the issue of copyright infringement between Yuga and counterclaimants,” since Yuga could not assert such a claim in relation to unregistered works.

Following that order, Ripps’ related “knowing misrepresentation of infringing activity” claim was still live. In the March 21 decision, the court addressed Ripps’ corresponding allegation that the DMCA take-down notices sent by Yuga were improper and submitted in bad faith on the basis of alleged *trademark* infringement, but not *copyright* infringement.

After establishing that only four of Yuga’s take-down notices were at issue (as only those notices resulted in actual takedown of any of defendants’ content), the court then found that only *one* of these notices was actually styled as a *DMCA* takedown notice, and that it pertained to the Ape Skull Logo, which itself could be the subject of both copyright *and* trademark protection; thus, Yuga had not engaged in misrepresentation by filing a *DMCA* takedown notice as to defendants’ use of that logo.

The Ripps decision does not explicitly address copyright issues associated with the BAYC images, nor did the Southern District of New York address copyrightability of the digital images

associated with MetaBirkins NFTs at issue in that case.

There remains a lacuna of definitive precedent regarding the application of copyright law to NFTs and the visual assets with which they are often associated, including the copyrightability of generative and/or algorithmically generated imagery, as well as imagery created with the assistance of artificial intelligence tools, and the U.S. Supreme Court’s decision in *Warhol Foundation v. Goldsmith* raises additional questions about the application of the “fair use” doctrine in the context of a mixed artistic and commercial use, such as an NFT project.

This makes it extremely important for creators to exercise vigilance when creating blockchain-enabled goods that may implicate the intellectual property rights of others, and to obtain appropriate licenses when necessary.

What’s Next for NFTs and the Law

Recent cases indicate that courts are likely to continue to apply traditional legal principles in the NFT space, and to afford creators little leniency where they conclude that minimal artistic expression is evident in a disputed NFT project or other blockchain-enabled goods.

These cases give some comfort to owners of intellectual property rights such as brands that their rights are likely to be enforceable in the Web3 space.

They also provide timely reminders to those seeking to take advantage of the newness of the Web3 space that blockchain-enabled goods are not above the law, and for creators to be particularly careful in the creative process.