

## Bored Apes Earn Victory in Trademark Suit

MAY 1, 2023

On April 21, 2023, United States District Judge John F. Walter ruled for Yuga Labs, Inc. (Yuga) and its Bored Apes Yacht Club (BAYC) NFT collection in its trademark infringement suit against conceptual artists Ryder Ripps and Jeremy Cahen (collectively, the “Artists”).<sup>1</sup>

Yuga accused the Artists of trademark infringement over their use of Yuga’s BORED APE YACHT CLUB and BAYC trademarks (the “BAYC Marks”) in their own NFT collection, which they named the “Ryder Ripps Bored Ape Yacht Club” (RR/BAYC). Aggravating Yuga further, the Artists’ RR/BAYC NFT collection was based on the same digital artwork as Yuga’s BAYC NFT collection.

In their defense, the Artists claimed that their use of the BAYC Marks was protected by the First Amendment. Specifically, Ripps had earlier criticized BAYC for using and embedding racist, neo-Nazi, and alt-right imagery and symbolisms in its NFTs. The Artists stated that their creation of NFTs using the same artwork was a form of “appropriation art” intended to bring attention to Yuga’s allegedly offensive material and to pressure Yuga to change its artwork, as well as to educate the public about NFT use.

### **The Court Grants Summary Judgment On Yuga’s Trademark Claims**

In granting partial summary judgment for Yuga, the Court confirmed Yuga’s trademark rights in the BAYC Marks, then largely rejected the Artists’ affirmative defenses.

First, the Court agreed that Yuga had demonstrated valid trademark rights in its unregistered BAYC Marks covering its NFTs. Shutting down the Artists’ tortured argument that Yuga’s BAYC Marks were ineligible for trademark protection because NFTs are not physical goods, the Court emphasized that NFTs were “virtual goods” and, therefore, use of the BAYC Mark in connection with such virtual goods satisfied the Lanham Act’s “use in commerce” requirement. The Court also rejected the Artists’ defense that Yuga abandoned its rights in the BAYC Marks through “naked licensing” (licensing the trademarks without controlling the quality of the licensed products), because although Yuga granted purchasers of BAYC NFTs a copyright license for personal and commercial use of the underlying artwork, Yuga had not granted any trademark licenses. Thus, the Court found that the BAYC Marks are protectable in connection with NFTs.

Second, the Court held that the Artists' use of the BAYC Marks was likely to cause consumer confusion. Engaging in a traditional application of the *Sleekcraft* factors<sup>[2]</sup>, the Court found them to weigh heavily in favor of Yuga. In addition, the Court found that the Artists' registration of multiple domain names incorporating Yuga's BAYC Marks constitutes "cybersquatting" under the Lanham Act.

The Court next rejected the Artists' affirmative defenses, including the Artists' First Amendment/*Rogers* defense.<sup>[3]</sup> The Court stated that the *Rogers* defense would not apply because the Artists' goods—the RR/BAYC NFTs—do not "constitute an expressive artistic work protected by the First Amendment." Specifically, the Court pointed out that the Artists' NFTs did not contain any "critical commentary," but rather simply pointed to the same digital materials as the BAYC NFT collection. In fact, neither the Artists' NFT token nor the website promoting the Artists' NFTs contained anything more than a reproduction of the Yuga trademark, and therefore did "not express an idea or point of view." Instead, the Court compared the Artists' use of the BAYC Marks to the sale of counterfeit handbags. Moreover, the Court found that even if the *Rogers* test did apply, the Artists' use of the BAYC Marks are not artistically relevant to its purported message, and such use was explicitly misleading.

The Court also rejected the Artists' nominative fair use defense, stating that the Artists used the BAYC Marks to refer to their own NFTs, rather than referring to Yuga's NFTs.

Finally, the Court rejected the Artists' argument that Yuga improperly compensated celebrities and endorsers without disclosing the compensation, and that its sales constituted the unlawful sale of unregistered securities. The Court found that these allegations do not "relate to the trademark dispute between the parties" and therefore do not support an "unclean hands" defense.

## Implications of the Ruling

The Court's ruling has several important implications for the NFT and digital assets industries. First, the Court's ruling confirms that NFTs are goods for purposes of the Lanham Act and a trademark used in connection with an NFT will have source-identifying significance protectable under the Lanham Act.

Second, just because an NFT creator may grant a *copyright* license to the purchaser allowing use of the underlying digital work, that does not mean the creator also granted a *trademark* license allowing the purchaser to use any of the creator's trademarks, whether those marks are embodied in the NFT or not.

Third, the Court's ruling relies on a traditional application of the cornerstone of Lanham Act claims—the likelihood of confusion analysis. While the technology may be new, the applicable legal framework is not.

Fourth, while the Court stated that the Artists' NFT collection was not an expressive work subject to First Amendment protection under the *Rogers* test, holding must be understood in light of the specific facts: the Artists' NFT collection was nothing more than a re-sale of Yuga's own artwork, with no additional creative content attached to it. The Court's ruling should be treated as a cautionary tale to appropriation artists that to claim that the works underlying their NFTs are "expressive works," there must be some additional element that comments upon or critiques the original.<sup>[4]</sup>

This case shows that brand owners and NFT creators are aggressively enforcing—and defending—their legal rights in the shifting landscape of digital assets. Ultimately, determining whether a particular NFT constitutes a commercial product subject to traditional Lanham Act analysis or an expressive work entitled to heightened First Amendment protection, will be a highly fact-specific inquiry. However, courts rule, their decisions will have important ramifications on how the larger NFT and Web 3.0 communities develop and market NFTs in the future.

Winston & Strawn is closely monitoring developments related to NFTs and other blockchain technologies. We will provide our clients and friends of the firm with more information on this topic as it becomes available.

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<sup>[1]</sup> *Yuga Labs, Inc. v. Ripps*, et. al., CV 22-4355 (C.D. C.A. April 21, 2023).

2 The Sleekcraft factors are set forth in *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348-49 (9th Cir. 1979). These eight, non-exhaustive, factors include (1) the strength of the plaintiff's mark; (2) the proximity or relatedness of the parties' goods; (3) the marks' similarity in appearance, sound, and meaning; (4) evidence of actual confusion; (5) evidence of the defendants' intention in selecting and using the allegedly infringing name; (6) the degree to which the parties' marketing channels converge; (7) the type of goods and the degree of care customers are likely to exercise in purchasing them; and (8) the likelihood that the parties will expand their product lines.

3 The *Rogers* test was set forth in *Rogers v. Grimaldi*, 875 F.2d 94, 999 (2nd Cir. 1989), and is used "to balance competing interests at stake when a trademark owner claims that an expressive work infringes on its trademark rights." *Gordon v. Draper Creative, Inc.*, 909 F.3d 257, 260-61 (9th Cir. 2018). Under the test, "[a]n artistic work's use of a trademark that otherwise would violate the Lanham Act is not actionable 'unless the use of the mark has no artistic relevance to the underlying work whatsoever, or, if it has some artistic relevance, unless it explicitly misleads as to the source or the content of the work.'" *Entertainment 2000, Inc. v. Rock Star Videos, Inc.*, 547 F.3d 1095, 1099 (9th Cir. 2008) (alterations and internal quotations omitted).

4 Hermes recently won a similar victory over Mason Rothschild's Metabirkens NFT collection, when a Southern District of New York court ruled that Mason Rothschild's use of the luxury brand's trademarks in connection with its NFT collection depicting fanciful drawing of Hermes' iconic handbag, while an expressive work, was explicitly misleading and therefore constituted trademark infringement. *Hermes International and Hermes of Paris, Inc. v. Mason Rothschild*, 22-cv-384 (S.D.B.N.Y. Feb. 14, 2023), available at <https://cases.justia.com/federal/district-courts/new-york/nysdce/1:2022cv00384/573363/145/0.pdf?ts=1676470251#:~:text=Plaintiffs%2C%20Against%2D%20MASON%20ROTHSCHILD%2C%20Defendant.&text=Following%20a%20six%2Dday%20trial,and%20Hermes%20of%20Paris%2C%20Inc.>

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