

NFT and Intellectual Property Intersection: Licensing, Monitoring, Enforcement Strategies

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Today's faculty features:

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Background



James Gatto

J.D., Georgetown University
Law Center, 1988

B.E., Electrical Engineering
(Physics minor), Manhattan
College, 1984

Former U.S. Patent Examiner

[bio](#)

Blockchain & Fintech Team Leader Games Team Leader Open Source Team leader

- **35 years** of experience focused on all aspects of intellectual property, open source, internet and technology law especially ones driven by **new business models and/or disruptive technology**
- Heavy focus on **interactive entertainment** (games, AR, VR, fantasy sports, esports) **blockchain, blockchain games, cryptocurrency/NFTs, digital art and online gambling**
- Advises clients on IP strategies, game development and publishing agreements, licensing and technology transaction agreements, regulatory issues (securities, gambling, AML) and technology litigation

Recent Honors

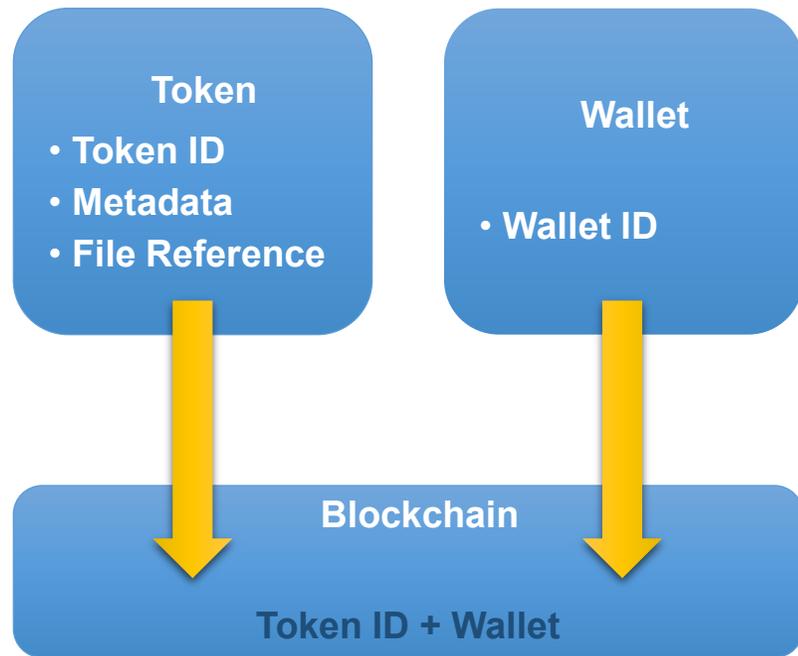
[Cryptocurrency, Blockchain and Fintech Trailblazer](#), The National Law Journal
[Go-To Thought Leadership Award for Blockchain Technology Law](#), National Law Review

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What are NFTs



Association of Token ID and Wallet ID
is what establishes ownership

▪ Token

- “minted” by a “**smart contract**”
- Has **Token ID** and “**metadata**” including reference to an asset or entitlement
- **location of or other reference to a file** if it is a digital asset (typically not stored on a blockchain)

▪ Token Ownership

- Token ID associated with a wallet ID recorded on a blockchain

▪ **Smart Contract** is computer code (*not a legal contract*)

- Creates the token and manages resale
- **Can be programmed to pay a royalty to IP owner with each resale**

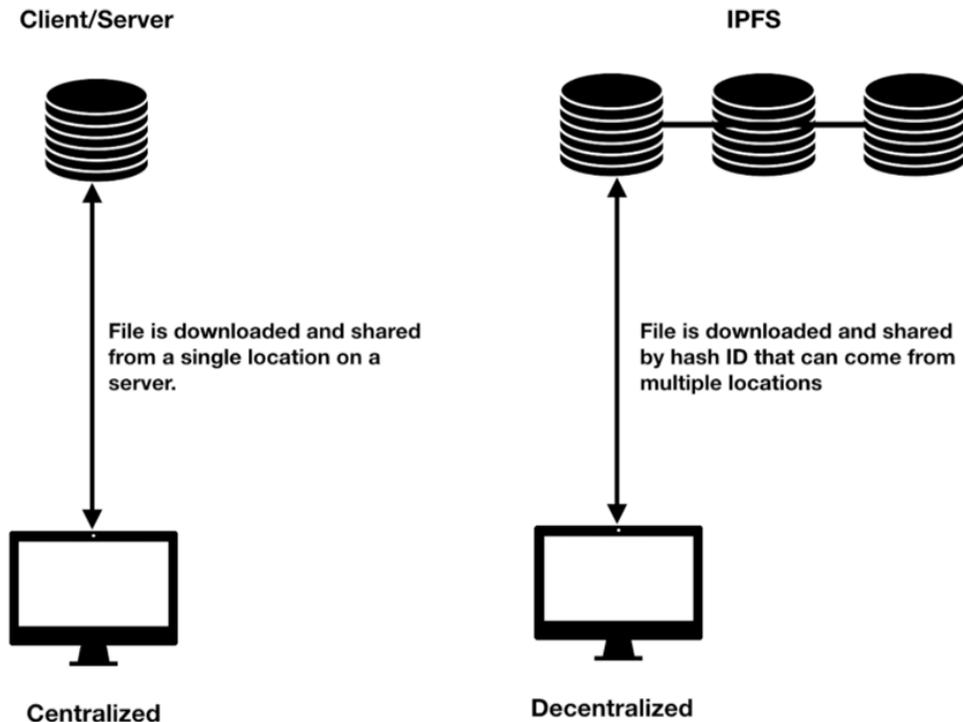
What Can Be Tokenized?



NFTs can represent virtually any type of tangible or intangible item, including:

- Art, Music, Movies
- Virtual items such as, avatars, accessories (digital fashion), skins, weapons, land, game art
- Collectables such as digital trading cards, video highlights, esports segments, album covers, etc.
- Entitlements – Tickets, access, exclusive content, subscriptions, etc
- Physical objects – real estate, etc.
- Much more

NFT File Storage



- Digital Asset typically not Stored on blockchain
 - Central server
 - Decentralized storage (e..g, IPFS)
- NFT Metadata includes reference to file storage
 - URI – uniform resource identifier
 - URL – file location
 - CID – content identifier
 - Other

Dynamic NFTs - dNFTs

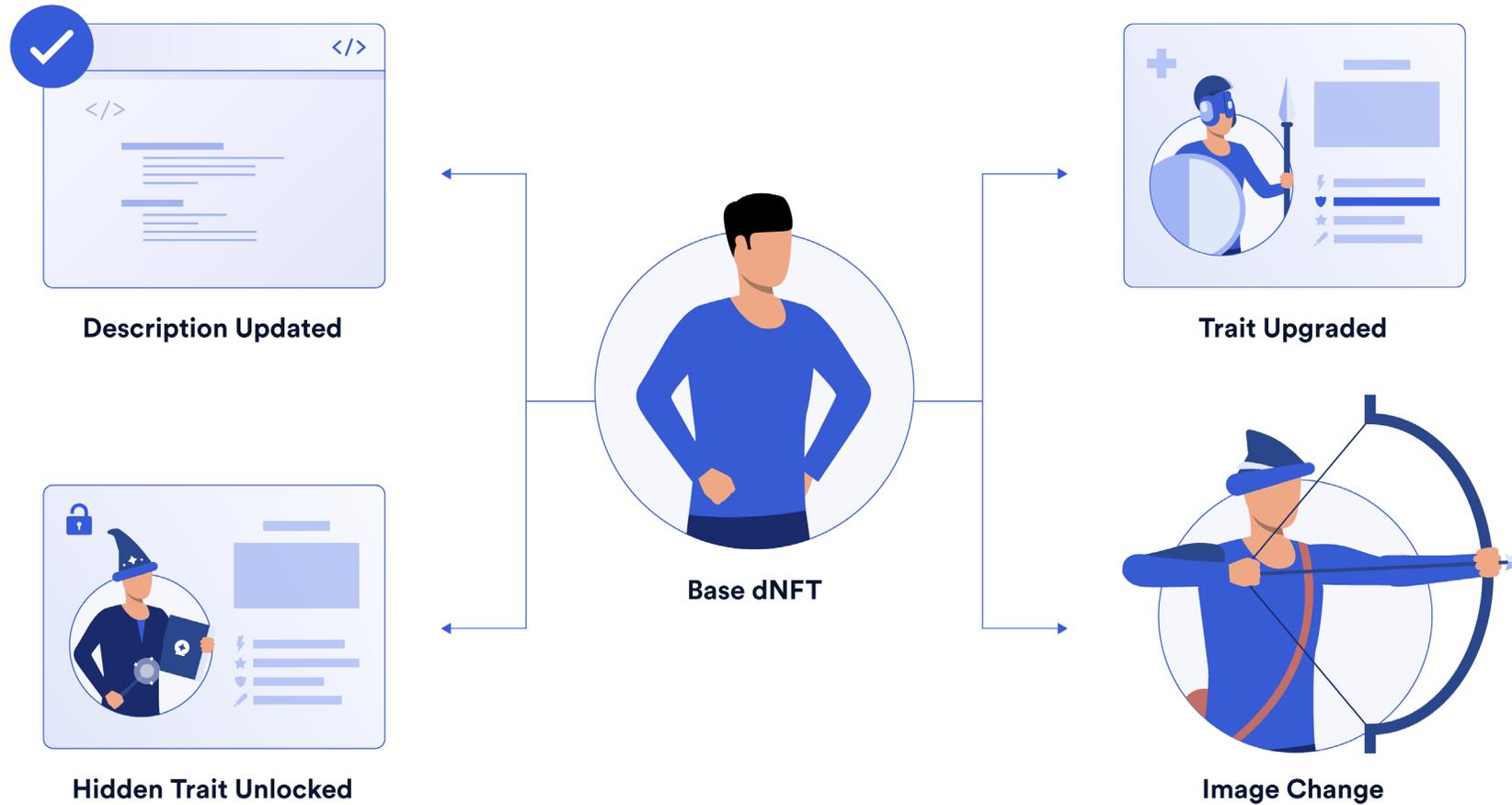
Static NFTs

- Metadata is fixed once minted on a blockchain
- E.g., used to represent rights to a fixed asset such as art or other fixed media files

dNFTS

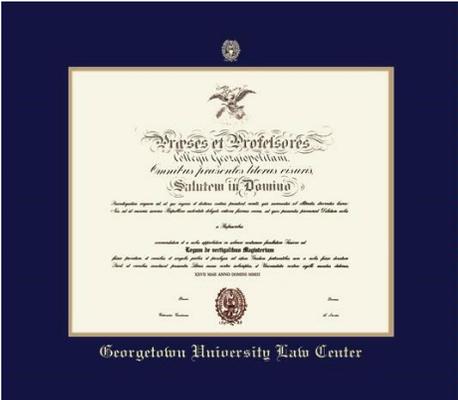
- Metadata can change (via smart contract) based on external conditions
- e.g., used to represent dynamic assets, such as a player's stats during a sports match

Dynamic NFTs - dNFTs



Soulbound Tokens

Is tradability of tokens always a good thing?



Overview of Property/IP ISSUES

Token

Typically **own** the token (can buy and resell it), but only have a **license** to the instance of the digital asset referenced in the token metadata

Note: Ownership is often misused in this context



Digital Asset

Often only a **personal, non-commercial** license for the asset
Copyright owner retains rights in the underlying work
If selling NFTs, rights clearance, like licensing of other media, is necessary for the digital object

Ensure Valid License

- **Must form valid contract** – typically need affirmative acceptance from user at POS
- Some platform TOS do not include a license – if they do often cannot be **customized**
- **Consider** your business model and legal risks – prepare custom license
- **Do not treat as boilerplate/copy from others**
- **Ensure description of NFT on marketplace is consistent with license** –
 - Don't say "Total ownership of digital assets" if user only gets a license

Golden Boy

Golden Boy is a gold plated robot that has the ability to transform into any weapon Hot Nikkel needs to ensure victory during their journey into the dark universe. As their journey continues, Golden Boy will reveal the true extent of its powers during each battle. Whenever the duo defeats an enemy, Golden boy adds the gem dropped by the demon into its CPU in order to teleport the duo into the next realm.

6% Creator royalties

£48.00 FLOW

218 bundles left

Buy

By proceeding to payment, you agree to the [NFT Owner License](#)

- **After initial sale, how do you ensure subsequent purchaser is bound by license?**

Commercial Licenses for NFTs

- NFT Licenses can range from very limited to very permissive.
 - Personal, noncommercial license to display digital asset (common)
 - Personal license with limited commercial rights (e.g., Crypto Kitties)
 - A growing number of licenses grant broader commercial license (e.g., BAYC)
- Most licenses address copyright in digital asset
- Need to address any TM as well
- Need to carefully consider business model and legal risks
- Considerations for Web3 vs. traditional brands

Traditional Brand NFTs



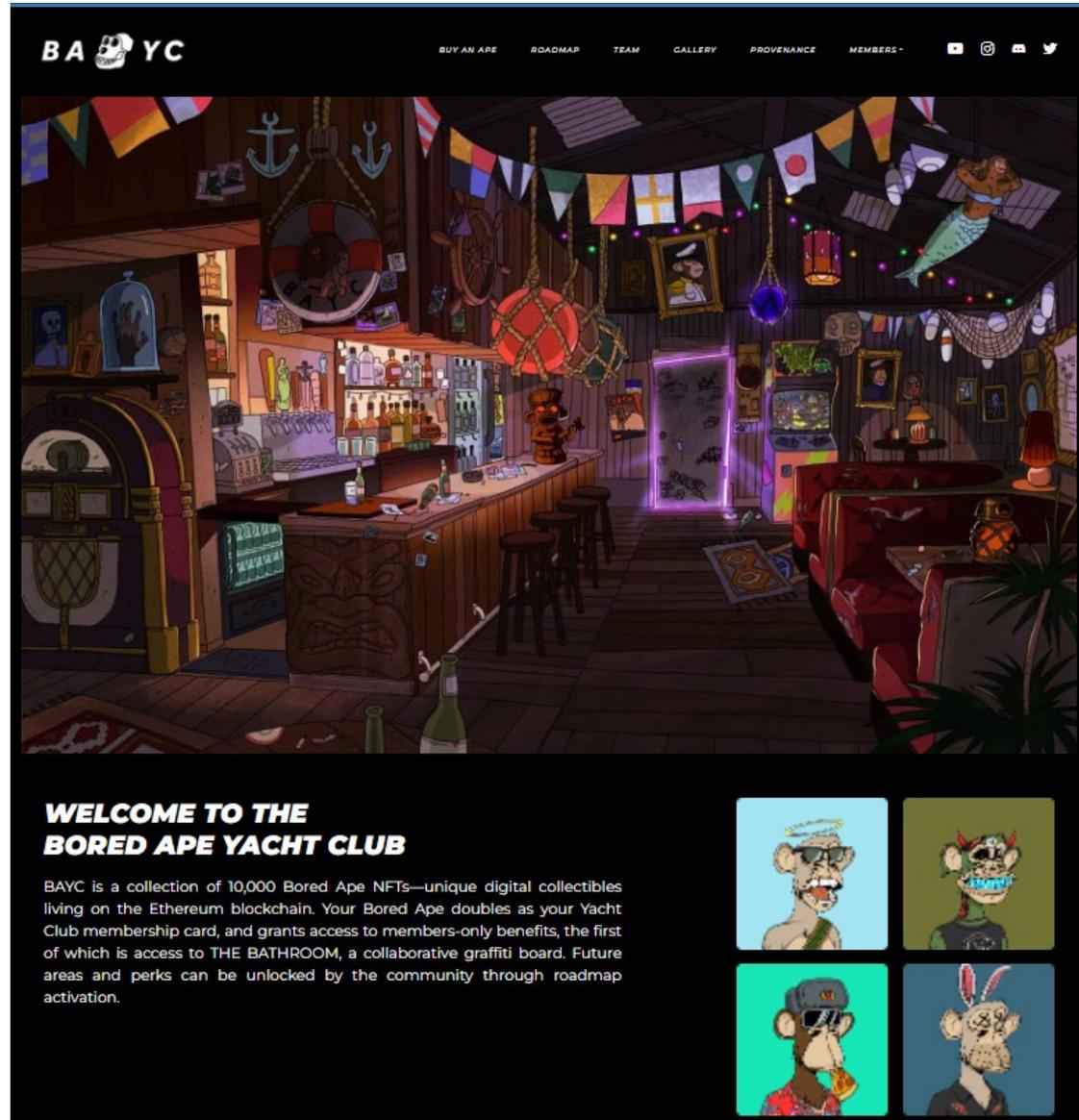
Brand NFTs often include copyright and TM



Commercial Licenses for NFTs

- Traditional brands with existing IP
 - Typically, protective of IP (which often generates core revenue)
 - Leverage NFTs often for branding and some additional revenue
 - Limit license uses to prevent unwanted uses/associations with brand IP
 - Primary goal: Protect core business while leveraging NFTs for branding and marketing (and maybe make some more money)
- Web3 companies
 - Often no pre-existing IP
 - NFTs are/create the brand (may be primary source of revenue initially)
 - Grant broad rights for community building around the brand
 - Primary Goal: Leverage NFTs to create a brand/IP and leverage that to generate revenue and related businesses

Bored Ape Yacht Club



The screenshot shows the website for the Bored Ape Yacht Club (BAYC). At the top, the logo "BA YC" is displayed with a skull icon. Navigation links include "BUY AN APE", "ROADMAP", "TEAM", "GALLERY", "PROVENANCE", and "MEMBERS". Social media icons for YouTube, Instagram, Discord, and Twitter are also present. The main visual is a vibrant, cartoonish illustration of a yacht club interior. It features a bar with stools, a jukebox, a red sofa, and various nautical decorations like flags, anchors, and a life preserver. The scene is lit with warm, colorful lights.

WELCOME TO THE BORED APE YACHT CLUB

BAYC is a collection of 10,000 Bored Ape NFTs—unique digital collectibles living on the Ethereum blockchain. Your Bored Ape doubles as your Yacht Club membership card, and grants access to members-only benefits, the first of which is access to THE BATHROOM, a collaborative graffiti board. Future areas and perks can be unlocked by the community through roadmap activation.



A 2x2 grid of four Bored Ape NFT avatars. Top-left: Ape with a halo and sunglasses. Top-right: Ape with a skull mask and sunglasses. Bottom-left: Ape with a cap and sunglasses. Bottom-right: Ape with bunny ears and a skull mask.

Commercial Licenses for NFTs

BAYC License Terms

OWNERSHIP

- i. You Own the NFT. Each Bored Ape is an NFT on the Ethereum blockchain. When you purchase an NFT, **you own the underlying Bored Ape, the Art, completely.**
- ii. Personal Use license
- iii. Commercial License - an **unlimited**, worldwide license to use, copy, and display the purchased Art for the purpose of **creating derivative works** based upon the Art (“Commercial Use”) [e.g., to produce and sell merchandise products (T-Shirts etc.) displaying copies of the Art]



Commercial Use of Bored Apes



Commercial Use of Bored Apes



The Bored Breakfast Club consists of 5,000 unique NFTs depicting breakfast scenes.

Unlocks free coffee



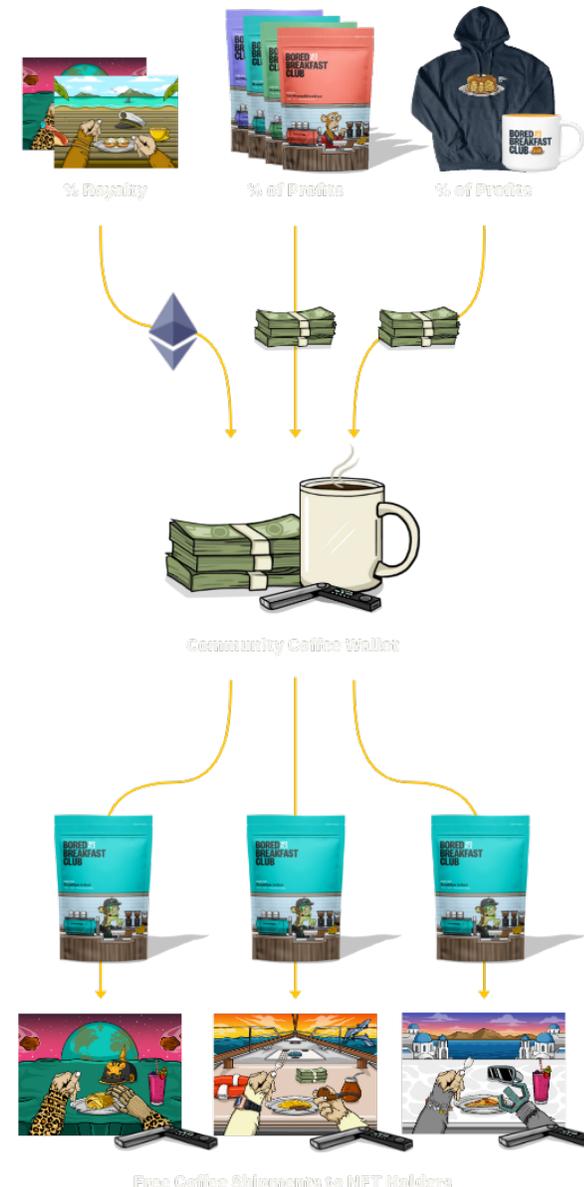
Commercial Use of Bored Apes

Bored Breakfast Club

Community Coffee Wallet

- Funded by a royalty on secondary market sales and percentage of profits from coffee and merch sales
- Once the wallet reaches a threshold, shares a new blend with our Bored Breakfast Club members
- Funds go toward paying for packaging, roasting, fulfillment, and free shipping to our members all over the world.

[License](#)



Commercial Uses of Bored Apes

Coinbase announced Bored Ape Yacht Club NFT movie trilogy



Commercial Uses of Bored Apes

10:22PM FORMS KINGSHIP - Web3 Recording Label Group Of NFT Characters From Bored Ape Yacht Club



Each member of the group has their own story and personality that influences and contributes to KINGSHIP's overall narrative.

Through music and events across the metaverse, we will bring the Apes in KINGSHIP to life by building communities and utility, and entertaining audiences around the world.

Commercial Use of Bored Apes

- Timbaland Partners With BAYC Club Owners to Form Ape-In Productions
- AIP roster will feature a select group of Bored Apes who will release original music and animation in the metaverse as NFTs
- Grants access to exclusive items, e.g., merchandise, community building events, virtual studio sessions, and animated concerts performed by AIP's roster in the Bored Ape Yacht Club world.
- AIP's first artist TheZoo - debut single "ApeSh!t"



Commercial Uses of Bored Apes

- Owner developed backstory to Jenkins
- Working on community generative full-feature book
- Token holders will have creative direction of the book
- Vote on the genre of the story and various parts of the storyline.
- Token holders of various levels will have chance to have their NFTs featured as characters in the books



INTRODUCING BOOK 1

Jenkins The Valet saw everything that happened at the Yacht Club and always practiced discretion. He snuck mistresses in through laundry carts, helped gain access to the Merch closet, heck – he even helped a patron steal a yacht. As the BAYC has increased in popularity, the demand for Jenkins to spill the beans has exploded.

Finally, Jenkins has agreed to 'Ape In' and share his most wild story yet. And he needs your help.

Jenkins Yacht Valet

Dashboard **Votes** Submit Proposal Licensing

0/3 proposals made

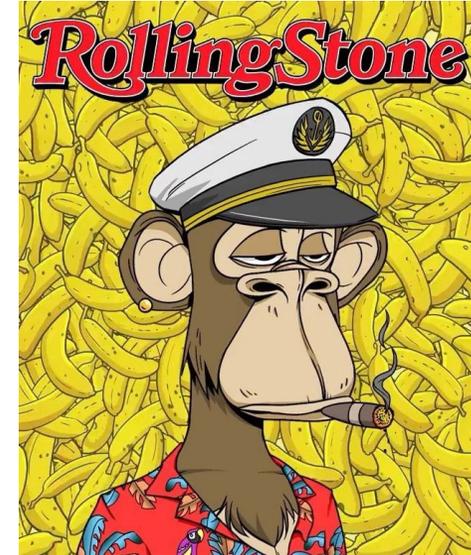
Vote on Proposals

You have 6,420 votes for each proposal. After you have allocated all votes, you can see how many votes that proposal has received.

Voting Ends in 2 Hours 10,000 Voting Power

How BAYC Is Leveraging This

- Collect resale royalties on the 10,000 BAYC NFTs
- Created BAYC to maintain community engagement
- Created the Bored Ape Kennel Club that allows BAYC owners to “adopt” a dog NFT that mimics the traits of the Bored Apes. These dog NFTs have resale value
- Created digital vials of mutant serum. When mixed with the Bored Ape, owners can generate another NFT — the Mutant Ape — which also have resale value
- Steph Curry purchased an NFT worth \$180,000 - a day later Yuga Labs generated \$96 million in a public sale of 10,000 Mutant Apes and serum
- In March 2022, Yuga Labs raised \$450 million at a \$4 billion valuation - plans to use that money to build a media empire around its NFTs by launching games and other associated metaverse projects
- Plans to build a virtual world called “Otherside” and sell virtual land as NFTs linked to plots in the Otherside metaverse game.



- **BAYC is now a Web3 lifestyle brand**
- ran its first-ever annual Ape Fest, including an in-person gallery party, yacht party, warehouse party, exclusive merchandise pop-up, and charity dinner in New York
- Community get-togethers in Hong Kong and the UK

Potential Issues with BAYC License

- If NFT license grants complete ownership of the Art, do you need any license rights to use? First Sale Doctrine?
- Are any license restrictions effective?
- Does unlimited right to create derivative works, enable owners to create and sell new NFTs based on the Art?
- What is the impact, if any, of the license not addressing TMs?
- Does resale royalty need to be in the license terms?

Key takeaways:

- Think carefully when drafting commercial rights clauses for NFTs
- I would be very hesitant to copy the BAYC license

DMCA Takedowns - 17 U.S.C. 512(c)

- A service provider shall not be liable ... for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider.
- Takedown notice to marketplace
- Removing NFT from marketplace does not disable the NFT
 - Centralized Storage – take down notice to site operator
 - Decentralized Storage – more complex but possible
- Obligations of entity receiving notice?
- If you provide minting service and permit use of IPFS, is that a network controlled or operated for you?

DMCA Takedowns - 17 U.S.C. 512(c)

- IPFS does allow you to delete a file but need to do so on all nodes hosting the file
- If nodes are not in your control here is one published process:
 - monitor ipfs dht findprovs <A file you want to delete>
 - find all peers hosting the file
 - for each find their IP with ipfs dht findpeer <Peer ID>
 - use a database like whois or BGP to find the ISP and send them a takedown notice
- In some cases, can target “gateways” - some IPFS gateways have DMCA agents and policies

NIKE V. STOCKX

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Nike Dunk Low Retro White Black (Vault NFT)

US M 10 ♥ ➔

[NFT](#) [100% Authentic](#) [Edition of 100](#)



[Buy or Bid](#) **Lowest Ask**
\$739

[Sell or Ask](#) **Highest Bid**
\$655

Last Sale:
\$620
▼ -\$50 (-7.5%)

[View Asks](#) [View Bids](#) [View Sales](#)

NIKE V. STOCKX

■ Nike's Position re Vault NFTs

- “New virtual products” bundled with additional services and benefits
 - “exclusive access to StockX releases, promotions, events”
 - Not a resale; direct to consumer digital collectibles
 - \$100 retail physical product vs. \$809-\$3500 NFT
 - “redemption process is not currently available” but may be in “near future”
 - Nike marks prominently featured in marketing/product pages

■ StockX's Position re Vault NFT:

- Traceable digital receipt for physical product held in StockX custody
- “The purpose of the NFT is solely to track the ownership of the transactions in connection with the associated product”
- No value beyond physical stored item
- First Sale Doctrine
- Nominative Fair Use

What is an NFT?

- Just a Digital Receipt (StockX)?
- A new virtual product (Nike)?
- Something else?
- Or does it depend on what the NFT purports to represent?

Right of Publicity

- State laws/common law right to protect the commercial interest in one's persona, name, and likeness and, in some jurisdictions, one's nickname, voice, mannerisms, characterizations, and performing style
- Often confused with, but distinct from, copyright
- Celebrities have been sued for posting photos of themselves (taken by another) – photographer owns copyright
- Typically infringing use must be a commercial use (i.e., for advertising purposes) – **to sell another product or service**
- With NFTs:
 - Can copyright owner of an image of a celeb create an NFT w/o celeb permission?
 - Is owner selling rights to the image or using image (NIL) to sell the NFT?

Other Lawsuits and Disputes

Birkin Bag NFTs

- Artist created fuzzy images of the Hermes Birkin handbag and minted them as NFTs.
- Called them MetaBirkins and created a metabirkin.com website.
- Hermes sued for trademark infringement, trademark dilution, and cybersquatting.



Hermes MetaBirkin Suit

- Slam dunk for Hermes?
- Hermes' trademarks are for leather goods, specifically handbags – not digital goods
- *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989) - use of a trademark in the title of an artistic expression is trademark infringement only if the title has no artistic relevance to the underlying work or explicitly misleads consumers as to source or content of the work.
- Creative works largely protected under the First Amendment as expressive art.

IP Suits and Disputes with NFTs

IP Ownership Disputes Copyrights

- Miramax sued Quentin Tarantino over *Pulp Fiction* NFTs
- Roc-A-Fella sued Damon Dash to stop NFT sale relating to Jay-Z's debut album, *Reasonable Doubt* - Roc-A-Fella says Dash has 1/3 stake in the company, but it owns the album
- NFT site HitPiece was accused of selling NFTs of songs by musicians like Britney Spears and Taylor Swift without permission.
- TamarindArt sued for the right to make an NFT of a 60-foot-long **physical** mural it purchased from the artist in 2002 for \$400K. The artist's estate alleged that such NFTs would be copyright infringement.
- The Gathering card game, sent an email to mtgDAO alleging that the DAO's intention to launch a series of NFTs based on Magic constitutes copyright infringement.

IP Suits and Disputes with NFTs

IP Ownership Disputes - Right of Publicity (NIL)

- Many popular gaming YouTubers have had their likenesses stolen and turned into NFTs.
- Lil Yachty sued Opulous for utilizing his name and likeness to make an NFT without his consent
- ItsBlockchain offered an NFT package based on the likeness of 46 infosec pioneers without their permission. They were soon shut down and in defense alleged “We were not aware of the likeness laws in NFTs as the market is not regulated.” Contrary to their belief the market is subject to applicable laws and regulations.

Contact Information & Resources

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<https://www.linkedin.com/in/jamesgatto/>

Sheppard Mullin Blockchain Blog:

<https://www.lawoftheledger.com/>

Sheppard Mullin Game Counsel Blog:

<https://www.mygamecounsel.com/>



- [Are You Well “Versed” in the Legal Issues with Metaverses?](#) (March 2022)
- [NFT License Breakdown: Exploring Different Marketplaces and Associated License Issues](#) (Sept. 2021)
- [Protecting IP and Limiting Liability When Licensing IP for Digital Art and NFTs](#) (Mar. 2021)
- [NFTs and Intellectual Property: What IP Owners and NFT Creators Need to Know](#) (Mar. 2021)
- [Tokenized Art Legal Issues](#) (Feb. 2021)
- [Blockchain Games and Collectibles – Patents and Other Legal Issues](#) (Mar. 2019)
- [Legal Issues With Blockchain-Based Crypto Games and Collectibles](#) (May 2018)