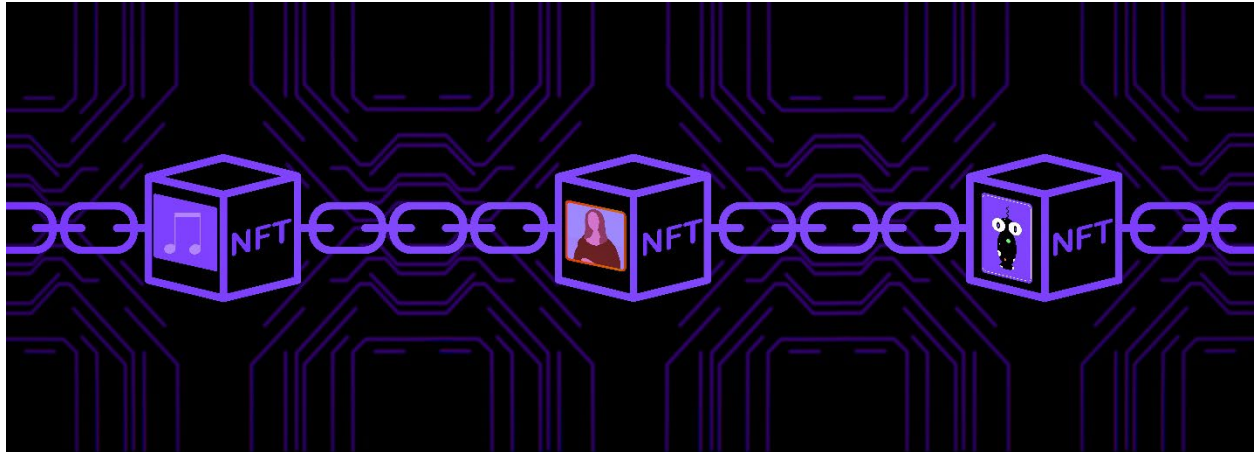


## A Brief Guide to NFTs and Intellectual Property

Date: 02.24.2022 By [Joel Karni Schmidt](#)



### What is an NFT?

An NFT or non-fungible token is a digital asset that is similar to a cryptocurrency, such as Bitcoin, Ethereum, and Dogecoin. In contrast to cryptocurrencies, NFTs aren't interchangeable. In some ways, they are similar to one-of-a kind physical paintings. It is possible to create and sell several identical NFTs, just like an artist can sell several prints of the same painting or a fashion designer can sell several wedding dresses of the same design, but it is the rarity of the NFT that generally gives it value.

NFTs are part of a blockchain, a system in which a record of transactions is maintained across several computers that are linked in a peer-to-peer network. Each NFT contains owner identification, metadata, safe file links, and other identifying information. It also can include a smart contract requiring an additional payment to the original owner for each transfer of ownership or licensed use.

This information makes each NFT unique and the blockchain keeps a decentralized, secure, and permanent record of who owns the NFT, the provenance of the NFT's ownership, and the rights granted by the NFT. NFTs can have only one owner at a time. Most NFTs are part of the Ethereum blockchain, which supports both NFTs and the Ethereum cryptocurrency. Other blockchains that support NFTs include Solana, Zilliqa, Cardano, Flow, and Tezos.

### What are NFTs used for?

NFTs are used to indicate ownership of physical items, such as real estate or artwork. They are also used to publish, offer, auction, or sell ownership of, or access to, digital assets, such as, digital art, digital texts, digital video games, digital music, and digital goods or locations in virtual worlds, among other digital items. NFTs can have intrinsic value much like cryptocurrency and they can be used to remove intermediaries, simplify transactions, and create new markets, among other things.

Here are some examples of NFTs:

- An [NFT of a collage](#), created by Mike Winkelmann, the digital artist known as Beeple, was sold for \$69 million at Christie's.
- Jack Dorsey, the founder of Twitter, sold an [NFT of one of his tweets](#) for over \$2.9 million and reportedly donated the proceeds to GiveDirectly's Africa Response fund for COVID-19 relief.

In the field of fashion, Gucci, Burberry, Coach, Louis Vuitton, and other brands have started using NFTs in a variety of creative ways:

- Gucci created an [NFT comprising a 4-minute film inspired by its "Aria" collection](#), which was sold at a Christie's auction for \$25,000.
- Louis Vuitton introduced the ["Louis Game," an electronic game](#) with hidden NFTs created in collaboration with the artist Beeple.
- The clothing company Overpriced sold a physical ["NFT-powered" hoodie](#) featuring a patent-pending, scannable V-code that enables people to wear, authenticate, and show off their unique NFT in public via a pop-up image link on any smartphone for \$26,000.

### **Where are NFTs sold?**

NFTs are sold on dozens of different NFT marketplaces, some of which have a specific focus or niche. For example:

- Jack Dorsey's tweet was sold on a platform called [Valuables By CENT](#), where you can buy and sell tweets. You can see the digital record of the transaction as it appears on that website [here](#).
- On the [Axie Marketplace](#), you can buy and sell NFTs related to the video game Axie Infinity, including mythical creatures called Axies that can be bought and trained, as well as other digital assets for use within the game.
- The [NBA Top Shot Marketplace](#) is the National Basketball Association and Women's National Basketball Association's closed marketplace, where you can buy NFTs of basketball video clips and game highlights, among other digital assets.

### **How do you choose the right marketplace?**

This depends on the type of digital asset you're interested in buying, selling, or creating. Another factor is the type of tokens or cryptocurrencies supported on the marketplace you are considering using. Some marketplaces support a wide variety of tokens or cryptocurrencies while others are closed marketplaces that utilize a specific proprietary token.

- [OpenSea](#) is one of the most popular and widely-used marketplaces. OpenSea is used to buy and sell many different types of digital assets and supports more than 150 different payment tokens.
- [Rarible](#) is another large marketplace for many different types of NFTs, but it only supports its own token called Rarible. The Rarible marketplace has arrangements with some well-known brands, such as [Taco Bell](#) and [Adobe](#).
- [Nifty Gateway](#) is a marketplace where digital artists, such as Beeple and the singer Grimes, have sold NFTs. Its NFTs, known as Nifties, are built on Ethereum. On Nifty you can make purchases and sales using U.S. dollars and other currencies without the need to make a cryptocurrency purchase first.
- [Mintable](#) is another popular marketplace that is like OpenSea, except that it only works with Ethereum.

### **What do you need in order to purchase an NFT?**

In order to purchase most NFTs you will need to open an NFT marketplace account, create a blockchain wallet, and fund the wallet with the right cryptocurrency or token required to participate in the site's activity. You should check to see what kind of security the marketplace has in force and if it has had any issues in the past. You should also be aware that the NFT industry is highly speculative and the value of NFTs, and of the digital art, digital music, and other assets they represent, can rise and fall.

### **How and why are businesses using NFTs?**

Businesses and organizations are using NFTs to create new streams of revenue, to enhance brand awareness, to help customers authenticate products and merchandise, and to raise funds for charitable causes.

### **How do you create or mint an NFT?**

First you will need to determine what object you want to turn into an NFT, such as a picture, music, video game, collectible, or meme. Of course, you should make sure that you own, or have obtained the right to use the intellectual property rights to the item you want to turn into an NFT, or that the item is clearly in the public domain. Then, you will need to choose the blockchain technology you will use for your NFT, such as Ethereum or Solana. After you have created a digital wallet and selected the marketplace, you will upload your digital file (a PNG, GIF, MP3, or other file type) into a marketable NFT. Then you will need to determine if and how you want to monetize the NFT, which may also depend on the marketplace you have chosen. Some companies will sell an NFT at a fixed price. Others will sell NFTs through a timed auction or an unlimited auction. It is also possible to give away NFTs or to sell them for a nominal price. You can also specify royalties if the NFT is resold on the secondary market. Some marketplaces may charge a listing fee, an NFT minting fee, a commission on the sale, and/or a transaction fee to transfer money from the buyer's wallet to yours. You can engage outside NFT development companies to help you create and market NFTs.

### **How do you obtain trademark protection for NFTs?**

In the U.S., it is possible to develop common law rights in a trademark or service mark that is used on or in connection with the sale of NFTs and the rendering of services relating to the

creation, advertising, marketing, and sale of NFTs, among other goods and services. It is also possible to register such marks with the U.S. Patent & Trademark Office. More than 1,400 federal trademark applications for such marks were filed in 2021. Established brands, such as Clinique, Converse, Crocs, Mattel, Saks, Walmart, Ticketmaster, and the UFC, among others, have applied to register their marks for NFTs.

### **Why should you register your NFT trademarks with the USPTO?**

You should register your NFT trademarks with the USPTO in order to, among other things:

- provide public notice of your trademark rights to anyone who is searching for similar marks;
- obtain a legal presumption that you own your mark and have the right to use it;
- be able to bring a trademark infringement lawsuit in federal court;
- be able to use the R in a circle ® registration notice;
- and be able to use your registration as a basis for filing for trademark protection in foreign countries.

### **What international classes will you include in your trademark application?**

The international classes you will include in your application will depend on the NFTs you are selling or the nature of the services you provide. Some of the most appropriate classes for NFTs and related goods and services include classes 9, 35, 36, 41, and 42. You should consult with an experienced trademark attorney to devise an accurate recitation of goods and/or services for your trademark application.

### **What are the copyright implications of NFTs?**

Copyright owners have exclusive rights to reproduce their works, prepare derivative works, distribute copies of their works, publicly display their works, and to publicly perform their works. Some NFTs, such as those for artwork or music, comprise copyrightable subject matter. However, the sale of an NFT does not automatically transfer the underlying copyright in the work to the purchaser of the NFT. Further, the creation and sale of an NFT that contains or comprises another person's copyrightable work, without authorization, may infringe that person's copyright in the underlying work.

### **How should copyright owners protect their works from infringing NFTs?**

Copyright owners should register their works of authorship with the U.S. Copyright Office because:

- you need to have a registration in order to file a copyright lawsuit;
- registering a work within five years of publication provides a presumption of validity in litigation;
- registration may enable the copyright owner to recover, among other things, statutory damages, attorneys' fees, and costs, depending on the timing of the registration; and
- copyright registration creates a public record of the copyright owner's copyrighted works, among other things.

You may be able to rely on your copyright registration to stop someone from using the work for an infringing NFT. If you created a digital file comprising copyrightable subject matter that you want to use for an NFT, you should consider registering it with the copyright office.

### **How do you avoid trademark and copyright infringement when adopting and selling NFTs?**

You may avoid trademark infringement claims by conducting a trademark clearance search before adopting a trademark for use on or in connection with NFTs or related goods and services; and you can avoid copyright infringement by using independently created works or obtaining authorization from the owner of any copyrightable work you use for NFTs or related goods and services.

### **Are there other intellectual property or proprietary issues associated with NFTs?**

There are other potential issues relating to NFTs. For example, patents can be obtained for novel uses of NFTs and NFTs can be used to transfer ownership of patents. There also may be right of publicity and privacy issues associated with using NFTs if they comprise or contain a person's name, likeness, image, voice, or other indicia of personal identity and are used for commercial or advertising purposes.

For further information, please contact [Joel Karni Schmidt](#), [Eric J. Shimanoff](#), or your CLL attorney.

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Joel handles U.S. and international intellectual property counseling, protection and enforcement matters.

His clients include lifestyle and fashion companies, start-ups, hotels and restaurants, financial services firms, wine and food companies, game publishers, global charitable organizations and foundations, and prominent artists and designers.