



PROGRAM MATERIALS
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What Are NFTs? How Blockchain Tech Affects Your Clients' IP Rights

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5255 North Federal Highway, Suite 100, Boca Raton, FL 33487
Phone 561-241-1919

What are NFTs?

HOW BLOCKCHAIN TECH AFFECTS YOUR CLIENTS' IP RIGHTS

Allison R. White, Esq.
Caesar Rivise, P.C.

OUTLINE

- What are NFTs?
 - How are NFTs used
 - Understanding Blockchain
 - How NFTs are minted
- NFTs and Intellectual Property
 - Copyright
 - Patents
 - Trademarks
 - Licensing



WHAT ARE NFTs?

- **NFT = Non-fungible Token**
 - Fungible = can be traded for same object of equal value
 - A dollar is fungible. A person can trade a one-dollar bill for another one-dollar bill and still have one dollar.
 - Bitcoin is also fungible, despite it also being recorded and certified on blockchain.
 - Non-fungible = cannot be traded for the same object of equal value; use is inseparable and exclusive
 - A one-of-a-kind, original art piece is non-fungible. One can trade the art piece, but only one exists. Therefore, what a person receives in the trade may have the same monetary value, but it is an entirely different object.

See Non-fungible Tokens (NFT), ETHEREUM, <https://ethereum.org/en/nft/>
(last visited July 25, 2021).



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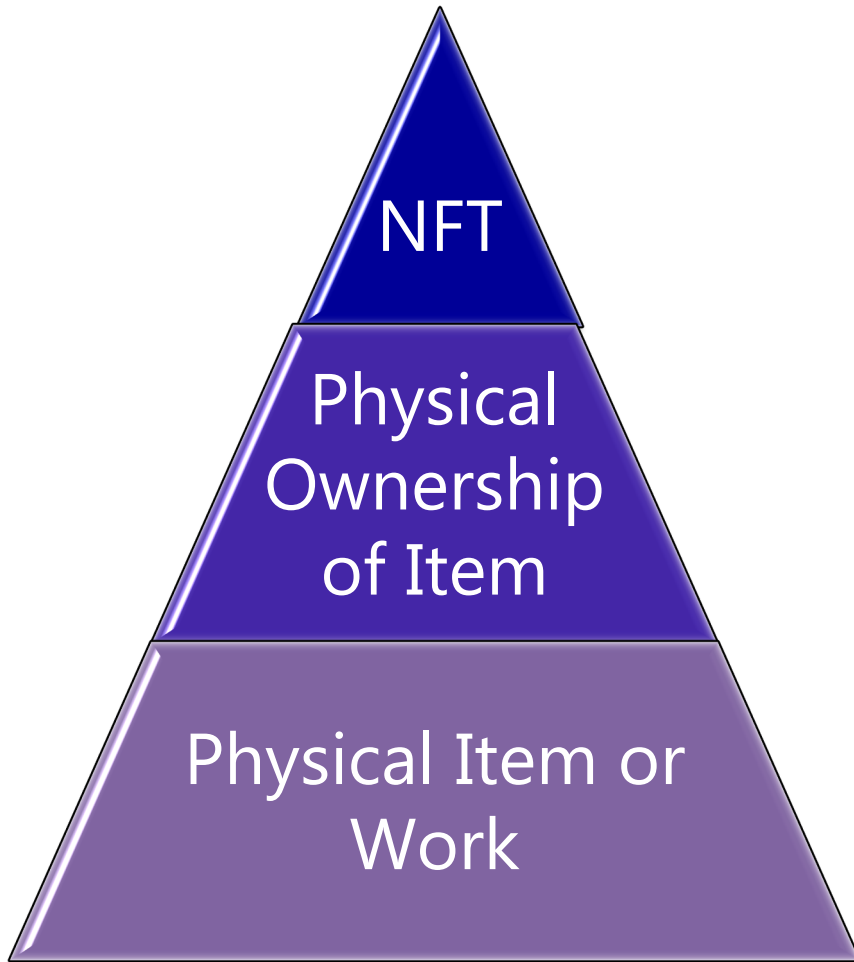
WHAT ARE NFTs? *(continued)*

- **Digital assets with ownership that is usually recorded and certified on a blockchain**
 - Intangible asset
 - Largely indestructible once recorded on a decentralized blockchain ledger
 - Each member has copy of ledger – ownership is easily verifiable and of public record
 - Creation or changes in ownership must be verified by each member of chain
 - All records are individually encrypted with owner ID, metadata, safe file links, and other identifying information that differ NFTs from Bitcoin

See Non-fungible Tokens (NFT), ETHEREUM, <https://ethereum.org/en/nft/> (last visited July 25, 2021); *see also* Maria L. Murphy, CPA, *NFTs Come with Big Valuation Challenges,* J. OF ACCOUNTANCY (July 15, 2021), <https://www.journalofaccountancy.com/news/2021/jul/nft-nonfungible-token-valuation-challenges.html>.



WHAT ARE NFTs? *(continued)*



- “A deed to the deed of a house”
- Does not confer ownership in physical item automatically
- Separate, commodified dimension associated with an item or work, but not the item or work itself
 - However, real estate market has started to look at NFTs as more secure records of ownership over physical items (i.e., homes)
 - Not the same as owning a copyright, patent, etc.

Jeremy Goldman, *A Primer on NFTs and Intellectual Property*, LEXOLOGY, Mar. 11, 2021, [https://www.forbes.com/sites/nataliakarayaneva/2021/04/08/nfts-work-for-digital-art-they-also-work-perfectly-for-real-estate/?sh=8f4c2bc43f33](https://www.lexology.com/library/detail.aspx?g=d96ed012-8789-4e87-bc1d-70ba76569c0f#:~:text=The%20quick%20answer%20is%20the,NFT%20holder%2C%20owns%20the%20copyright; see also Natalia Karayaneva, <i>NFTs Work For Digital Art. They Also Work Perfectly For Real Estate.</i>, FORBES (Apr. 8, 2021), <a href=).

WHAT ARE NFTs? *(continued)*

- **How are NFTs used?**
 - Recording ownership of unique items
 - Early NFTs were mainly thought of as digital collectibles
 - Commodifying music files, videos, and other media
 - Creators can retain ownership rights over their work and claim resale royalties directly (more on this later)
 - Fine art collecting
 - Patents
 - Recording ownership of physical items
 - Education
 - General trading asset
 - NFTs can sell for a few dollars or millions of dollars

See Non-fungible Tokens (NFT), ETHEREUM, <https://ethereum.org/en/nft/> (last visited July 25, 2021); see also Carly A. Kessler, *NFTs Are Reshaping Artists' IP Rights*, BLOOMBERG LAW, Mar. 24, 2021, <https://news.bloomberglaw.com/us-law-week/nfts-are-reshaping-artists-ip-rights>;



UNDERSTANDING BLOCKCHAIN

- **Understanding blockchain**

- A type of database technology (example: Ethereum)
- Identical copies of a database are distributed across an entire network
 - Decentralized, meaning information is not stored in one place
 - Identical copies of the blockchain database are stored on multiple computers spread out across an entire network
- What does the name mean?
 - Chain- information is stored on a digital ledger, described as a “chain”
 - Block- new “blocks” of information are added to the chain periodically

*See Non-fungible Tokens (NFT), ETHEREUM, <https://ethereum.org/en/nft/> (last visited July 25, 2021); Richard Brand & Alfredo De La Cruz, *Non-Fungible Tokens: The Blockchain Technology Raising Legal Issues*, J.D. SUPRA (Apr. 2, 2021), <https://www.jdsupra.com/legalnews/non-fungible-tokens-the-blockchain-4222200/>.*



BLOCKCHAIN *(continued)*

- **Decentralization makes blockchain ledgers a more secure network**
 - Each individual computer in the network is called a node
 - Before new blocks of information can be added or modified, the majority of nodes must verify its legitimacy
 - Ex. Verifying crypto-coins not spent more than once or transaction is not otherwise fraudulent
 - **Secured with cryptography**
 - Complex mathematical equations to process transaction
 - Unique identifier associated with a token = hash
 - **Much more difficult to hack**
 - If hacker tried to modify, digital fingerprint of all subsequent blocks would change, causing modification to be detected
 - Verification requirement often prevents modification

See Non-fungible Tokens (NFT), ETHEREUM, <https://ethereum.org/en/nft/> (last visited July 25, 2021); David Rodeck & John Schmidt, *What is Blockchain?*, FORBES (June 9, 2021), <https://www.forbes.com/advisor/investing/what-is-blockchain/>; Mike Orcutt, *How Secure is Blockchain Really?* MIT TECH. REV. (Apr. 25, 2018), <https://www.technologyreview.com/2018/04/25/143246/how-secure-is-blockchain-really/>.



HOW ARE NFTs MINTED?

- **Identify the digital work the NFT will represent**
- **Pick a marketplace**
 - May require cryptocurrency, but not on all platforms
- **Create account with marketplace, where you can create a collection and enter the information associated with NFT**
 - This includes the scarcity (how many copies can exist?), and what the royalties are for each resale if resale is permitted
 - Only creator decides the amount of copies that can be made—this is why a “one of a kind” NFT is not divisible
- **Owner’s account is updated to include the asset and blockchain verifies the creation and ownership**
 - As previously discussed, this involves multiple nodes on the blockchain verifying that NFT was legitimately created and not fraudulent
 - These tasks are completed by NFT “miners”

See *Non-fungible Tokens (NFT)*, ETHEREUM, <https://ethereum.org/en/nft/>
(last visited July 25, 2021).



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NFTs AND IP: COPYRIGHT

- **As an intangible asset frequently connected with works of art, NFTs have majorly impacted the IP space**
 - EXAMPLE: NFTs are often associated with digital copies of artworks
 - Can range from memes to fine art
 - However, while these artworks have an underlying copyright arising from creation, they may also have a registration that makes copyright enforceable
- **NFTs do not confer copyrights**
 - Person A may own a physical artwork, Person B may own the copyright, and Person C may own the NFT associated with the same work



NFTs AND IP: COPYRIGHT

(continued)

- **Posting media associated with NFT may cause infringement**
 - Some have called NFTs the next major method of art theft
 - 17 U.S.C. § 501 defines infringement
 - (a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 or of the author as provided in section 106A(a)
 - Some of these rights, especially those under 17 U.S.C. § 106, include:
 - Reproducing copies
 - Producing derivative works
 - Displaying
 - Distributing
 - Play/Performance



NFTs AND IP: COPYRIGHT

(continued)

- **Digital Millennium Copyright Act, 17 U.S.C. § 512 (1998).**
 - Designed to protect copyright owners in the digital age
 - Creates liability for circumventing access controls, downloading, copying, or distributing works in way that violates rights afforded under copyright
- **Infringement Remedies under 17 U.S.C. § 504**
 - Actual damages
 - Profits
 - Statutory damages
 - Available if registration occurred before infringement OR within three months of publication of work under 17 U.S.C. § 412



NFTs AND IP: COPYRIGHT

(continued)

- **Using artwork as an example highlights copyright concerns**
 - NFT is NOT the work itself, and is not a copyright
 - How does an NFT owner let the public know which NFT they own?
 - Often, this means posting the digital image associated with the NFT
 - However, this means the NFT owner has made a copy and publicly displayed the underlying work
 - However, if there is a registered copyright in the underlying work and the NFT owner does not also own copyright, this could be an infringing republication under U.S. copyright laws
 - Liability risk for NFT creators



NFTs AND IP: COPYRIGHT

(continued)

- **NFTs can be created of digital art, digital copies of fine art, music, photographs, or even literature**
 - The concerns extend far beyond memes and other digital art
- **How do attorneys enhance protections for clients who are authors of copyrightable subject matter?**
 - Perform survey to determine if NFT of author's work is on the market
 - If no NFT has been created:
 - Advise authors of the option to mint an NFT of the underlying work
 - Decentralized ledger aims to make the record of ownership inalienable and indivisible if author prefers to have that level of protection
 - Can also decide if copies will be made



NFTs AND IP: COPYRIGHT

(continued)

- **If an NFT is identified that was not created by the copyright owner:**
 - File a takedown request under the Digital Millennium Copyright Act (DMCA), 17 U.S.C. § 512 (1998).
 - Content is often effectively removed if essential copyright management information (defined by 17 U.S.C. 1202(c)) is included:
 - Copyright owner's signature
 - Identification of work infringed, infringing activity, and location of activity (URL)
 - Contact info of DMCA Notice sender
 - Statement that publication is not authorized by copyright owner (or good faith belief of such)
 - Verification of information accuracy



NFTs AND IP: COPYRIGHT

(continued)

- **If an NFT is identified that was not created by the copyright owner *(continued)*:**
 - If DMCA takedown notice is not effective and individual/entity making the infringing republication is identifiable, can send Cease and Desist letter
 - If these avenues are exhausted, copyright owner can file Complaint of copyright infringement
 - Internet users present problem of unknown defendant identities with usernames
 - If reasonable search to identify defendant is conducted and the name cannot be identified, courts often have procedures for identifying fictitious “John Doe” defendants
 - However, must describe defendant with particularity (username on platform should be included)
 - Check the court’s local rules of procedure

For an example of a case against an unknown internet John Doe copyright defendant, see *Malibu Media, LLC v. Doe*, No. 1:15-cv-01943-AWI-SKO, 2016 U.S. Dist. LEXIS 34093, 2016 WL 1046934 (E.D. Cal. March 16, 2016).



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NFTs AND IP: COPYRIGHT

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- **Advising NFT creators:**
 - Prior to minting an NFT, conduct search on whether copyright registration exists
 - Best practice to contact author of work and draft agreement permitting NFT creation
 - May require license negotiations between potential NFT creator and author of work
- **Advising entities providing NFT minting or marketplace services:**
 - Create user agreements requiring proof of ownership of rights of work or authorization to mint NFT of underlying work
 - NFT is a reproduction of information
 - Will not satisfy requirements to be original work of authorship
 - » Independent creation + modicum of creativity

Feist, Pubs. Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 346 (1991); *See also* Compendium of the U.S. Copyright Office Practices, 3ed ed. § 310.01 U.S. COPYRIGHT OFFICE (Jan. 28, 2021),

<https://www.copyright.gov/comp3/chap300/ch300-copyrightable-authorship.pdf>



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NFTs AND IP: PATENTS

- **Patent- rights associated with an invention**
 - Permits patent owner the right to exclude others from “making, using, offering for sale, or selling” under 35 U.S.C. § 154
- **How do NFTs fit into the patent landscape?**
 - Some companies have started to use NFTs to track IP assets such as patents
 - Transactions on blockchain can record NFT transfer of ownership and validate who currently owns certain IP rights
 - Smart contract is built into every NFT, and when associated with patent, creator can decide what info is public and what is not
 - Many companies have already tokenized patents to simplify transfers of ownership

See IPwe and IBM Seek to Transform Corporate Patents With Next Generation NFTs Using IBM Blockchain, IBM (Apr. 20, 2021), <https://newsroom.ibm.com/2021-04-20-IPwe-and-IBM-Seek-to-Transform-Corporate-Patents-With-Next-Generation-NFTs-Using-IBM-Blockchain>.



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NFTs AND IP: PATENTS

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- **NFT marketplace also alerts potential licensees that a particular tech is available for license**
 - Value of the patent is in the license
 - NFT marketplace permits patent owners to market IP to a broader audience
- **Distinction: NFT is not the patent itself**
 - Agreements conveying assignments should be drafted to reflect transfer of the NFT along with the patent rights
 - Assignments still need to be recorded with USPTO

See Matthew Bultman, *The Trendy, Hot NFT Market Has a New Entrant: Patents*, BLOOMBERG LAW (May 10, 2021), <https://news.bloomberglaw.com/ip-law/the-trendy-hot-nft-market-has-a-new-entrant-patents>; Marc Richards & Daniel Broaddus, Ph.D., *Converting Your Patent Portfolio to Patent NFTs? Best to 'Wait and See'*, IP WATCHDOG (July 8, 2021), <https://www.ipwatchdog.com/2021/07/08/converting-patent-portfolio-patent-nfts-best-wait-see/id=135328/>; Ed Mantilla, *The Interplay Of NFTs In Intellectual Property Law*, J.D. SUPRA (June 4, 2021), <https://www.jdsupra.com/legalnews/the-interplay-of-nfts-in-intellectual-3787133/>.



NFTs AND IP: PATENTS

(continued)

- **Advise clients that while NFTs have more clarity of ownership:**
 - Relying on the security of the blockchain ledger –always some risk
 - Increasing liquidity of patents can also risk patent owner losing exclusivity status as license provider
 - Can determine during creation if licenses are allowed, how many, and if resale is possible
 - However, resale allows other people to sell that license
 - Legal validity of smart contracts is unclear
 - However, Electronic Signatures In Global And National Commerce Act, 2000 Enacted S. 761, 106 Enacted S. 761, 114 Stat. 464, 465, provides contract/signature is not denied enforceability solely by reason of being digital

Marc Richards & Daniel Broaddus, Ph.D., *Converting Your Patent Portfolio to Patent NFTs? Best to 'Wait and See'*, IP WATCHDOG (July 8, 2021), <https://www.ipwatchdog.com/2021/07/08/converting-patent-portfolio-patent-nfts-best-wait-see/id=135328/>; Ed Mantilla, *The Interplay Of NFTs In Intellectual Property Law*, J.D. SUPRA (June 4, 2021), <https://www.jdsupra.com/legalnews/the-interplay-of-nfts-in-intellectual-3787133/>.



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NFTs AND IP: PATENTS

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- **Crypto-based tech is also becoming the subject of many more patent applications at the United States Patent and Trademark Office (USPTO)**
 - NIKE® has obtained a U.S. Patent No. 10,505,726 for a “System and Method for Providing Cryptographically Secured Digital Assets,” permitting buyers to verify footwear authenticity
 - When sneakers are sold, “Cryptokicks” are sold with them, giving consumers a digital collectible asset accompanying the shoe which are only sold with official NIKE® products
 - If sneakers is resold, requiring sale of digital asset along with sneakers verifies authenticity

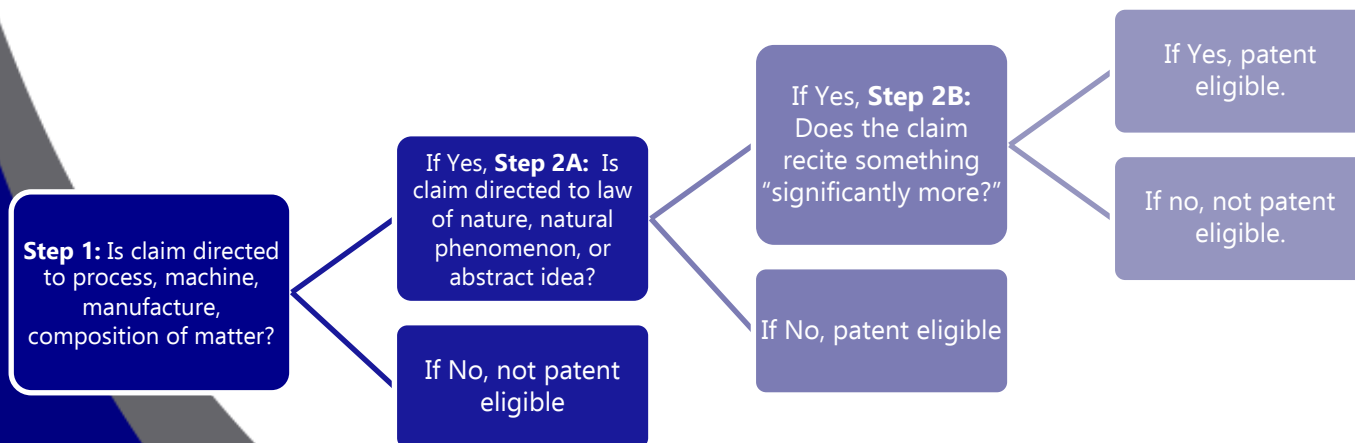


NFTs AND IP: PATENTS

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Challenges prosecuting NFT-based patents:

- Frequent rejections under 35 U.S.C. § 101 for unpatentable subject matter
 - Patent ineligible abstract ideas: methods of organizing human activity, mathematical formulas, and mental processes
 - Rejections often centered on the fact that storing data or enacting commercial transactions is an abstract idea
- Evaluated under 2 step framework set forth in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 573 U.S. 208 (2014) and *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66 (2012).



NFTs AND IP: TRADEMARKS

- Number of applications with crypto-based goods and services have increased exponentially
 - As of July 2021, there were over 10,000 applications mentioning either “non-fungible token” or “crypto”
- Trademark attorneys should be evaluating:
 - If clients’ goods and services encompass crypto-based tech
 - If clients are planning on expanding into crypto-based tech
- Can file applications covering crypto-based goods and services based on use in commerce under Section 1(a) under the Lanham Act (15 U.S.C. § 1051) or intent to use under Section 1(b)



NFTs AND IP: TRADEMARKS

- Attorneys representing NFT creators or those planning on minting NFTs:
 - Have open communication with clients as to what material is the basis for the NFT
 - Evaluate if the NFT could encompass a potential trademark
 - Conduct a clearance search to determine if trademark infringement is a concern prior to minting



NFTs AND IP: LICENSING

- Emerging uses for artists to create NFTs of works, including music, and receive royalties directly
- However, need to consider the rights of the artist, record labels, publishers, etc.
 - Work may be subject to licenses which determine who may create NFT
 - Artists not yet under contract have the most flexibility
 - Current contracts must be evaluated
 - Attorneys drafting licensing agreements should specifically address creation of NFTs and other digital formats and/or derivative works
 - With music specifically, need to consider copyrights for 1) musical composition and 2) sound recording
 - For clients who are NFT creators, perform clearance search
 - If work is under license, advise clients to acquire license in the work to avoid infringement concerns

Mikel Jollett, *Here's What NFTs Are—And What They Could Do for the Music Industry, Artists and Fans*, NBC, Mar. 16, 2021, <https://www.nbcnews.com/think/opinion/what-are-nfts-what-could-they-do-music-industry-artists-ncna1261205>; Carly A. Kessler, *NFTs Are Reshaping Artists' IP Rights*, BLOOMBERG LAW, Mar. 24, 2021, <https://news.bloomberglaw.com/us-law-week/nfts-are-reshaping-artists-ip-rights>.



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Contact Information for Questions:



Allison R. White, Esq.

CAESAR RIVISE, P.C.
7 Penn Center, 12th Floor
1635 Market Street
Philadelphia, PA 19103
215-567-2010
awhite@caesar.law