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Can I mint an NFT with that?: Avoiding right of publicity and trademark litigation risks in the brave new world of NFTs

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MAY 10, 2021

Almost overnight, non-fungible tokens (NFTs) have become a sensation.

The increase in interest stems, in large part, from the high price tags commanded by works created with this technology. It is estimated that more than $2 billion was spent on NFTs in the first quarter of 2021.[1]

As a result, businesses are mobilizing to find ways to use NFTs as marketing tools, to create new experiences for consumers and generate revenue.

At a high level, an NFT is a unique digital certificate stored on a blockchain that conveys certain limited ownership rights to an asset, typically a digital one.

> NFT creation and transfer raises a host of intellectual property considerations for all parties involved.

For the most part, NFTs are sold through third-party marketplaces. Many underlying works associated with NFTs are mostly still and video imagery. Others include the name, image, or likeness of a well-known figure.

Thus, NFT creation and transfer raises a host of intellectual property considerations for all parties involved.

While the technology and standards underlying NFTs have been around for a few years, given their increasing use and popularity, creators and rights holders are — or should be — reviewing existing license agreements to determine whether the scope of rights granted cover the creation (known as "minting") of an NFT.

In this article, we examine how NFTs could implicate rights across various categories of IP, and discuss the extent to which existing commercial license agreements granting rights in those categories may — or may not — permit the creation and sale of NFTs.

RIGHT OF PUBLICITY

NFTs that depict individuals have proven to be particularly valuable, both in dollar terms and as promotional tools for brands.

For example, professional athletes have entered the NFT market, offering digital collectibles of themselves.[2]

NFTs can also be a lucrative asset to the film industry, where there is potential to offer clips from successful movies as NFTs, or sell NFTs to promote new releases.

Rights involved

The right of publicity is protected by state law and gives an individual the exclusive right to control the commercial use of his or her persona, meaning one's name, image, likeness and voice.

Over 35 states currently recognize an individual's right of publicity.

Although the scope of protection varies across jurisdictions, infringement typically occurs when a third party exploits the subject's persona for a commercial purpose without permission.

Potential for infringement

Using an individual's name, image or likeness in an NFT without authorization risks infringement of that individual's right of publicity.

Any entity involved in NFT trading that depicts an individual could be exposed to liability, as it is possible that each entities could be considered to be using the individual's likeness in connection with a commercial purpose.

With respect to trading platforms in particular, even if the platform itself does not use the persona to promote its business, there is the possibility that it could be held liable for secondary or contributory infringement, depending on the applicable state law.[3]

Further, for purchasers of NFTs in which the underlying work violates a right of publicity, they risk liability not only if they attempt to resell the NFT, but also if they use the underlying work to promote their commercial interests (such as using their

ownership of a valuable or desirable NFT to drive customers to their business).

It is also important to note that many states that recognize a right of publicity also protect such rights post-mortem, including California and New York.

Thus NFTs in which the underlying work depicts deceased figures can still run the risk of violating rights held by the estates and heirs of such individuals.

However, as each state differs on the duration of post-mortem rights and the requirements for such rights to apply to an individual (e.g., where the individual died, the domicile of the individual at the time of their death, etc.), the applicability of such statutes to a particular individual will vary on a case-by-case basis.

Commercial IP license considerations

While many commercial agreements — particularly in the sports and entertainment industries — include some right-of-publicity license, the language varies. Licenses granting the right to exploit one's publicity rights "by any means or methods now or hereafter known" may be broad enough to include media not contemplated by the licensor at the time of execution,[4] but a clause that expressly reserves for the licensor "all rights not expressly granted" may not cover an NFT featuring the licensor's image.[5]

> As more and more businesses focus in on NFTs, and begin to take steps to connect their brands to NFTs, trademark infringement concerns are likely only to increase.

Thornier questions arise when the license limits the use of the licensor's persona to certain activities, such as promotion.

While NFTs can act as promotional devices (for example, an NFT comprised of a clip of a newly released film[6]) they can also be viewed as collectibles or even merchandise, which could fall outside the scope of a license of rights solely for promotional purposes.

Similarly, it could be argued that NFTs primarily act as investment or commercial devices, in which case the "purpose" of the use could arguably exceed the bounds of a license focused more on promotional (or even merchandise) rights.

Further considerations

There are several First Amendment-based defenses to right of publicity claims, such as newsworthiness or commentary.

While the commercial nature of NFTs cuts against those arguments, courts have generally held that if the content at issue can be characterized as expressive, the First Amendment imposes a higher bar on the challenger.[7]

The more an NFT contains an expressive, newsworthy, or satirical depiction of an individual, the more likely that the First Amendment defense will apply[8]; conversely, to the extent the NFT principally relies on the individual's likeness for its commercial value, the more likely it will be held to violate the right of publicity.

TRADEMARK

Both the works associated with NFTs, as well as NFTs themselves, can include trademarks that may be implicated by the minting and selling of NFTs.

Rights involved

Both the Lanham Act and corresponding state laws provide protection against the unauthorized use of trademarks in a manner that is likely to cause confusion among consumers.[9]

Moreover, the use of any name, symbol, image, or device that is likely to cause mistake as to the source, affiliation, or sponsorship of a good or service is prohibited.[10]

Accordingly, the use of trademarks or colorable imitations of trademarks in NFTs may implicate a third party's trademark rights. Moreover, if the underlying trademark is famous and distinctive, rights under the state and federal dilution statutes may be implicated.

Potential for infringement

As more and more businesses focus in on NFTs, and begin to take steps to connect their brands to NFTs, trademark infringement concerns are likely only to increase.

Arguably, any unauthorized use in connection with an NFT of a trademark — or phrase/image that could be confused with a trademark — implicates trademark infringement concerns.

This could include the unauthorized incorporation of a mark both within the NFT itself (such as in the metadata), or in the work underlying the NFT.

Moreover, any inaccurate implication that a particular brand or company sponsors, supports, endorses, or is affiliated with an NFT — or the work underlying an NFT — could likewise create liability under the Lanham Act (and corresponding state laws).

Even if the use of a mark is unlikely to create confusion as to source, origin, or sponsorship, creating an NFT that incorporates a famous and distinctive trademark poses a liability risk for dilution. Both state and federal laws protect marks that have reached a certain level of fame from actions that "dilute" their ability to function as a trademark by either impairing the distinctiveness of the mark or associating the mark with content that is harmful to the mark's reputation.[11]

Accordingly, NFTs that feature such famous marks may risk additional liability.

Commercial IP license considerations

The ability of a trademark licensee to use a trademark in connection with an NFT depends greatly on the specific rights granted by the license.

For example, a license that permits the licensee to use the trademark in connection with any medium would arguably permit use in connection with an NFT;[12] conversely, a license that is restricted to only certain types of usage may not be broad enough to protect the licensee from a claim of unauthorized trademark use in connection with an NFT.

Additionally, as discussed previously, when a license permits uses only in connection with certain activities, there are open questions as to whether an NFT may fall under such categories.

For instance, a license to use a particular mark in connection with the advertising, promotion, or sale of particular goods and services may not be sufficient to cover a licensee's creation of an NFT, as an NFT is arguably a good separate and apart from other goods and services.[13]

Further considerations

As with claims based in the right of publicity, there may be available defenses to trademark infringement based on fair use and First Amendment principles.

For example, courts have recognized two types of fair use applicable in the trademark context — "descriptive" fair use, in which a party uses a third party's trademark to describe their own goods and services;[14] and "nominative" fair use, in which a party may use a third party's trademark in order to reference the third party's product or to compare that product to its own product.[15]

Thus, the use of a mark in either the metadata or the underlying work of the NFT could potentially be protected under one of these doctrines, depending on the way such mark is used.

Another — and potentially more applicable — defense could be grounded in the First Amendment and the balancing of trademark and free expression interests embodied by the *Rogers* test.[16]

Under the *Rogers* test, use of a trademark in connection with an expressive work will violate the trademark owner's rights only when such use either has no artistic relevance to the work, or is explicitly misleading.

The applicability of this defense will be largely fact specific, and will depend on how expressive the NFT is and how the trademark is incorporated into the NFT at issue; but given the expressive nature of the works underlying many NFTs, it could certainly be a viable defense in appropriate circumstances.

COPYRIGHT

The works underlying NFTs are also ripe for creating concerns related to copyright infringement. While much has been written on this topic already,[17] it is important to note that copyright licensees should carefully consider what rights they actually have been granted before minting and selling any NFT based on a copyrighted work for which they are a licensee, as the scope of such license may not cover the creation of NFTs.

The minting and sale of an NFT could arguably constitute a reproduction, creation of a derivative work, distribution of a copy, and a public display of the work.

Accordingly, a licensee to only a portion of the so-called "bundle" of exclusive rights owned by the copyright holder may risk liability for incorporating the copyrighted material into the work underlying an NFT, depending on which rights are licensed.

CONCLUSION

As the above discussion demonstrates, there remain numerous unanswered questions with respect to NFTs, and their interaction with intellectual property rights.
Nonetheless, there are several best practices that should be followed to avoid liability and ensure their rights are protected:

- NFT minters should scrutinize the rights implicated by such activities and carefully review license agreement to see whether any language exists that could support or refute their right to mint; conversely, rights holders should similarly review such agreements to determine whether they may have granted the right to mint NFTs to their licensees, and whether they may have the ability to prevent the minting or sale of an NFT based on or incorporating their IP;
- Parties involved in NFT transactions should consider the applicability of traditional IP defenses such as fair use or First Amendment preemption if confronted with claims of infringement;
- To avoid secondary liability, platforms hosting NFT transactions should ensure that they have adequate procedures in place for verifying IP ownership and removing infringing content when it is brought to their attention;
- When negotiating new license agreements, parties should explicitly address whether the minting and sale of NFTs is permitted under the license (including the ability of the licensee to grant sublicenses in connection with the sale of NFTs).

Notes

[1] *See* Robert Frank, "NFT sales top $2 billion in first quarter, with twice as many buyers as sellers," CNBC (Apr. 14, 2021), available at https://cnb.cx/3h8DNyQ.

[2] Danny Nelson, "Quarterback Patrick Mahomes joins Gronk in NFL blitz of NFT mania," CoinDesk (Mar. 12, 2021), available at https://bit.ly/33pqQsq; *see also* Jabari Young, "People have spent more than $230 million buying and trading digital collectibles of NBA highlights," CNBC (Mar. 2, 2021) available at https://cnb.cx/3en17XU (reporting that Lebron James and Zion Williamson highlights have reportedly sold for hundreds of thousands of dollars on the NFT marketplace "NBA Top Shot").

[3] *See, e.g.*, *Perfect 10 Inc. v. Cybernet Ventures Inc.*, 213 F. Supp. 2d 1146 (C.D. Cal. 2002) (concluding that defendant could be held secondarily liable for right of publicity violations under California statute); *but see Keller v. Elec. Arts Inc.*, No. 09-cv-1967, 2010 WL 530108 (N.D. Cal. Feb. 8, 2010) (finding that Indiana right of publicity statute did not provide for secondary liability).

[4] *See Cohen v. Paramount Pictures Corp.*, 845 F.2d 851 (9th Cir. 1988) (citation omitted).

[5] *Id.*

[6] Jason Hellerman, "Legendary is the first studio to release an NFT for a movie, no film school" (Mar. 31, 2021), available at https://bit.ly/3epXH6X.

[7] *Hart v. Elec. Arts Inc.*, 717 F.3d 141 (3d Cir. 2013).

[8] *See, e.g., Cardtoons L.C. v. Major League Baseball Players Ass'n*, 95 F.3d 959 (10th Cir. 1996).

[9] *See, e.g.*, 15 U.S.C.A. § 1114.

[10] *See, e.g.*, 15 U.S.C.A. § 1125.

[11] *See* 15 U.S.C.A. § 1125(c).

[12] *See, e.g.*, *Republic Pictures Corp. v. Rogers*, 213 F.2d 662 (9th Cir. 1954).

[13] In this connection, it is worth noting that to date there has been little guidance from the USPTO, or any other administrative body, as to how NFTs may be classified.

[14] *See KP Permanent Make-Up Inc. v. Lasting Impression I Inc.*, 543 U.S. 111 (2004).

[15] *See New Kids on the Block v. News Am. Publ'g Inc.*, 971 F.2d 302 (9th Cir. 1992).

[16] *See Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989).

[17] These issues have been addressed in depth in previous articles. *See, e.g.* Stuart Levi, Mana Ghaemmaghami, MacKinzie Neal & Allison Shapiro, "NFTs raise novel and traditional IP and contract issues," Bloomberg Law, available at https://bit.ly/2R8gxXb; Stuart Levi, MacKinzie Neal & Mana Ghaemmaghami, "Decoding the fine print on Nonfungible Token Licenses," Law360 (Mar. 30, 2021), available at https://bit.ly/3b4V5sP.

This article was published on Westlaw Today on May 10, 2021.

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