



Technology Law

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What Does It Mean to Own an NFT?

Non-Fungible Tokens (NFT) have created new and interesting legal questions surrounding ownership of digital assets. NFTs are digital assets encoded with unique identifiers that cannot be copied, substituted, subdivided or easily exchanged for other NFTs. These digital assets are recorded on blockchains, which are effectively systems of recording information in a manner that renders the assets difficult or impossible to change. Elizabeth Ferill, Soniya Shah, and Michael Young, *Demystifying NFTs and intellectual property: what you need to know*, 29 No. 05 Westlaw Journal Intellectual Property 02. Given that NFT is a digital asset that only exists on the Internet, what are you truly buying? Surprisingly, when you purchase an NFT, you may not be buying the intellectual property rights associated with that NFT. You may not have the right, for example, to display the NFT to the public or to reproduce it for commercial use. Thus, when purchasing an NFT, it is vital that a buyer understands what rights they have purchased in order to prevent running afoul of laws such as copyright infringement.

Owners' Rights to an NFT

Ownership rights of NFTs can typically be found on the creator's website under Terms of Service or Terms of Use. Some NFT creators give expansive rights to their buyers while others severely restrict how the NFT can be used.

Some NFT creators give their buyers an unlimited, worldwide license to profit off of the purchased NFT. For example, Bored Ape Yacht Club, which is a collection of digital artworks of cartoon monkeys, allows its NFT buyers the right to sell merchandise, such as tee-shirts and mugs, displaying the Bored Ape NFT. *Terms & Conditions*, BORED APE YACHT CLUB, (2021), <https://boredapeyachtclub.com/#/terms>. Other creators allow their buyers to profit off of the purchased NFT but up to a certain amount. For example, CryptoKitties, a blockchain game that permits users to own, transfer and breed digital cats, allows users to have a non-exclusive, non-transferable, and royalty-free license to use, copy, and display the digital cat for personal use and commercial use but users may not earn more than \$100,000 in gross revenue per year. *CryptoKitties Terms of Use*, CRYPTOKITTIES, (Nov. 15, 2018), <https://www.cryptokitties.co/terms-of-use>.

Other creators restrict NFTs for non-commercial use. For example, The Kings of Leon only allow their NFT music to be used for personal use. *Terms of Service*, YELLOWHEART LLC, (Feb. 25, 2022), <https://d3mso81baheq3.cloudfront.net/tos.pdf>. NBA Top Shot, which are a collection of NFTs as video clips of historic moments in NBA basketball games, allows its NFT buyers to use, copy, and display the NFT but for personal, non-commercial use only. *Terms of Use*, NBA TOP SHOT, (Aug. 31, 2022), <https://nbatopshot.com/terms>.

Some NFT creators may retain the copyright ownership of the NFT even after it is sold. For example, according to NBA Top Shot's Terms of Use, the creator retains the copyright to all of its NFTs. *Id.*

Because ownership rights can drastically vary, it is important to read the Terms of Service or Terms of Use as it will contain critical information on how the purchased NFT can be used.

Buyers Beware

Because anyone can create an NFT, purchasers should make sure that they are purchasing an NFT created by the copyright or trademark holder. In *Hermès Intl. v. Rothschild*, Hermès International and Hermès of Paris, Inc. (collectively “Hermès”), a luxury fashion brand known for its luxury handbags called “Birkin handbag,” filed a trademark infringement lawsuit against Mason Rothschild for creating and selling digital images of Birkin handbags as NFTs. 22-CV-384 (JSR), 2023 WL 1458126 (S.D.N.Y. Feb. 2, 2023). The complaint was filed on January 14, 2022 in the Southern District of New York under case number 1:22-CV-00384. Mr. Rothschild created a digital image titled “Baby Birkin,” which depicts a transparent Birkin handbag with a 40-week-old fetus gestating inside it. He sold the Baby Birkin NFT for \$23,500, which was then resold for \$47,000. *Hermès Intl.*, 2023 WL 1458126, at *1. The subject of this litigation surrounded Mr. Rothschild’s creation and sale of a collection of digital images titled “MetaBirkins,” which depict blurry images of faux fur covered Birkin handbags. *Id.* at *2. Mr. Rothschild produced one hundred MetaBirkins that sold for over \$1.1 million. *Id.* Mr. Rothschild also received a creator fee each time a MetaBirkin NFT was resold, which amounted to 7.5% of the total sale price. *Id.* Hermès argued that Mr. Rothschild used Hermès’s registered mark without authorization and that Mr. Rothschild diluted Hermès’s mark. *Id.* at *3. Hermès also argued that Mr. Rothschild’s actions disrupted its efforts to enter the NFT market and placed it at a competitive disadvantage with top fashion brands such as Gucci, Louis Vuitton, and Balenciaga to develop NFTs that could be marketed to a wider audience. *Id.* On February 8, 2023, a federal jury found that Mr. Rothschild creation and sale of MetaBirkin NFTs infringed Hermès trademark rights and awarded Hermès \$133,000 in damages for trademark infringement, trademark dilution, and cybersquatting. Jury Verdict, ECF No. 144; see Blake Brittain, *Hermes wins U.S. trademark trial over ‘MetaBirkin’ NFTs*, REUTERS, (Feb. 8, 2023), <https://www.reuters.com/legal/hermes-wins-us-trademark-trial-over-metabirkin-nfts-defendants-lawyer-2023-02-08/>.

In *Miramax, LLC v. Quentin Tarantino et al.*, Miramax, LLC (“Miramax”), a global film and television studio, filed a lawsuit against the film director Quentin Tarantino for breach of contract, copyright infringement, trademark infringement, and unfair competition. The complaint was filed on November 16, 2021, in the Central District of California under case no. 2:21-CV-08979. The complaint alleged that Mr. Tarantino announced his plans to auction off seven “exclusive scenes” from the film called *Pulp Fiction* as NFTs. Compl. ECF No. 1, ¶1. Mr. Tarantino wrote and directed *Pulp Fiction*, but Miramax owned the exclusive copyright to the film and trademark in the name “Pulp Fiction.” *Id.* ¶¶18-20, 33. Miramax issued a cease and desist letter to Mr. Tarantino requesting him to stop the sale of the Pulp Fiction NFTs, which he refused, thus, resulting in this litigation. *Id.* ¶5. Miramax alleged that it did not give Mr. Tarantino permission to create and sell NFTs of scenes from *Pulp Fiction*. *Id.* ¶56. In a joint statement, Mr. Tarantino and Miramax stated that “[t]he parties have agreed to put this matter [the lawsuit] behind them and look forward to collaborating with each other on future projects, including possible NFTs.” Eli Tan, *Quentin Tarantino Reaches Settlement With Miramax in ‘Pulp Fiction’ NFT Lawsuit*, COINDESK (Sept. 9, 2022), <https://www.coindesk.com/business/2022/09/09/quentin-tarantino-reaches-settlement-with-miramax-in-pulp-fiction-nft-lawsuit/>. On October 6, 2022, Miramax filed a joint stipulation to dismiss the case. *Miramax Mot.*, ECF No. 43.



Key Takeaways

When advising clients or potential clients on the purchase of NFTs, it is important to always read the NFT creator's Terms of Use or Terms of Service before purchasing the digital asset because these terms will set forth the rights of NFT owners. Creators may provide expansive rights to the owners, such as the Bored Ape Yacht Club, which allows its NFTs owners to use the NFTs for commercial use. While other creators may severely restrict how NFT owners may use their NFTs, such as the Kings of Leon, who restrict the use of their NFTs for personal use. Given that anyone can create NFTs, it is also important to verify that the NFT is sold by a creator who actually holds the copyright, trademark, or any other intellectual property rights to that NFT – otherwise they may run afoul of intellectual property laws. The Hermes lawsuit is a perfect example where the NFT creator was not the copyright holder of the Birkin bag. Because the legal landscape regarding NFTs is still evolving, understanding these issues are vital in effectively advising clients on the potential issues with purchasing an NFT.

About the Author

Catherine Geisler is an associate of *Constangy, Brooks, Smith & Prophete, LLP* and is based in Chicago. She assists clients in responding to various data security incidents such as ransomware, business email compromises, and other types of cyberattacks. Through her daily work helping to manage responses to data security incidents, she stays abreast of the evolving legal landscape regarding privacy and cybersecurity issues to better serve clients. She also has substantial experience providing clients with advice on the development of policies and procedures for data privacy and security to ensure compliance with all U.S. laws, such as the California Consumer Privacy Act (CCPA) and Health Insurance Portability and Accountability Act (HIPAA), and international privacy laws, such as the General Data Protection Regulation (GDPR).

Ms. Geisler worked as an associate in an insurance practice group prior to joining Constangy, where she represented insurance carriers in a variety of insurance coverage disputes. Her experience included analyzing insurance coverage issues, assessing insurance carriers' risks, preparing coverage opinions and position letters, and handling all aspects of insurance coverage litigation in state and federal courts. Ms. Geisler has written extensively on data privacy and security matters, and she serves as the technology columnist for Illinois Defense Counsel. She also holds the Certified Information Privacy Professional/United States (CIPP/US) credential from the International Association of Privacy Professionals (IAPP).

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