



Addendum to the 2022 Brand License Template: Licensing for NFTs

Commercialization of Brands Committee (COBC): Licensing and Franchising Subcommittee

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ADDENDUM TO THE 10-8 COBC BRAND LICENSE TEMPLATE

AGREEMENT BETWEEN [LICENSOR]AND [LICENSEE]

FOR LICENSING OF TRADEMARKS USING NFTS & BLOCK CHAIN TECHNOLOGY

This document outlines the topics to consider when licensing brands using Non-Fungible Token (“NFTs”) based Blockchain technology. Although NFTs can be used to license or sell many other types of expressive works (e.g. copyrightable images, video, writings, collectibles, etc.), this effort focuses on the licensing of brands by applying existing and generally accepted intellectual property and contract law to the licensing of brands. This document references sections of the 10-8 COBC Brand License Template (“the Template”) *License Agreement*. As such, it complements the Template by adding details and points that are unique to the NFT Ecosystem. Both should be reviewed side by side.

Due to scope and focus restrictions this document cannot provide a comprehensive tutorial on NFTs, Blockchain or the related marketplace.¹ However, it is critical to understand a few key elements of the technology and marketplace in order to properly advise clients on brand licensing. There are many pieces to the NFT ecosystem, which continues to rapidly expand. Here are the key components:

1. **Blockchain:** A blockchain, is a system of recording information in a way that makes it difficult or impossible to change, hack, or cheat the system. A blockchain is essentially a digital ledger of transactions that is duplicated and distributed across the entire network of computer systems on the blockchain.² The overwhelming majority of NFTs are licensed on the Ethereum blockchain, although this is not a requirement. Ethereum adheres to the ERC-721 standard. <https://erc721.org/>
2. **Non-fungible Tokens (“NFTs”):** NFTs are unique tokens that represent ownership usually distinct and scarce, whether it be a physical or digital item. NFTs can be associated with artwork, soundtracks, videos, trading cards, etc. NFTs can also represent brands, trademarks, or images associated with trademarks or brands. There is no reason that an NFT cannot be associated with anything that could also be protected by trademark, copyright, or other intellectual property rights. Content associated with NFT are referred to as digital assets.
3. **NFT Marketplaces:** NFT marketplaces are platforms, built on top of the blockchain, where NFTs can be stored, displayed, traded, and minted. These Marketplaces are somewhat analogous to eBay and Amazon. However sales of goods on eBay/Amazon are fungible, that is each individual good sold (corresponding to an ASIN on Amazon are materially identical). NFTs, by their very definition are not fungible and each NFT offering is a unique offering unto itself.. There are many marketplaces available to license an NFT. The most common open marketplace is OpenSea.io. Because all NFTs exist publicly on the blockchain, once a Licensor has minted and licensed an NFT on a Blockchain it can become available on a variety of different marketplaces. However, this is not advisable. A specific NFT can be purchased by only a single licensee, therefore Licensors should be careful not to double sell an NFT and should be careful of offering NFTs under conflicting sales methodologies (e.g. English auction, Dutch Auction, timing of each and a set price).³ It is probably a better marketing strategy to sell on each individual NFT on a single platform.
4. **Crypto Wallets:** To offer a license, license, purchase or offer to purchase an NFT a both the Licensor and Licensee must have a crypto wallet that is compatible with the blockchain network. The wallet provider holds the licensors and licensees currency, usually in Crypto. The Licensor may have to pay for gas fees to mint the NFT and needs the wallet to receive payment from the licensee’s wallet who will pay for the NFT. OpenSea currently supports 15 different wallets, including the most popular options like Coinbase and MetaMask.
5. **NFT development tool:** OpenSea has its own NFT development tool, but there are many available on the market. Basically, any creator, who wishes to license an image, mark or combination

¹ There are many books on the subjects of blockchain and NFTs. I couple used in support of this outline include *Blockchain Basics, A Non-Technical Introduction in 25 Steps* by Daniel Drescher, ISBN13 (pbk) 978-1-482603-2, ISBN – 13 (electronic): 1-4842-2604-9 published by Apress, and *The NFT Handbook* by Matt Fortnow and Quharrison Terry, ISBN 978-1-119-83838-8 and 978-1-119-83839-5 (ebk) published by Wiley and Sons.

² *Cloud Native Architecture and Design: A Handbook for Modern Day Architecture and Design with Enterprise-Grade Examples*, 1st Edition by Shivakumar R. Goniwada ISBN-13 978-1484272251, Page 11 (citing Investopedia)

³ Currently, the most established NFT marketplaces include: For universal selling and digital art: OpenSea, Rarible, SuperRare, Nifty Gateway. For more niche digital items like virtual world avatars or trading cards: NBA Top Shot, Axie Infinity, Sorare, Decentraland, Valuables. There are many marketplaces offering a myriad of types of NFTs. Terms and conditions vary by marketplace and can vary by individual NFT offering.

thereof, uses an NFT development tool to help create the image, establish its unique attributes and link it to a smart contract smart contract under ERC-721 or ERC-1155.

6. **NFT Smart Contract:** An NFT smart contract is code (and associated data and meta data) for verifying ownership of NFTs and conducting the token transfer between NFT owner and buyers (or licensors and licensees). Smart Contracts confirm that the terms of the transfer (sale or license) are proper and records the transfer in perpetuity on the Blockchain. Smart contracts ensure that a digital asset is unique (i.e a single asset is associated with a single token)
7. **Uses:** While many NFTs are licensed solely for their content (e.g. videos, digital art) as collectibles, the licensing of brands via NFTs is meant to be used in a metaverse or immersive game environment. A branded NFT is not an end in itself. As exemplary, Cryptokitties operates an immersive play environment and licenses the images of their specially attributed kittens on OpenSea. Similarly Nike has created Nikeland, a metaverse space that allows Nike fans to meet, socialize and otherwise engage in brand experiences. Nikeland is part of Roblox's online environment, and it licenses its shoes, backpack and hats for players to use. Nike also offers some of its brands in partnership with RTFKT on OpenSea for use in its environment.
8. **Characteristics of the NFT Attributes, Traits, Rarities and Properties:** as discussed immediately below the ERC-721 standard governs NFTs, including their metadata. The "attributes" meta data allows for a brand owner/licensor to create and define an NFT with almost an endless number of characteristics by simply listing them e.g. "attributes: [. #1, #2 . . . #n]. A brand owner can define these attributes manually, by writing the ERC-721 code, or by using third party tools that generate the code automatically. Attributes for artwork usually define the details of eyes, nose, lips, expressions, clothes, accessories, etc. Attributes for use in gaming might include qualities, abilities and powers of the characters. These characteristics referred to differently by each marketing platform. For example, OpenSea defines *Properties* as a main characteristics such as faces, eyes, hair. It refers to *Traits* as characteristics that describe the *Properties*. Contrarily, Rarible uses the term *Rarity* for an NFTs characteristics and Mintable uses the terms *Attributes* and *Traits*. No matter which terminology is used it is important for the value of the NFT to clearly define what characteristics are associated with an NFT and whether they can be modified in any secondary market.

Standards: The market has matured within the context of standards. NFTs exist in a variety of different token forms, and different marketplaces support different token types. The most common token standard is **ERC-721**, which was used to mint the first NFTs. Every ERC-721 token is rare and unique, offering consumers a chance to have proprietary ownership of a digital asset. Another standard, **ERC-1155**, allows creators to use a single smart contract to produce an infinite number of both fungible and non-fungible tokens. By publishing multiple NFTs with the same contract, sellers need only pay a single initialization fee for their collection. ERC-1155 tokens are often used to represent game collectibles, as well as images, videos, 3D models, and more.⁴

Creator Verification & Authentication: Because creators can turn any digital asset into an NFT, user and content verification ensure the originality and authenticity of NFT collections. Marketplaces attempt to verify accounts of notable companies or people, as well as accounts with high fraud risks. However, authenticity and rights verification varies greatly by marketplace and many, such as Opensea, make no warrants and assurances regarding the authenticity of any NFT offered. Contrarily, Rarible warrants the authenticity of a work, similar to an art auction house.⁵

Token Fractionalization: Due to the inflation of Ethereum, NFTs, especially rare collectibles, can be extremely costly and inaccessible to most consumers. However, some marketplaces allow users to buy partial ownership of an NFT with token fractionalization. Licensors on these marketplaces frequently benefit from offering assets faster because they can sell them in more affordable portions instead of waiting for the highest bidder to buy the entire NFT. Likewise, Licensees benefit from reduced costs.⁶

NFT Licensing Model:

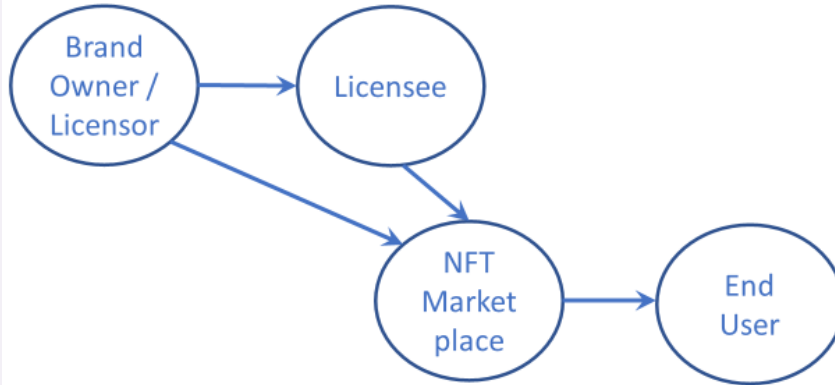
Although a variety of entities can, and will, affect the licensing of brands via NFTs, the following four entities are key. Each entity must be considered when developing a strategy for NFT licensing and branding.

⁴ See *How to Create your first NFT on Opensea – Buy & Sell NFTs* by Vinay Kumar available at https://issuu.com/gaminguy07/docs/untitled_document_1

⁵ See id.

⁶ See Id.

NFT Licensing Related Entities



The brand owner is the entity most likely to be licensing the mark. It is common for consumer brands to license goods, whether digital or physical, through licensees, which in turn, will manage the license of brand and associated digital goods through one or more NFT marketplaces. Large brands may manage the licensing directly with NFT Marketplaces or even manage its own NFT Marketplace. The NFT Marketplaces are typically not licensees or sub-licensees of the brand. Rather each is a marketing conduit through which the mark and digital good is licensed to the End User. End Users will typically be consumers who will purchase the digital good for their own use and enjoyment. Each entity will require specific licensing terms and downstream entities must be considered in each license agreement. Each link (arrow) shown above may have a separate license agreement. This template focuses on what the brand owner/ licensor and licensee must consider when licensing brands via NFTs. The NFT Marketplaces and End Users will affect these terms, but are not a party to the license, *per se*.

Licensing: The use of an NFT as a brand is unique from other NFT uses, which generally feature a digital asset such as an image, or short video, which derive value from its scarcity. Using NFTs as a way of distributing brands is a slightly different application of the technology which possess some unique licensing questions that largely fall on the brand / licensor to consider. Assuming a Licensor/Licensee relationship exists additional topics will need to be considered beyond the traditional trademark license agreement:

- Additional parties must be considered e.g. NFT Marketplaces, End Users and applications such as games and metaverses. (See section 2.)
- Trademark registration coverage for digital goods and services. (See section 3.)
- Licenses and attributes for specific digital goods and services. (See section 4.)
- End User License Terms e.g., personal use license (See section 5.)
- NFT Marketplace licensing compatibility and smart contracts (See section 6.)
- Term of license: End users are generally not restricted by term of use. (See sections 5 and 7.)
- Territory: The Web3 world, based on block chain, has few territorial limitations (unless imposed from outside the NFT ecosystem). (See section 8.) Territory in the NFT ecosystem can conceptually be replaced with terms limiting use with NFT marketplaces and end user applications.
- Royalties: Secondary monetization is supported in the Ethereum blockchain and many NFT Marketplaces. (See section 14 and 23.)
- Warrants: With digital assets it is critical that the Brand Owner / Licensor is able to warrant rights in the both the marks and the digital assets. (See section 27 and 36, ownership and warrants respectively.)

With the ever-evolving NFT ecosystem, brand licensing is likely to continually change.

1.	Licensor:	<hr/>						
2.	Licensee:	<hr/> <p>There are at least three scenarios to consider: (1) the licensee is known (e.g. in game purchase of NIKE skin); and (2) the licensee is unknown and the brand is being licensed through a marketplace (e.g. Tops trading card where both copyrighted work and mark is being licensed); and (3) sublicensees of (1) and/or (2).</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 25%; padding: 5px;">Practice Points</th> <th style="width: 50%; padding: 5px;">Licensor Considerations</th> <th style="width: 25%; padding: 5px;">Licensee Considerations</th> </tr> </thead> <tbody> <tr> <td style="height: 30px;"></td> <td></td> <td></td> </tr> </tbody> </table>	Practice Points	Licensor Considerations	Licensee Considerations			
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		<p>Parties</p> <ul style="list-style-type: none"> • Licensors need to establish through what channels to market the NFT • In scenario 1 the Licensor should probably develop a direct contractual relationship with the licensee. • In scenario two the method of selling and terms of licensing must comply with or not be inconsistent with the market places terms, which are not consistent across marketplaces. So selection of the marketplace and its associated terms are critical to success. • In the third scenario, sublicensing must be considered. Sublicensed can be allowed or prohibited. <ul style="list-style-type: none"> • Scenario 1: <ul style="list-style-type: none"> • Authenticate that the licensor holds ownership rights in the trademark(s) and that this covers beyond the physical product (i.e. virtual goods) • Confirm that the registration covers virtual goods. • Scenario 2: <ul style="list-style-type: none"> • Need to understand what if there are particular methods of licensing is desired (e.g. auction, Dutch auction, set price, time limit, minimum price, etc.). • Should licensing be limited to any list marketplaces and if so, what restrictions? See more below. • Scenario 3: <ul style="list-style-type: none"> • Need to identify what sublicense rights will be extended and under what terms.
3.	Licensed Trademark(s):	<p>In addition to the traditional practice pointers, licensee and licensors should review the existing scope of goods and services in the existing trademark registrations.</p> <p>See section 5 below discussing how a personal use license can be used instead of a Trademark license. Industry trends suggest that explicit trademark licensing is not necessary. Nonetheless, it is critical that the brand owner / licensor have trademark coverage for not only physical goods but also for similarly situated digital assets.</p> <p>In 2023 major trademark offices released guidance relating to registering trademarks for newer technologies such as NFTs, blockchain, cryptocurrency, and virtual goods.</p> <p>USPTO Information can be found at https://www.uspto.gov/about-us/events/registering-trademarks-newer-technologies-nfts-blockchain-cryptocurrency and a slide deck discussing same at https://www.uspto.gov/sites/default/files/documents/TM-Newer-Technologies-webinar.pdf. The USPTO gives the following as examples of proper virtual goods and services USPTO explicitly recognizes the virtual objects for use in virtual worlds, especially by avatars, as proper for protection. It also recognizes that virtual retail will be a common usage that is protectable, such as online stores that feature wither real goods or virtual goods for sale. Examples include:</p> <p>9: Downloadable virtual goods in the nature of image files of {specify type, e.g. sunglasses, jewelry, etc.} for use in online virtual worlds.</p> <p>41: Entertainment services, namely, providing online, non-downloadable virtual {indicate, e.g., furniture, etc.} for use in virtual environments created for entertainment purposes.</p> <p>42: Graphic design of virtual goods for use in virtual worlds</p> <p>42: Computer programming of virtual goods for use in virtual worlds</p> <p>35: Online retail store services rendered in a virtual environment featuring physical goods, namely, {specify type, e.g., furniture, jewelry, sunglasses, etc.}</p> <p>As such, to protect use of one’s brand in the metaverse it is prudent to obtain registration for at least the digital equivalents of physical goods and retail services.</p> <p>UKIPO guidance can be found here. https://www.gov.uk/government/publications/practice-amendment-notice-223/pan-223-the-classification-of-non-fungible-tokens-nfts-virtual-goods-and-services-provided-in-the-metaverse. It will now accept protection for various virtual goods and services, however “NFTs will not be</p>

accepted as a classification term alone. Without an indication of the asset to which the NFT relates, the term is inherently vague.” Id. It states that it will accept many forms of digital assets in class 009, namely:

- digital art authenticated by non-fungible tokens [NFTs]
- downloadable graphics authenticated by non-fungible tokens [NFTs]
- downloadable software, namely, [list the type of goods], authenticated by non-fungible tokens [NFTs]
- digital audio files authenticated by non-fungible tokens
- downloadable digital files authenticated by non-fungible tokens [NFTs]

The UKIPO also states that will protect physical goods associated with an NFT, such as:

- artwork, authenticated by non-fungible tokens [NFTs] [Class 16]
- handbags, authenticated by non-fungible tokens [NFTs] [Class 18]
- Training shoes, authenticated by non-fungible tokens [NFTs] [Class 25]

The guidance also confirms that online retail services in class 035 are also protectable, such as:

- Retail services connected with the sale of [e.g. virtual clothing, digital art, audio files] authenticated by non-fungible tokens
- Provision of online marketplaces for buyers and sellers of goods and services which are authenticated by non-fungible tokens

Last, the UKIPO recognizes potential protections for virtual services and the metaverse, such as:

- education and training services delivered by virtual means [class 41]
- conducting interactive virtual auctions [class 35]
- education and training services provided via the metaverse [class 41]
- conducting interactive auctions via the metaverse [class 35]

The European Union Intellectual Property Office (EUIPO) classifies virtual goods as digital content or images and registers them in Class 9 of the Nice Classification. The EUIPO has stated that the term “virtual goods” alone lacks clarity and precision and would not be acceptable for registration. https://euipo.europa.eu/ohimportal/en/news-newsflash/-/asset_publisher/JLOyNNwVxGDF/content/pt-virtual-goods-non-fungible-tokens-and-the-metaverse The EUIPO draft Guidelines have been published and have until October 3, 2023 to comment. See Subsection 6.25 of the guidelines. <https://www.euipo.europa.eu/en/manage-ip/guidelines>

Therefore, trademark protection does not automatically extend to the metaverse, NFTs or virtual goods. Explicit protection is required.

As a reminder, trademark applications for creative works, whether associated with NFTs, must be part of a collection to be granted registration. See TMEP 1302. Thus, if a Licensor has created digital images it wishes to license and be used as a trademark (e.g., Crypto kitties) the creative works may require a collection to be granted registration.

Common law rights, i.e., unregistered trademarks, such as BORED APE YACHT BLUC, BAYC and BORED APE (“BAYC Marks”), can be protectable despite being associated with intangible goods See *Yuga Labs, Inc., v. Ripps et. al*, case number 2:22-cv-04355-JFW (JEMx) Dkt. 225 Pg. 9 of 22. Judge Walter agreed with the court in *Hermes Int’l v. Rothschild* (590 F. Supp. 3d 647, 655 (S.D.N.Y. 2022) (holding that goods need not be tangible to qualify for trademark protection). Judge Walter held in part that:

- (1) NFTs have unique characteristics of tangible goods such as being individually transferrable between owners, storable for indefinite periods and distinguished based on their source. Such a holding, although not explicitly stated, is based upon the smart contract embedded in all blockchain transactions.
- (2) Yuga did not transfer its trademark rights in the BAYC Marks under the governing license agreement to licensees.

So, although registration is preferred, at least in the United States, trademarks are still protected by establishing common law rights in a trademark.

Practice Points	Licensor	Licensee
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		<p>Licensed Trademark(s): Getting the definition of Licensed Trademark remains key for both parties as they delineate the scope of the license.</p>	<ul style="list-style-type: none"> • Ideally, Licensors will have obtained registration covering all digital goods. • Licensors should be careful about granting “worldwide” rights in the Licensed Trademarks for digital assets unless it actually has such rights. • To the extent a licensee may be expanding the physical territory in which a trademark is used, a licensor should request a license back of all good will and common law rights established in the mark through use by a licensee. • Licensors may desire to limit the scope to only existing brands. 	<ul style="list-style-type: none"> • Licensee will wish to ensure that Licensor has obtained explicit coverage for all licensed marks across all licensed digital goods. • If the licensor digital asset related trademark applications have yet to grant then the license should account for future grants of pending applications. • If licensee is expanding the physical territory in which a trademark is used, the licensee should carefully negotiate what, if any, ownership rights it may establish in the territory. • Since blockchain is not inhibited by physical boundaries, Licensees should consider requesting warrants and indemnifications for use of the marks in any geography where the Licensor is known not to have trademark registration or common law rights. • Due to the global nature of blockchain, Licensees should resist geographical restrictions on licensing. 						
4.	<p>Licensed Product(s):</p>	<p><u>Extending to the Virtual World:</u> Any list of licensed products should include should explicitly included an extension for licensing via NFT marketplaces and metaverses e.g., The “Licensed Products/Services/Services” are _____, [offered for sale within the range of Suggested Retail Price Point(s) (“SRP”) set forth in Exhibit __], which products/service bear/will be offered in connection with at least one of the Licensed Trademark(s) shown in Exhibit __ and are offered/sold or distributed [to Approved Customers (defined in Section 8)] in the Territory (defined in Section 6). All Licensed Products/Services/Services shall only comprise the [insert the details for the services]/designs, samples, styles, and materials that are selected, created, or otherwise utilized by or for Licensor, or Licensee pursuant to this Agreement, excluding generic designs (collectively, “Designs”/“Specifications” [if Services]), and must meet with Licensor’s Approval (as defined in Section 18) before being offered for sale or sold on any NFT marketplace or used in any metaverse.</p> <p>As discussed in section 6, and elsewhere, the territory of the virtual world license may be particularly difficult or impossible to enforce.</p> <table border="1" data-bbox="518 1178 1341 1866"> <thead> <tr> <th data-bbox="518 1178 699 1255">Practice Points</th> <th data-bbox="699 1178 1341 1255">General Licensing Questions for the Brand Owner</th> </tr> </thead> <tbody> <tr> <td data-bbox="518 1255 699 1749"> <p>Licensed Products/Services (or Services)</p> </td> <td data-bbox="699 1255 1341 1749"> <ul style="list-style-type: none"> • Does the license include the right to use both virtual and physical products? • Is the license to only allow the use of NFTs to track physical goods associated with the mark? • Is the license exclusive for the virtual world? • Where do the boundaries lie for virtual goods? Is it analogous to the physical goods? Is the license limited to certain marketplaces, wallets or metaverses? • Can the trademark license be extended for newly created virtual goods within a class of goods? Extended to goods outside certain classes? • How do the above compare to the existing trademark registrations or pending applications? </td> </tr> <tr> <td data-bbox="518 1749 699 1866"> <p>Resale Price Restrictions</p> </td> <td data-bbox="699 1749 1341 1866"> <ul style="list-style-type: none"> • If resale of physical products is allowed under a contract, may want to consider separating the virtual world licenses from the physical world licenses to avoid triggering price </td> </tr> </tbody> </table>			Practice Points	General Licensing Questions for the Brand Owner	<p>Licensed Products/Services (or Services)</p>	<ul style="list-style-type: none"> • Does the license include the right to use both virtual and physical products? • Is the license to only allow the use of NFTs to track physical goods associated with the mark? • Is the license exclusive for the virtual world? • Where do the boundaries lie for virtual goods? Is it analogous to the physical goods? Is the license limited to certain marketplaces, wallets or metaverses? • Can the trademark license be extended for newly created virtual goods within a class of goods? Extended to goods outside certain classes? • How do the above compare to the existing trademark registrations or pending applications? 	<p>Resale Price Restrictions</p>	<ul style="list-style-type: none"> • If resale of physical products is allowed under a contract, may want to consider separating the virtual world licenses from the physical world licenses to avoid triggering price
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				<p>maintenance / competition laws. (depends on territories)</p> <p>Use of the Marks</p> <ul style="list-style-type: none"> • Particularly in the virtual environment are the use of marks limited to certain metaverses or games? • In the virtual environment can the marks be used in the same room, proximity or avatar as competing marks? (e.g. can a player wear Nike shorts and Adidas shoes?).
	<p>Scope of Sublicensing Grants to End Users</p>	<p>(a) As discussed above, as a matter of law trademarks are protected only in association with specific goods or services. Trademarks have traditionally been licensed in this fashion, as outlined above. NFTs do not limit or prohibit such licensing. However, many trademark licenses are between entities, for example between a brand owner/licensor and licensee. These license agreements are not between the brand owner and the end consumer. Nonetheless, the licensor/licensee agreement must account for terms present in the agreement between the licensee and the end user. The key grant to an end user is a personal license for use or display of the digital asset (which contains a trademark and a digital good), for non-commercial use.</p> <p>(b) The NFT/Metaverse ecosystem also allows the brand owner to license trademarks directly to the end user. This creates an enforcement challenge. Previously, the brand owner could police its marks with a small set of trusted entities. Policing consumer uses of brands is a much more difficult challenge. This challenge can be largely overcome by combining the brand, good or service, and attributes together in a single NFT and granting a personal use or display right to the consumer. The license does not grant any rights in the trademark <i>per se</i>, rather it grants rights to use the image or the copyright in the image. For example:</p> <p>(i) _____ grants you a worldwide, non-exclusive, revocable, royalty-free license, to display the image for your Purchased NFTs, solely for the following purposes: (i) for your own personal, non-commercial use (for example home display, display in a virtual gallery or as an avatar); or (ii) as part of a marketplace that permits the purchase and sale of your NFTs. <https://adidasapp.adidas.com/legal/into_the_metaverse_tc.html (modified)></p> <p>(ii) Subject to your compliance with these Terms, for as long as you own the applicable NFT, _____ grants you a limited, personal, non-exclusive, non-sublicensable, worldwide license under any copyright owned by _____ in any _____-Owned Content to: (1) Copy and modify the _____-Owned Content (as modified, “Modified Content”) for non-commercial, personal use; and (2) Display and perform the _____-Owned Content and Modified Content for non-commercial, personal use. https://rtfkt.com/legal-2A ⁷</p> <p>(c) It may be prudent to explicitly state that trademark rights or other rights are not being licensed</p> <p>(i) Without limitation to Section __, the license in Section __ does not include: (i) the right to use the Art to create additional NFTs; (ii) the right to create derivative works of the Art; (iii) the right to, and you may not, use any adidas trademarks in connection with the exercise of your license in Section __. No _____ trademarks are licensed to you. You may not use or attempt to register any asset, including any domain names, social media accounts or related addresses, that contains or incorporates any artwork, other representation, name or mark that may be confusingly similar to _____ trademarks. https://adidasapp.adidas.com/legal/into_the_metaverse_tc.html.</p> <p>(ii) There are no other license rights, whether express or implied, with respect to any of the _____-Owned Content, Modified Content or any derivative works thereof, and no license rights are granted under any patent, trademark, trade secret or other intellectual property or proprietary right other than any copyright owned or controlled by _____. https://rtfkt.com/legal-2A</p> <p>(d) NFT transfers: It is important to clarify under what conditions the NFT can be transferred. if any. For example:</p> <p>(i) You have the limited right to transfer the Purchased NFT, provided that (a) any such transfer shall be in accordance with applicable laws and regulations, including but not limited to restrictions under trade regulations; (b) the transferee accepts all the Terms and the transferee shall, by purchasing, accepting, accessing or otherwise using the Art, be deemed to accept all the Terms; (c) you provide notice to the transferee of the Terms including a link or other method by which the Terms can be accessed by the transferee; (d) you have not breached the Terms before the transfer; and (e) your license to the Purchased NFT has not been</p>		

⁷ c.f. RTFKT “commercial” licensing agreement which allows for “de-branding” and resale of the RTFKT images. See <https://rtfkt.com/legal-2C>.

terminated before the transfer.
https://adidasapp.adidas.com/legal/into_the_metaverse_tc.html

- (ii) To the extent that you are not prohibited from doing so by any other terms or conditions applicable to a particular NFT or Digital Collectible, you may transfer the NFT to a third party, provided that the following conditions are met: (1) Such transfer is conducted through a marketplace or other platform that cryptographically verifies that you are the actual owner of the applicable NFT; (2) Such transfer must comply with (a) Any applicable terms of the marketplace or other platform on which such sale or other transfer takes place and (b) Any applicable laws, regulations, regulatory guidance, and rules; (3) Prior to such sale or other transfer, you must (a) Provide written notice to the would-be transferee that such transferee's exercise of the license rights included as part of the Digital Collectible will be conditional upon such transferee agreeing to be bound by these Terms, and (b) Ensure that such transferee is provided with an opportunity to review these Terms; and (4) After such transfer, your right to display and perform the _____-Owned Content and all other license rights under these Terms will immediately terminate (without the requirement of notice). <https://rtfkt.com/legal-2A>.

- (e) Restrictions on Use: It is common for the personal use license to be the key grant, while explicitly restricting other uses by the end user.

- (i) A general restriction clause may be appropriate, for example: "_____ retains all right, title and interest in the digital asset and all copyright or other intellectual property rights in any digital asset. Except for the license rights expressly granted in Section __, above, you do not have and will not have any right, title or interest in or to any digital assets. Without limiting the foregoing, the digital assets may include trade names, brands, logos, trademarks, names, likenesses, images or other personal characteristics of persons or characters ("Embedded IP"). Your use of such Embedded IP is limited to use in connection with the exercise of your license rights under these Terms and subject to all limitations set forth herein and any other restrictions that _____ may inform you of in the future. You may not use any such Embedded IP in connection with any business, product or service, or in any manner that may imply endorsement of any business, message, product or service, or that is likely to cause confusion or dilute, blur or tarnish such Embedded IP. All use of such Embedded IP, including any goodwill generated by such use, will inure to the benefit of _____. Derived from <https://rtfkt.com/legal-2A>

- (ii) Alternatively, a more specific use restriction may be appropriate relating to the digital asset, for example: "You agree that you will not do any of the following without _____'s express prior written consent in each case:

- i. modify, distort or perform any other change to the digital asset in any way, including, without limitation, the shapes, designs, drawings, attributes, or color schemes;
- ii. create derivative works;
- iii. create additional NFTs;
- iv. use the digital asset in connection with images, videos, or other forms of media that depict hatred, intolerance, violence, cruelty, or anything else that could reasonably be found to constitute hate speech or otherwise infringe upon the rights of others or promote illegal activities;
- v. use the digital asset in movies, videos, or any other forms of media, except solely for your own personal, non-commercial use;
- vi. sell, distribute for commercial gain (including, without limitation, giving away in the hopes of eventual commercial gain), or otherwise commercialize merchandise that includes, contains, or consists of the digital asset;
- vii. attempt to trademark, copyright, or otherwise acquire additional intellectual property rights in or to the digital asset;
- viii. use the digital asset in connection with defamatory or dishonest statements about _____ and/or its affiliated companies or which otherwise damage the goodwill, value or reputation of _____ or represent or imply that your exercise of the license in Section ____ is endorsed by _____ and/or its affiliated companies; or
- ix. otherwise utilize the digital asset for your or any third party's commercial benefit."

Derived from https://adidasapp.adidas.com/legal/into_the_metaverse_tc.html.

		<p>(iii) In addition, a specific restriction as to trademark ownership may also be prudent, for example: “No _____ trademarks are licensed to you. You may not use or attempt to register any asset, including any domain names, social media accounts or related addresses, that contains or incorporates any artwork, other representation, name or mark that may be confusingly similar to _____ trademarks.”</p> <p>Derived from https://adidasapp.adidas.com/legal/into_the_metaverse_tc.html.</p> <p>(f) Third Party IP: If the digital asset contains third party IP then additional restrictions may be necessary, for example “To the extent that digital asset contains Third Party IP (e.g., licensed intellectual property), you understand and agree as follows:</p> <ul style="list-style-type: none"> (i) that you will not have the right to use such Third Party IP in any way except as incorporated in the digital asset, and subject to the license and restrictions contained herein; (ii) that, depending on the nature of the license granted from the owner of the Third Party IP, adidas may need to pass through additional restrictions on your ability to use the Art; and (iii) to the extent that _____ informs you of such additional restrictions in writing (email is permissible), you will be responsible for complying with all such restrictions from the date that you receive the notice, and that failure to do so will be deemed a breach of these Terms. <p>Derived from https://adidasapp.adidas.com/legal/into_the_metaverse_tc.html.</p> <p>(g) Attributes or Traits:</p> <p>It is important that the Licensor set attributes or traits of an NFT and clearly define whether they are modifiable of not by licensees or end users.</p> <p>If the smart contract/s relating directly or indirectly to a licensed NFT allows the licensee and/or end user to modify or delete certain PROPERTIES, TRAITS, ATTRIBUTES, or other characteristic referred to using a similar term, then previous written consent should be obtained from the Licensor.</p> <p>If a change of the PROPERTIES, TRAITS, ATTRIBUTES is performed without the prior written consent of the Licensor then the individual/s and/or organizations involved in the change shall be responsible and licensor may use any technical and legal resource available to stop or repair the effects of the unauthorized change.</p> <p>(j) Commercial Use:</p> <p>Alternatively, or in addition to, the brand owner/licensor may wish to license the brand for commercial use. Commercial Use is contrasted with personal use, which is limited to an end user using the mark for their own use in a game or metaverse. It is typically not for resale or to be associated with other goods or services beyond those specified. However, some NFT licensors take a much more liberal view of licensing. For example, some licensors, such as CryptoKitties, allow the purchaser of an NFT a limited right to use, copy or display the art underlying the NFT “for the purposes of commercializing [their] own merchandise, provided that you aren’t earning more than \$100,000 in revenue each year for doing so”. This model is memorialized in “the NFT License” at https://www.nftlicense.org/. Such a license must be considered in view of downstream royalties and any restrictions that may be imposed by marketplaces in the secondary market.</p>												
	<p>Compatibility with Marketplaces</p>	<p>(k) In order to sell/license the trademark or personal use license, the method of sale can vary greatly by marketplace. Therefore, the brand / licensor must be clear on through what means and under what terms the license can be transferred.</p> <p>The most open marketplaces allow for selling an NFT license, and associated digital asset, e.g., English Auction, Dutch Auctions or offering a set price or a minimum price. The brand / licensor must consider how the digital asset should be sold. In addition to sales methods, and as discussed above, marketplaces vary greatly by whether as to the degree of that digital assets are vetted for authenticity, marketed for sale, or support NFT creation and minting. Below is a table outlining some of the key terms of marketplaces.</p> <table border="1" data-bbox="337 1692 1479 1818"> <thead> <tr> <th>Marketplace</th> <th>Vetted for Authenticity</th> <th>Marketing of NFTs</th> <th>Require Application + Approval to Mint and List NFTs</th> <th>Secondary Marketplace</th> <th>License</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Marketplace	Vetted for Authenticity	Marketing of NFTs	Require Application + Approval to Mint and List NFTs	Secondary Marketplace	License						
Marketplace	Vetted for Authenticity	Marketing of NFTs	Require Application + Approval to Mint and List NFTs	Secondary Marketplace	License									

		Open	NO	NO	NO	YES	Custom License
		Curated	YES	YES	YES	NO	Usually rigid license
		<p><u>Open Marketplaces:</u></p> <p>The most popular open NFT marketplaces include OpenSea, see opensea.io, rarible, see rarible.com, and mintable, see mintable.com. These marketplaces are commonly referred to as “open” marketplaces because the operator does not closely organize, select or manage the content being licensed. It makes no guarantees as to the authenticity of the NFT asset being transferred. Although each offers tools for the brand owner or licensor to market the NFTs, the marketplace itself market the NFTs. Consistent with the “open” approach the marketplaces also allow licensors to mint and list their own NFTs and allow others to license the NFT on the secondary market (although the secondary market is often restricted). Each also allow for varying ways of listing the NFTs for sale or transfer (auctions or set prices – as mentioned above).</p> <p>For example, Opensea, the most popular marketplace, does not authenticate the content of the works being licensed. However, it does partially address imitation and plagiarism through account verifications and an automated system to help identify, remove and prevent instances of “copymint” (copies of authentic NFT content). See https://opensea.io/blog/announcements/improving-authenticity-on-opensea-updates-to-verification-and-copymint-prevention/. Open allows for licensors to mint NFTs. See https://opensea.io/learn/what-is-minting-nft. Opensea also allows for original NFT creator to set a secondary sale fee by percentage. For example, if a creator sets a 2.5% royalty for a collection, Opensea will include those fees into the order = adding 5% on top resulting in a 2.5% secondary sale royalty to OpenSea, and another secondary sale fee of 2.5% royalty to the creator. The licensing of the NFT content is very flexible and can be widely customized by the brand/licensor. That license is largely the subject of this document. Other “open” marketplaces offer similar features.</p> <p><u>Curated Marketplaces:</u></p> <p>Curated marketplaces impose greater restrictions on creator, brand or licensor. Commonly used curated marketplaces include Foundation, see foundation.app, SuperRare, see superrare.com, and NiftyGateway, see niftygateway.com. As shown in the table above, the curated marketplaces typically vet the creation for authenticity, assist heavily with the marketing of the creation and require creators to apply and be approved for minting an NFT. Curated marketplaces typically do not offer the creations for sale in a secondary marketplace and impose a rather strict license for sale. Some curated marketplaces are analogous to a high-end art auction such as Christie’s or a high end department store such as Nordstroms. In each of those models the auction house or store has largely vetted the authenticity and value of an item before offering it for auction or sale.</p> <p>For example, SuperRare is an NFT marketplace focused on trading of unique, single-edition digital artworks. Each creation is authentically created by an artist that is part of a verified network. It is sometimes described as “Instagram meets Christies.” SuperRare is exclusive, artists can only offer digital artwork if invited to do so. Once invited and verified as a suitable artist SuperRare will help you market, sell and mint a creators work. SuperRare allows for auctions, offers and buy now sales of NFTs and has recently added to ability to collect a set royalty of 10 percent on any secondary sales. See https://help.superrare.com/en/articles/5662523-what-is-the-fee-structure-on-superrare.</p>					
5.	Term:	<p>While the license between the Licensor and Licensee is likely to be limited to a set term, the end user license agreement may be granted in perpetuity or be silent concerning its length of grant. as discussed above. Currently, NFT marketplaces do not offer term limitations on NFTs as they last on the blockchain in perpetuity by default. However, an NFT can be “burned.” (i.e., the NFT can be transferred to a wallet address that is inaccessible to anyone). Ethereum Smart Contracts can be generated to automatically burn an NFT at a specified time and that term can be part of the NFT license. See https://support.opensea.io/hc/en-us/articles/9718781187987-How-does-OpenSea-handle-NFTs-with-a-burn-mechanism- for a discussion of burning an NFT.</p>					

6.	Territory:	Territorial restrictions on NFT licenses are likely to be very complicated. NFTs are offered on a decentralized blockchain ecosystem and are usually paid for in cryptocurrency, Transactions can be effectuated without either party revealing any geographically identifying information (e.g., names, shipping or billing information – after all the product is virtual). Limiting an NFT license by geography or territory is antithetical to the Web3 ethos, although a variety of countries such as the People’s Republic of China, Iran, Ghana, Egypt, Columbia, Algeria, Bangladesh, Iraq, Mexico, Nepal, Turkey, Vietnam and Bolivia have banned the use of cryptocurrency, in whole or part. Therefore, explicitly disclaiming purchase or licensing (and any associated indemnification) via cryptocurrency in these countries may be advisable.
7.	Personal use license & grants for digital assets	<p>As discussed above, as a matter of law trademarks are protected only in association with specific goods or services. Trademarks have traditionally been licensed in this fashion, as outlined above. NFTs do not limit or prohibit such licensing. However, many trademark licenses are between entities, for example between the brander and the manufacturer or distributor. These license agreements are not between the brand owner and the end consumer. The NFT/Metaverse ecosystem has changed these relationships, allowing the brand owner to license trademarks directly the end user. This creates an enforcement challenge. Previously, the brand owner could police its marks with a small set of trusted entities. Policing consumer uses of brands is a much more difficult challenge. This challenge can be largely overcome by combining the brand, good or service, and attributes together in a single NFT and granting a personal use or display right to the consumer. The license does not grant any rights in the trademark <i>per se</i>, rather it grants rights to use the image or the copyright in the image. For example:</p> <ul style="list-style-type: none"> (i) _____ grants you a worldwide, non-exclusive, revocable, royalty-free license, to display the image for your Purchased NFTs, solely for the following purposes: (i) for your own personal, non-commercial use (for example home display, display in a virtual gallery or as an avatar); or (ii) as part of a marketplace that permits the purchase and sale of your NFTs. <https://adidasapp.adidas.com/legal/into_the_metaverse_tc.html (modified)> (ii) Subject to your compliance with these Terms, for as long as you own the applicable NFT, _____ grants you a limited, personal, non-exclusive, non-sublicensable, worldwide license under any copyright owned by _____ in any _____-Owned Content to: (1) Copy and modify the _____-Owned Content (as modified, “Modified Content”) for non-commercial, personal use; and (2) Display and perform the _____-Owned Content and Modified Content for non-commercial, personal use. https://rtfkt.com/legal-2A⁸ <p>(l) It may be prudent to explicitly state that trademark rights or other rights are not being licensed</p> <ul style="list-style-type: none"> (i) Without limitation to Section __, the license in Section __ does not include: (i) the right to use the Art to create additional NFTs; (ii) the right to create derivative works of the Art; (iii) the right to, and you may not, use any adidas trademarks in connection with the exercise of your license in Section __. No _____ trademarks are licensed to you. You may not use or attempt to register any asset, including any domain names, social media accounts or related addresses, that contains or incorporates any artwork, other representation, name or mark that may be confusingly similar to _____ trademarks. https://adidasapp.adidas.com/legal/into_the_metaverse_tc.html. (ii) There are no other license rights, whether express or implied, with respect to any of the _____-Owned Content, Modified Content or any derivative works thereof, and no license rights are granted under any patent, trademark, trade secret or other intellectual property or proprietary right other than any copyright owned or controlled by _____. https://rtfkt.com/legal-2A <p>(m) NFT transfers: It is important to clarify under what conditions the NFT can be transferred. if any. For example:</p> <ul style="list-style-type: none"> (i) You have the limited right to transfer the Purchased NFT, provided that (a) any such transfer shall be in accordance with applicable laws and regulations, including but not limited to restrictions under trade regulations; (b) the transferee accepts all the Terms and the transferee shall, by purchasing, accepting, accessing or otherwise using the Art, be deemed to accept all the Terms; (c) you provide notice to the transferee of the Terms including a link or other method by which the Terms can be accessed by the transferee; (d) you have not breached the Terms before the transfer; and (e) your license to the Purchased NFT has not been

⁸ c.f. RTFKT “commercial” licensing agreement which allows for “de-branding” and resale of the RTFKT images. See <https://rtfkt.com/legal-2C>.

		<p>terminated before the transfer. https://adidasapp.adidas.com/legal/into_the_metaverse_tc.html</p> <p>(ii) To the extent that you are not prohibited from doing so by any other terms or conditions applicable to a particular NFT or Digital Collectible, you may transfer the NFT to a third party, provided that the following conditions are met: (1) Such transfer is conducted through a marketplace or other platform that cryptographically verifies that you are the actual owner of the applicable NFT; (2) Such transfer must comply with (a) Any applicable terms of the marketplace or other platform on which such sale or other transfer takes place and (b) Any applicable laws, regulations, regulatory guidance, and rules; (3) Prior to such sale or other transfer, you must (a) Provide written notice to the would-be transferee that such transferee's exercise of the license rights included as part of the Digital Collectible will be conditional upon such transferee agreeing to be bound by these Terms, and (b) Ensure that such transferee is provided with an opportunity to review these Terms; and (4) After such transfer, your right to display and perform the _____-Owned Content and all other license rights under these Terms will immediately terminate (without the requirement of notice). https://rtfkt.com/legal-2A.</p>
8.	Approved Customer(s)	<p>Approved customer lists will be difficult to impose. As discussed above, the blockchain is decentralized and purchasers are generally anonymous. This is not to say that an NFT buyer isn't identifiable. The entire history of transfers of every NFT are listed in perpetuity on the blockchain. So, each owner of an NFT is identifiable. However, such a unique identifier does not necessarily link to the a physical persons identity. Further, the history of transactions are available on the blockchain, which is not to say that future transactions can necessarily be limited to a select set of identifiers. However, a digital creation can be sold outside of a marketplace to an individual (or selected individuals) and can then be executed on the blockchain. That, of course, is considerable overhead and reduces the potential reach.</p>
9.	Marketing Date:	<p>Due to the global nature of NFT licensing the Territory may be global and the list of Approved Customers may be difficult as discussed above. However, there is no reason a brand/licensor cannot impose on a licensee or sub licensor the requirement to use appropriate efforts to sell and promote the associated digital goods or services, whether through marketplaces or not.</p>
10.	Year:	<p>While the license between the Licensor and Licensee is likely to be limited to a set term, the end user license agreement may be granted in perpetuity or be silent concerning it length of grant. as discussed above. Currently, NFT marketplaces do not offer term limitations on NFTs as they last on the blockchain in perpetuity by default. However, an NFT can be "burned." (i.e., the NFT can be transferred to a wallet address that is inaccessible to anyone). Ethereum Smart Contracts can be generated to automatically burn an NFT at a specified time and that term can be part of the NFT license. See https://support.opensea.io/hc/en-us/articles/9718781187987-How-does-OpenSea-handle-NFTs-with-a-burn-mechanism- for a discussion of burning an NFT.</p>
11.	Upon Signature:	<p>The contract between a Licensor and Licensee may require an initial payment or other action upon execution of the Agreement. The clause in the traditional template is exemplary for such a payment.</p> <p>However, the end user license agreement is executed per the smart contract. That is, the smart contract is essentially signed upon execution. The blockchain ensures that all conditions precedent (required per the smart contract) are present before execution.</p>
12.	Royalty:	<p><u>Primary Marketplace Royalties</u></p> <p>Basis for Royalty calculation: Ongoing royalties can be calculated using many methods. See detailed discussion below. NFT Marketplaces conduct business in crypto currency, namely Ethereum. Prices are usually expressed in ETH.</p> <p>Depending on the method of NFT sale the buyer, seller or marketplace may cover the gas fees. For example, when an NFT is sold on OpenSea.io: (1) Buyers pay gas fees when purchasing a fixed-price item; (2) Sellers pay gas fees when accepting offers; and (3) OpenSea pays the gas fees for auction listings that sell to the highest bidder with a reserve price set. Traditionally, the NFT creator pays the gas fee when the IP is minted to the blockchain. This can be expensive. Rarible.com offers "lazy minting," which means that an NFT is not minted at</p>

		<p>the moment of creation but rather at the moment of purchase. Therefore, the upfront cost of minting is deferred until payment is received from a buyer. Therefore, if net sales may need to include gas fees or not.</p> <p>The license between brand owner and licensee should consider whether payment to the brand owner should be in USD/EUR or ETH and the whether money should transfer immediately at the time NFT sale or on quarterly or monthly reporting schedule.</p> <p><u>Royalties on NFTs from Secondary Sales and Marketing of NFTs:</u></p> <p>NFTs on the Ethereum blockchain are created using the ERC-721 or ERC-1155 standard. The standard chosen depends on whether the NFT is for a single piece of content or content that can be sold multiple times (e.g., painting versus prints). Many NFT marketplaces are defaulting to ERC-1155 as the standard at NFT creation.</p> <p>Each NFT is associated with a smart contract. That smart contract can be deployed using the EIP-2981 royalty standard (using a Custom Smart Contract) or associated with an existing smart contract developed and controlled by a third party NFT Marketplace (e.g., OpenSea or Rarible).⁹</p> <p>NFTs deployed on Customer Smart Contracts can be controlled by the Brand Owner/Licensors. Royalties can be adjusted at any time by using the Manifold Royalty Registry to track and adjust royalties using the override mechanism. NFT Marketplaces do not allow for royalty adjustments in the secondary marketplace. The royalties are set at the time of minting and follow the smart contract set by the marketplace. Secondary market rates are limited, for example:</p> <ul style="list-style-type: none"> • OpenSea sets royalties at 10%. • Rarible sets royalties at 50%. • Binance allows royalties to range from 1% - 10%. • NiftyGateway publicly offers some NFT collections with 20% royalties. However, it negotiates secondary market royalties on a creator-by-creator bases since the marketplace caters to high-end, "invite only" offerings. • SuperRare sets royalties at 10% (See also SuperRare's "collector royalties," allowing collectors to also share in (in subsequently decreasing to zero percent) downstream market royalties. <p>Royalties are generally collected each time an NFT is transferred from one wallet to another. However, it is possible to "gift" an NFT, which is not considered a primary transaction for triggering royalty collections. The smart contract is responsible for calculating and transferring the royalties to the appropriate wallets at the time of transfer.</p> <p>As an example, consider the instance where an IP owner licenses its asset to an NFT creator to create a token (the "Work"). The IP Owner can dictate that it wants to earn a 5% royalty on the purchase price each time the Work changes is transferred. The Work's creator can also dictate that all secondary sales will result in a 5% royalty payment to the creator. In this instance, the first time the Work is sold, the IP Owner gets 5% of the purchase price, while the Works creator gets 95% of the purchase price. For all subsequent sales, each of the IP Owner and Works creator will get 5% of the purchase price, with the royalties being automatically deposited into the IP Owner's and the Works creator's respective wallets.</p> <p>Each transfer of money into a separate wallet is considered an independent transaction, requiring gas fees. So, the more royalty splits, the more gas fees imposed on the buyer at the time of purchase. In such a scenario, Brand owns may wish to require proof as part of the Licensor/Licensee Agreement that the Brand Owner's wallet has been added to NFT's properties at the time of minting.</p> <p>If the Brand Owner and/or Licensee will sell through an NFT Marketplace it is essential that the license agreement explicitly discuss which marketplace's the Brand can be sold on and when.</p>
13.	Design Services Contribution:	The guidelines associated with traditional designs services can apply equally well in an NFT environment. Services can be engaged under the same or similar terms.

⁹ The EIP-2981 royalty standard allows for various use cases, such as: (1) fixed % royalties e.g. 12.5% of all sales go back to artists; (2) Decaying royalties — royalties reduce the number of times a NFT is transferred; (3) Dynamic royalties — changing over time or based on sale amount; (4) Upgradable royalties — allowing an entity or owner to modify a royalty; (5) stepped royalties (e.g. when sold for less than \$100 don't provide royalties); (6) Collector royalties e.g. See SuperRare above.

14.	Marketing Contribution:	Just as in traditional branding efforts, NFT efforts can require Licensees to pay Licensors non-refundable contributions under appropriate market rates and terms. Additionally, Licensors may desire a commitment from Licensees to develop educational and marketing materials for Licensor to use, particularly if a Licensor consumer education concerning NFTs and their implications.
15.	Advertising Commitment:	The guidelines associated with traditional advertising commitments and promotions can equally apply in an NFT ecosystem. Of course, market rates may be different and past history may be limited or non-existent.
16.	[Launch Contribution:	Many of the guidelines associated with traditional launch contributions may apply in an NFT ecosystem. However, the license agreement should discuss responsibility and liability for Licensees to cover gas and minting fees. The license agreement should also discuss indemnify and liability for failure to properly launch, especially if dependent on marketplaces.
17.	[Key Person/Sales Person for Licensee:	The licensing restriction may be an essential part of a licensing agreement due to the limited number of individuals have the required or desired set of skills necessary to properly deliver NFTs and digital assets to the marketplace.
18.	Licensor's Approval:	Licensor's Approval. Web 3 transactions are most likely using smart contracts automatizing most operative aspects of the license and thus reducing the need for "human" approvals. However, for very important acts such as early termination or assignment of the license agreement are more likely still desirable. Attention should be given to the acts related to the license that will be "automatized" by smart contracts given that entries on the blockchain are in perpetuity and are irreversible.
19.	Manufacturing And Quality Requirements :	Depending on the type of product/service/digital asset/brand/IP/physical object (the asset) associated with the NFT these clauses will need to be adapted to the operation particulars. For example, in clause (a) there may or not be "Collection(s)" and there may be multiple drops of multiple "collections." Of course, approval will continue to be necessary for any new or modified designs not originating from the brand/licensor. All of these requirements still apply in the digital world, just applied to non-physical criteria. Even physical terms may come into play. For example, clause (b) may be relevant for digital assets likely to expand into the physical world as merchandise. Digital assets may be used as a precursor to entering physical merchandising or vice versa. As such, any license should carefully consider both physical and digital assets and whether any overlap between the two is anticipated. Particular attention should be given to modifications to Paragraph (d). dealing with changes in the Law of the licensed jurisdictions disallowing the licensed product/service/content as NFTs (as blockchain and crypto currencies are still unregulated in almost all jurisdictions but that is very likely to start changing soon). In addition, as stated above, some territories are restricting blockchain applications and disclaimers will likely be needed as this may not be under licensee control.
20.	Discounts:	Discounts may or may not apply in NFT marketplaces. The traditional manufacturer's suggested retail price with a range of discounts may or may not be applicable. A brand may decide to set a fixed price, allowing or not allowing a discount, or set a lower bound for NFT offered via an English auction. The method(s) of sale are important to enumerate in the license agreement.
21.	Royalty Reports:	The "spirit" of this clause may be maintained and "inserted" in the particular system or protocol used in the NFT license, as curated and proprietary marketplaces already have automatic systems to collect and track royalties, which are a key advantage of the marketplaces. Such features diminish licensing administration costs.

		Issues may arise depending on whether the particular marketplace used in the first transaction interoperates or not with other platforms or users (potential buyers/licensees) of the licensed content.
22.	Audit:	See clause 21. Accurate books and records of transactions are automated and ensured by a reliable blockchain. It would be wise to reach an agreement for regular reports to be sent to the licensor consistent with the terms of this paragraph.
23.	Trademark:	<p>No major changes are foreseen for these terms, however given the digital nature of the Web 3 transactions to be included in the licensed NFT it may be worth considering the inclusion of other intellectual property rights different from TMs, especially copyrights and even design rights in this clause.</p> <p>In the NFT eco system it remains important:</p> <ol style="list-style-type: none"> a. for licensee to acknowledge Licensor's exclusive interests in the Trademarks and that any goodwill from such use inure to Licensor; b. for licensee to agree not to context Licensor's ownership interests; c. for licensors to clearly retain rights in their intellectual property and retain rights in registration and maintenance of those registrations. d. For licensees to report to Licensors regarding any infringements, counterfeits or other potentially unauthorized uses. However, clause (d) should probably also cover any other transactions whose inclusion in the original list is unclear such as the need to inform when third parties mint tokens that are identical/similar to the one covered by the license. e. For licensors to retain sole control over litigation and enforcement proceedings relating to the marks or other intellectual property. f. Some modifications concerning reference to territory must be made. E.g., Clause (f) may not be applicable because the license maybe worldwide.
24.	Assignment:	<p>Rights in this Agreement should remain assignable by the Licensor and only personal to Licensee or any sublicensee. See discussion above regarding personal use license terms.</p> <p>When drafting assignment rights, the terms and conditions for NFT marketplaces should be reviewed carefully to ensure harmony. Consistent with the existing guidelines the license should establish a system for its terms to be agreeable by the new and remaining parties of the assignment deal, particularly if the license is listed in marketplaces, which may have their own system to accept, process and resolve assignments of the NFT.</p>
25.	Ownership:	As with the clause twenty-four, NFT marketplaces may impose certain ownership terms or requirements that should be considered when drafting ownership clauses. In the Web3 environment the licensee may be given no rights to modify the intellectual property. However, if such modifications are contemplated then an irrevocable license back to Licensor remains important, assuming such a term is not in conflict with the marketplaces.
26.	Indemnity:	<p>Indemnity can apply both ways. As briefly discussed in the practice points it may be proper to include reciprocal representations and warranties for both parties. It would be proper for Licensor to represent and warrant that it owns all right title and interest in the trademark (or other intellectual property licensed) and reciprocally that Licensee has fully authority to enter into the agreement and has no conflicts with third parties, such as the marketplaces or other technology providers.</p> <p>If the Licensee is contracting with the marketplaces, then it is important that the parties explicitly account for liability in the event any of the technology suppliers fail to deliver the associated service. This may take the form of a liability cap or carve out for actions that are beyond the control, and independent of, the Licensee. From the Licensors point of view it could mean that the marketplaces are considered to include "any and all subcontractors, agents, or designated representatives of Licensee, as well as any other third party working in connection with or</p>

		<p>on behalf of Licensee.” It matters whether the Licensee is being directed to market and sell at specific marketplaces or whether the Licensee is given broader latitude, in which case it should be held to indemnify Licensor.</p> <p>Given the global nature of marketplaces and blockchain technology discussion Licensor and Licensee should come to an agreement as to which territories Licensor will “undertake a defense or settlement” concerning trademark infringement. The COBC brand license template assumes that marks will be limited to specific territories. As discussed above, territorial limitations may be difficult to enforce in a Web3 world.</p>
27.	Products Liability and Insurance:	<p>Standard product and liability insurance is generally inapplicable to trademark use in the virtual Web3 world. Traditional insurance covers product liability and false advertising associated with a mark. In the virtual world there could still be a need to ensure against analogous types of claims. Examples could include: (1) an NFT that is associated with certain attributes that don’t operate as promised in the meta verse or the game; or (2) the NFT is associated with access to an event or physical item, which is denied. In these scenarios there could be liability so it is important to contractually determine whether who bears this potential liability. False advertising could also be an issue: e.g., the NFT could be used in the metaverse or a game associated with the wrong good or service. There is also the question of malware, cyber-risk of doing business in the block chain and marketplaces. This could need an extension to existing insurance policies relating to cyber-security.</p> <p>Some insurance companies have begun offering insurance for NFT based transactions. For example, Crypto custodian Aegis Trust is offering an insurance policy for non-fungible tokens (NFT). The policy is provided by Lloyd’s of London and will allow Aegis to insure up to \$25 million for tokenized assets held by institutional investors, hedge funds and exchanges. Coincover, is offering insurance-backed consumer and corporate protections for NFTs. https://www.coincover.com/press/nftboxes-by-pranksy-partners-with-coincover-to-launch-worlds-first-nft-protection. It is not clear that these offerings apply to NFTs functioning as trademarks.</p> <p>Additionally, there are digital asset coverage policies — often packaged together with stand-alone cyber policies — that can address NFT risk. For instance, some insurance policies may include within the definition of a covered "security failure" any unauthorized reprogramming of software, while others might include in a definition of "loss" the recollection of electronic data. These may or may not be sufficient for licensing of trademark NFTs.</p> <p>There has also been much interest by insurers using block chain as a technology to authenticate and authorize entities in an insurance transaction. (i.e., raise trust and security in insurance transactions). That, of course, is a separate matter than offering insurance on blockchain based NFT transactions. For example, Arbol Inc., has not only begun using smart contracts as part of event-driven insurance policies, but stores those policies as NFTs.</p>
28.	Default & Breach:	<p>The key sections mentioned in the model license agreement remain essential conditions of any NFT Agreement e.g., payment obligations, quality requirements and agreement to not contest ownership rights, etc. and any breach of these obligations should be considered a material breach. The same or similar remedies and procedure for dispute resolution can apply.</p>
29.	Wind Down Period:	<p>Given the virtual nature of NFTs any wind down period can probably be shorter than the six months contemplated in the model Agreement. However, the wind down period should coincide with, and not conflict with, any commitments with marketplaces to offer the NFT for license.</p>
30.	Sell Off Period:	<p>Given the virtual nature of NFTs the parties can agree that any prepaid digital inventory can continue to be licensed or can be returned for a credit.</p>
31.	After Termination or Expiration:	<p>Even in a digital world termination of these general provisions are applicable.</p>

32.	Notices:	Snail mail and other forms of notice can still be applicable in a virtual world, however notice via block chain should be a considered as a modern alternative.
33.	Confidentiality:	Royalty information is publicly disclosed on the blockchain by default so holding such information in confidence is impractical unless marketplaces and blockchain providers offer technology to keep the information confidential. If confidentiality of downstream royalties is essential then Licensors should consider prohibiting secondary market offerings.

34.	Warranties & Representations:	This representation and warranties section is, in general, applicable to NFT licenses. However, as noted previously, territorial warrants may be impractical and may conflict with certain marketplace terms.
35.	Other License Terms:	Rather than U.S. dollars as the currency, Ethereum is most likely the preferred choice, or other cryptocurrency. The additional terms are generally applicable to NFT licensing.
36.	Entire Understanding and Amendments:	If licenses allow minting of NFTs, there may be a need to reference the terms and conditions of the marketplaces or the rules of the blockchain ledger that records the NFT in order to reflect all of the terms that govern.
37.	No Waiver:	Equally applicable.
38.	Partial Invalidation:	Equally applicable.
39.	Counterparts:	Given the recency and uncertainty of NFT based transaction, and regional law that may be applied, it may be advisable to execute this agreement on paper with wet signatures and/or other official stamps. Of course, more progressive companies may want to capture the transaction on the blockchain.

Each Party warrants that the individual whose signature appears below has been duly authorized by the Party to sign this Agreement and to bind the Party to this Agreement.

[signature page follows]

[remainder of page intentionally blank]

IN WITNESS WHEREOF, the Parties hereto have duly executed this Agreement as of the day and year first written below.

[Licensor]

[Licensee]

By: _____

By: _____

Printed Name: _____

Printed Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

