Protecting Your Mission:
IP Licensing Essentials for Nonprofits

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Agenda

Background on Content and Data	Overview, Internal and External Management of Content and Data
IP Concepts for Nonprofits	Copyright, Trademark, Patents and Trade Secrets, Data
Licensing and Enforcement Paradigms	Gatekeeping, Fees, Membership, Open Licensing
Nonprofit-Specific Considerations	Mission, Stakeholder Interests, Tax Planning

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Organization Content and Data – Overview

- IP/data development is constant and ongoing
- Generation of content often outpaces implementation of clear policy
- Variety of actors during development
  - Employees/contractors
  - Affiliates and member organizations
  - Volunteers
- Clear internal legal organization is required for effective licensing and enforcement strategy

Organization Content and Data – Common Issues

- Lack of clarity on development and ownership
- Uncategorized or inconsistent treatment of mixed assets
- Unauthorized or undesirable use of brand/content
- Inability to control/monitor use
- Reliance on implied, unspoken, or informal rights
- Decentralized or conflicting license models
- Desire to monetize or realize value in conflict with past practices

IP and Data Asset Management – Internal

- Employment principles are helpful but limited
  - Contractors, volunteers, member organizations
- Co-development, co-ownership, and licensing complications
- Standardization of licensing paradigms
- Institutional controls are essential for certain assets
- Legal categorization of assets is not always intuitive

IP and Data Asset Management – External

- Variety of potential approaches depending on asset category and industry segment
  - License bearing fees/royalties
  - Website or web portal access (end user terms)
  - Branding and certification
  - Open licensing models
- Potential overlap with membership features/benefits
- Inventory categorization and asset management are paramount

Copyrights

- Ex: Journal articles, reports, images, audiovisual content
- Protects creative works of authorship – expression of ideas/facts, not ideas/facts themselves
- Licensing and royalties
- Treatment of different use cases can be complex
- Registration helpful, not required

Trademarks

- Ex: Brands, logos, product/service names
- Protects indicia of origin and consumer goodwill
- Enforcement has special legal importance
- Registration preferred/recommended, not strictly required (common law rights)
- Branding-oriented approach vs. content-oriented approach
  - Endorsement, approval, certification

Patents and Trade Secrets

<u>Patent</u>

- Ex: Inventions, processes, methodologies
- Application/registration absolutely required
- Complex, time- and resource-intensive
- Powerful public protection resulting from high effort

<u>Trade Secret</u>

- Ex: Recipes/formulae, customer lists, sensitive business info
- Covers nonpublic info which derives value from its confidentiality
- No registration
- Heavy emphasis on historical activity regarding the asset

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Data

- Ex: Compilations of public data, research results, scientific facts, statistics/numbers
- No clear statutory ownership right under IP law
  - Situationally trade secret
  - No “infringement” claims
  - Can be subject to separate privacy regulations
- Value/effort can be disproportionate to legal rights
- Contract and technical access control are the highest priority

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Licensing/Enforcement Paradigms

<u>Web Portal Gatekeeping</u>

- Leverages control of the website/portal in lieu of absolute control over IP
- Contract-based enforcement – EULA, TOU
- Particularly relevant for data

<u>Licensing and Fees/Royalties</u>

- Traditional IP – copyrights, trademarks, patents, trade secrets
  - Consider data "licensing"
- Predictability, legal specificity, enforceability
- Up-front valuation, negotiation, and contract management

Licensing/Enforcement Paradigms, Pt. 2

Membership Benefit

- Leverages preexisting membership and/or contractual relationship – works for data
- Amendment/addendum to existing forms and policies
- Enforcement and standardization

Demands

- Prioritizes actual or suspected infringers
- Takedowns and settlements
- Mainly for statutory (potentially registered) IP rights

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Open Licensing Paradigms

- Open licenses are licenses!
- Models/templates vary dramatically in scope and permissiveness
  - Numerous variations within the same family
- Distinctions from public domain and non-licenses
- Consider the distribution platform
- Point of no return

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Nonprofit-Specific Considerations

Mission, Stakeholder Interests, Tax Planning

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Mission and Stakeholder Interests

- Just because a nonprofit can structure licensing deals leveraging their valuable IP, the first question ought to be whether they should
- Consider mission—if valuable data has been compiled to support the mission, for example, would a broad licensure of that data perhaps be detrimental to that mission?
- What are existing supporters doing in this space?
  - May wish to avoid competing with members, donors
  - Exclusive licensing arrangements (often the most lucrative) may risk alienating other stakeholders
- On the other hand—note Cystic Fibrosis Foundation ($3.3 billion after selling future royalty rights for CF treatments)

Tax Planning—Overview

- Tax-exempt organizations are generally exempt from federal income taxation
- However, when engaging in unrelated activities, they may be subject to tax regardless
- Excessive unrelated business income may jeopardize exempt organization ability to retain exempt status—note 501(c)(3) standard vs. other exempt organizations
- Exclusions to the tax on unrelated business income may apply, particularly in the context of licensing

Unrelated Business Taxable Income: Three-Part Test

Trade or business	• Profit motive (but actual profit generally doesn't matter)
Regularly carried on	• Compared with how often for-profits carry on business
Not substantially related to exempt purposes	• Facts and circumstances test • Need for income not enough

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Tax Planning—Royalties

What Is a Royalty?

- Identified in Internal Revenue Code section 512(b)(2)—no statutory or regulatory definition
- Exclusion from UBIT
- "Payments for the use of valuable intangible property rights." *Disabled American Veterans v. Commissioner*, 94 T.C. 60 (1990)
- "Payment made to the owner of property for permitting another to use the property, where the property is either an intangible property right or a right relating to the development of natural resources." *Sierra Club, Inc. v. Commissioner*, 86 F.3d 1526 (9th Cir. 1996).
- Most commonly in the context of trademark license, but can be for all forms of IP

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Outline of a Tax-Free Royalty Arrangement

Name, IP, Mark, and/or Mailing List Licensed to a For-Profit Entity

Third-Party Product (e.g., Certification Program)

No Active Services

- Announcement letters and quality control measures would not be active services; nonprofit can protect its reputation
- Additional service components: would need to quantify and separate payment for those elements
    - Endorsement or other promotional activities
    - Significant support activities, like sorting lists, or rights to oversee content

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Tax Planning—Further Notes on Royalties

- Not much guidance on what is insubstantial services
  - Note *Oregon State University Alumni Association, Inc. v. Comm'r*, 193 F.3d 1098 (9th Cir. 1999)—"The Commissioner has not argued for allocation. … The Commissioner argues for all or nothing."
  - Note IRS announcement that it will not continue to pursue UBIT unless a clear reflection that the organization is providing more than unsubstantial services (2000 TNT 46-4 (March 8, 2000)).
- Consider separate agreements between royalty and marketing services (PLR 200149043)
  - Need arm's-length terms
  - Should not be skewed toward tax-free royalties
- For-profit subsidiary, affiliate options

Final Tips for Licensing Arrangements

- Consider exclusive arrangements carefully
- Keep contract term lengths manageable, but…
- Consider negotiating “tail” benefits
- Protect name and logo—consider prior approval/takedown rights, morals clauses, other ways to terminate early
- Disclaimers and limitations of liability
- Protect against exposure to data privacy laws and regulations
- If licensing customer, member lists, consider engaging brokers
- Belt-and-suspenders—bolster arguments for relatedness and royalty

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