EXEMPT ORGANIZATIONS

INTELLECTUAL PROPERTY

I. Intellectual Property

A. Intellectual Property defined —

Refers to creations or works of the mind or intellect. Under law, holders of this property may have rights to control its use.

1. Four main categories of intellectual property:

    a. Patents;

    b. Copyright;

    c. Trademark;

    d. Trade secret.

2. There are other types of intellectual property, as well.

B. Copyright

1. Protects original works of authorship fixed in a tangible medium of expression, including books, publications, software, website design, photos, art (pictorial, graphic and sculptural works), music, sound recordings, dramatic works, motion pictures, architectural work, choreography, and in some cases, data.

2. Gives the author certain exclusive rights over the work for a set period of time, including the exclusive right to:

    a. Reproduce the copyrighted work;

    b. To modify the work or create derivative works;

    c. To distribute copies of the work; and

    d. To perform and/or display the work publicly.

3. Copyright protects published and unpublished works.

4. Unlike patent rights, copyright arises upon creation and it is not necessary to register a copyright for it to be protected.

5. Typically, author of a work will be owner except

    a. Employee within scope of employment;

    b. Work-made-for-hire agreement;

    c. Assignment.

6. In addition, notice © is useful (in the case of a dispute), but no longer necessary for protection in the U.S.

7. The length of copyright protection varies depending on when the work was created.

8. Term of copyright in U.S.:

a. Life +70 years for individuals;

b. 95 years after publication, or for corporate authors 120 years after creation;

c. Works published in and after 1923 and before 1978 are protected for 95 years;

d. Pre-1923 works are in the public domain.

C. Trademarks

1. A trademark is a name, word, phrase, symbol, logo, , design, sound, or color:

a. Used in connection with a good or service; and

b. Used to indicate the source of the goods/services and to distinguish them from the goods/services of others.

2. In the U.S., trademark rights arise upon use. In other countries, trademark rights arise upon registration (e.g., first to file).

3. Registration in the U.S. affords certain protections and legal presumptions.

D. Patents —

1. Patent rights allow the owner the right to exclude others from making, using, selling, offering for sale, or importing the invention;

a. In the territory of the patent for a limited time;

b. In exchange for public dedication of the invention after the term of the patent.

2. In general, patents may be obtained for “inventions” that are:

a. Novel;

b. Useful (has some function or value);

c. Non-obvious (to a person reasonably skilled in the relevant field).

3. Typically the term of a patent (once granted) is 20 years from the filing date of the patent application.

4. What can be patented?

a. Any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof;

b. But not abstract ideas, laws of nature, literary works, compositions of music, compilations of data, legal documents, forms of energy, signals, products of nature, mathematical formulae.

5. Patent status — In order to exercise patent rights, a patent must be granted or issued.

a. The patent or granted patent describes the invention or process and its boundaries;

b. The patent owner has the right to exclude others from making, using, selling, offering-to-sell and importing the patented invention.

E. Trade Secrets

1. A confidential practice, method, process, design, know-how, or other information that is treated as secret and has economic value.

2. A trade secret is information that:

a. Is not generally known or reasonably ascertainable;

b. Confer economic benefit on its holder;

c. Is the subject of efforts to maintain its secrecy.

F. Ownership and Licenses

1. Owners of intellectual property may exercise all rights in intellectual property themselves or grant rights to third parties through assignment (which transfers ownership) or license.

2. A license is a grant of permission to use an owner's intellectual property

a. Can be exclusive or non-exclusive in all or some fields/uses;

b. Defines the territory and term of permitted use;

c. Defines whether others can use under same conditions (sublicense);

d. Defines whether a fee (such as royalty on sales or annual maintenance) will be charged for use;

e. Does not transfer ownership;

f. Can be terminated in certain cases.

3. Exceptions — There are exceptions to owners' rights to intellectual property.

a. Fair use under copyright law permits certain uses without copyright owners permission; need to consider four factors in determining whether a use is a fair use:

i. Purpose of use (comment, scholarship, research, teaching, news reporting, criticism (including parody or satire));

ii. Nature of use (commercial or non-profit);

iii. Amount and substantiality of use;

iv. Effect of use on potential value of work.

b. Fair use under trademark law

i. Generic marks are not protected — available for all;

ii. Descriptive uses only protected when they have acquired secondary meaning.

c. Compulsory licensing of patents.

d. Public domain.

II. General Issues

A. Inurement (also overlap with private benefit)

1. <u>Promoting Works of Insiders</u> (Overlap with Self-Dealing)

a. Private Letter Ruling ("PLR") 9408006: Private operating foundation formed for the purpose of promoting textile arts by establishing a collection and participating in exhibitions. Founders, directors and substantial contributors included well-known textile artist and her husband. Foundation did purchase textile arts, but assets of foundation also used to promote founders art and defray costs of exhibiting textiles in founder's private collection. Foundation also incurred the costs of printing a book of founder's biography

and list of her personal collection, though founder owned the copyright to the catalogue. Foundation sold copies of catalogue and received the proceeds. Internal Revenue Service ("IRS") found inurement, private benefit and self-dealing. Discussion of the book did not figure in the analysis which really focused on the exhibitions and promotion of founder's art.

b. Technical Advice Memorandum ("TAM") 8045019: President wrote book related to exempt organization ("EO")'s educational mission of instructing the public on methods of achieving greater efficiency and economy in municipal government. The contract between EO and President provided that EO would retain copyrights in materials produced under the auspices of EO, but not this book. The EO was to offer this book along with its other published materials. President maintained that he wrote the book on his own time, using his own office space at home, etc. IRS held not enough evidence to conclude that the book results in inurement.

c. General Counsel Memorandum ("GCM") 38982 (May 3, 1983): GCM really about an EO seeking classification as a church. But background to how the EO got its exemption indicated that the IRS was concerned on inurement grounds about the fact the President held the copyright on the books and recordings sold by the EO. The President stated at conference that he intended to transfer the copyrights once the EO was recognized as exempt. IRS satisfied and exemption granted.

d. GCM 34796 (March 2, 1972): Foundation arranged to sponsor publication of paperback edition of book authored by President. Not clear who owns copyright, but President received percentage of net royalties and Foundation covered costs of commissions and printing. IRS said that this situation is distinguishable from situation in which organization formed for primary purpose of promoting book of founder as in Rev. Rul. 55-231. No indication that President overcompensated, and IRS persuaded that President gave up something of value—the right to publish paperback edition which also undercut value of hardcover edition to the President since hardcover copies are now less likely to sell (and it seems that the President received greater royalties per hardcover copy sold but this information was redacted). Concluded that no inurement. (Also see GCM 34340 (Aug 28, 1970), which according to GCM 34796 had very similar facts and conclusions but difficult to really get a sense of those conclusions because GCM was heavily redacted.)

2. Scientific Research

a. PLR 9316052: EO (public charity) undertakes biological research for purpose of promoting economic development in its state. EO achieves this aim by developing patents, copyrights, processes and formulae and transferring them to the private sector, generally licensing them to private sector for commercialization. EO additionally undertakes sponsored research; EO generally retained title to patents and other intellectual property ("IP") and granted research sponsors a right of first refusal to obtain an exclusive license in return for appropriate consideration. Any such exclusive license agreements required sponsors to make the IP reasonably available for public benefit, and EO retained nonexclusive royalty-free right and license to use the IP for its internal, noncommercial research and development activities. The subject of letter ruling involved the following:

i. Applied Research: Rather than continuing with basic and discovery research, EO wants to shift to applied research and economic and industrial development to create technologies that will diversify economy and encourage industry in EO's and surrounding states. Research sponsors may obtain ownership of any IP resulting from sponsored research. Found that research agreements with industrial sponsors that retain ownership or control of the resulting IP are necessary to commercialize EO's technology for economic benefit of state and surrounding states, and consequently do not result in unrelated business income tax ("UBIT"). Otherwise, following the same analysis discussed in the for-profit subsidiary section below, IRS found that subsidiary's activities will not be attributable to EO or jeopardize EO's exempt status.

ii. Patent Policy: Inventors of patent, copyright, process, or formula share in 1/3 of revenue. For IP that is donated to EO, employees who make "unique, significant and non-routine contributions to evaluating and assessing the donation" share in 15% of the revenue from the particular IP. No inurement because EO demonstrated that patent policy is reasonable compensation. The policy was established by the Board in an arm's-length relationship with its employees, payments under the policy serve a real and discernable business purpose in line with the normal practices of similar businesses, and the amount is dependent upon the employee's contributions to the purposes and objectives of the EO.

iii. For-Profit Subsidiary: EO created a for-profit subsidiary (of which a state created entity owned all the preferred stock) to which it transferred an option to acquire all right title and interest to any IP owned by EO or to which EO has exclusive rights but only after the IP becomes commercially viable. The for-profit is to achieve commercial application through a joint venture ("JV") or subsidiary venture. If for-profit determines licensing is the best way to achieve commercial application or if the for-profit does not make progress after 3 years, the IP rights revert to the EO. Possible that EO will sell shares of its stock, but will always retain more than 50%. Found that the granting of exclusive rights to for-profit subsidiary was the only practicable manner in which EO's technology could be utilized to public benefit.

b. PLR 98933030: University granting graduate degrees in sciences and engineering has membership consisting of North American companies and suppliers in particular industry. Membership open to any such company upon payment of dues. University creates research consortium, through which it will conduct research in furtherance of its educational purposes. University will hold title to all rights arising out of research, but consortium members will have a non-exclusive royalty free license, without right to sublicense, to use any of the rights generated by the research. Consortium members will collectively have the exclusive license to the IP. All decision about applications of the IP will be made by committee of the consortium. The research will be published by researchers within reasonable period. IRS found that the consortium arrangement will not result in inurement nor serve the members private interests to an impermissible degree. No further analysis.

3. *International E22 Class Association, 78 T.C. 93 (1982)*: Issue of case has nothing to do with IP, but there is an interesting background. EO formed for the purpose of promoting athletic competition, specifically International E22 Class yacht competition. Apparently an individual holds the patent to the E22 Class, and initially the EO was collecting

Title search: Exempt Organizations Intellectual Property

Also available as part of the eCourse
2024 Nonprofit Organizations eConference

First appeared as part of the conference materials for the
41st Annual Nonprofit Organizations Institute session
"MASTER CLASS: Navigating Intellectual Property Issues for Nonprofits"