Intellectual Property: It Matters for Nonprofit Organizations Too

~ Elizabeth M. Stamoulis

The rapid expansion of technology and the growing interconnectivity afforded by the internet have increased the value and importance of intellectual property rights for all businesses, while making it easier to infringe those same rights. These days, intellectual property considerations are no longer limited to technology-focused companies; intellectual property now matters to every company. It is critical that all businesses account for, maintain, and enforce their intellectual property rights, while avoiding infringement of others' rights.

These considerations are not limited to for-profit entities. Many nonprofit organizations ("NPOs") may not realize that they have similar assets and potential liabilities. For example, in 2009 a jury awarded one nonprofit (WWP, Inc., d/b/a Wounded Warrior Project, headquartered in Jacksonville, Florida) a judgment of nearly $1.7 million dollars based on claims made in connection with the use of the name "Wounded Warriors" by another nonprofit (Wounded Warriors Family Support, Inc., headquartered in Omaha, Nebraska) and the resulting misdirected donations. In light of the growing importance of intellectual property in the modern world, it is important that NPOs better understand some of the intellectual property matters that may be especially relevant to them. Let's dispel some common myths, look at the facts, and recommend actions NPOs should take to protect themselves.

Myth Number One

We are an NPO, so we do not have any intellectual property.

Fact: These days, intellectual property is important to all businesses, including NPOs. Copyrights and trademarks are likely two of the most important types of intellectual property for NPOs.

Copyright. Copyright protection applies to all original works of authorship that are fixed in a tangible medium. This means any original work, including any writings (like program descriptions), designs (such as logos), and photographs created by an NPO could be eligible for copyright protection. Because copyright protection attaches automatically at the creation of the work, registration is not technically required to obtain copyright protection, but it is required to obtain certain other

benefits. Notably, the US Supreme Court recently held that a registration must be issued before a copyright owner can sue for infringement. In addition, in certain cases, registration may allow the owner to obtain statutory damages in litigation, which saves the trouble of having to prove actual damages.

Trademark. Trademark protection generally applies to anything that identifies the source of a good or service. This includes a company name, slogan, or logo. As with copyrights, trademark protection can arise without registration just by using the mark in commerce; however, those rights are generally limited to the geographic area in which the mark is in use. Trademark registration is available on the state and federal levels and can provide certain benefits, including the exclusive right to use the mark within certain geographic areas and, for federally registered marks, the right to use the registered trademark (®) symbol.

Recommendation: All NPOs should conduct an internal audit of their intellectual property assets and register for copyright and trademark protection of their works.

Myth Number Two

One of our workers created the work for our organization, so we automatically own it as a "work for hire."

Fact: The work-made-for-hire doctrine under copyright law is more complicated than you might suppose. It does provide that works made by an individual for an organization will be owned by the organization—but only under either of the following circumstances:

Employment Test. The work is made by an employee within the scope of his or her employment.

Specially Commissioned Test. The work is specially commissioned by the company, the work is made by an independent contractor, there is a written agreement between the parties stating that the work is a work made for hire, and the work falls within one of the following limited categories:

- It is a contribution to a collective work;
- It is part of a motion picture or other audiovisual work;
- It is a translation;
- It is a supplementary work (a work prepared for publication as an adjunct to a work by another, such as a foreword, pictorial illustration, map, chart, table, or editorial note);
- It is a compilation;
- It is an instructional text;
- It is a test;
- It is answer material for a test; or
- It is an atlas.

If the work does not meet either of the above tests, the individual who created it would own the work, and an assignment would be needed to transfer ownership of the work to the NPO.

Many NPOs use volunteers and contractors to perform services, either in addition to or in lieu of employees. Because volunteers and contractors are not employees, any works those individuals create would not automatically be owned by the NPO under the Employment Test set out above. Furthermore, unless the work falls

into one of the limited types of works enumerated above and there is a written agreement with the person stating that the work is a work made for hire, the work would not automatically be owned by the NPO under the Specially Commissioned Test set out above. This means that any works those individuals create would likely be owned by the individuals, not the NPO; therefore, the NPO may infringe the individuals' copyright if it does not properly obtain a license to use the work.

Recommendation: Regardless of a person's status as an employee or contractor, it is always best to have a written agreement confirming the ownership of works and the NPO's and the individual's rights to use those works.

Myth Number Three

If it is available on the internet, it is in the public domain and is free to use. And it does not matter anyway, because, as an NPO, all uses of others' works are "fair use."

Fact: Just because a work is made available on the internet does not mean it is not protected by copyright. In addition, the Copyright Act sets out four nonexclusive factors to consider when deciding whether a use of another's work is fair. Whether the use is "commercial" is only one of the considerations for one of the factors. And just because the use is made by an NPO does not necessarily mean that the use is not commercial.

Recommendation: Fair use is a notoriously uncertain and unpredictable area of the law. Each analysis must be done on a case-by-case basis to determine if the work at issue is protected by copyright and if a given use is fair. Also, fair use would be raised as a defense once copyright infringement is alleged, so the NPO will need to consider its risk tolerance and its likelihood of success when determining whether to rely on fair use or to seek a license from the owner to use the work at the outset.

Myth Number Four

If an NPO buys a CD or an mp3 or hires a DJ, it does not need to obtain a license to play music at its event.

Fact: Sound recordings of music are protected by copyright. Generally, a license is required to publicly perform a copyrighted work. A "public performance" is one that occurs in a place open to the public or where a substantial number of people are gathered (other than a small family circle and its social acquaintances).

Recommendation: NPOs that publicly perform sound recordings on their premises should ensure they have the right to play the music. There are three performing rights organizations: the American Society of Composers, Authors, and Publishers (ASCAP); Broadcast Music, Inc. (BMI); and the Society of European Stage Authors and Composers (SESAC). Together they own the US performing rights for most songs. They offer licensing structures to allow venues to publicly perform sound recordings. Streaming services like Pandora also offer special business subscriptions. When sound recordings are performed at other venues, the NPO should consult with that venue's management to confirm whether they hold the required licenses.

Myth Number Five

NPOs can use pictures of attendees taken at their events for any purpose.

Fact: NPOs frequently host events to raise funds and educate the public about their mission, and photographs of the attendees at these events are often used

to promote the NPOs and their future events. As we discussed above, these photographs can be protected by copyright, and the copyright would attach automatically to the author of the work (the photographer) upon creation. This means that, unless the work satisfies either the Employment Test or the Specially Commissioned Test outlined above, an NPO would need an assignment or license to allow it to use the work.

In addition, Florida recognizes a right of publicity that generally gives every individual in Florida the right to prevent others from using their name or likeness for commercial purposes. Whether a particular use is "commercial" is fact-sensitive and can sometimes be uncertain. Therefore, even if the NPO has the right to use a photograph from a copyright perspective, depending on how the NPO uses the photograph, its use may violate the right of publicity of the individuals in the photograph.

Recommendation: As we discussed above, the NPO should always enter into a written agreement with the photographer to confirm the NPO's right to use the photographs. In addition, if it will be using the photographs in a way that could be considered commercial, the NPO should consider seeking consent from the individuals in the photographs before it uses them.

Myth Number Six

Partnering with a for-profit entity is an easy way for both the NPO and the for-profit entity to raise money, while also raising awareness for the NPO's mission.

Fact: You almost certainly have heard the familiar refrain in advertisements that "a portion of the proceeds" will go to an NPO. Recently, it has become popular for NPOs to license their names/logos for for-profit entities to use when selling their goods or services. In exchange, the NPOs receive a percentage of the for-profit entity's profits. While these types of ventures can be very successful and profitable, they must be conducted carefully. On the surface, this may appear to be a normal trademark licensing arrangement, because this type of arrangement (sometimes called a "commercial co-venture") uses the NPO's name and goodwill to influence the public to purchase certain consumer products. But commercial co-ventures have recently attracted the attention of many regulatory bodies to provide oversight and confirm that the ventures are operated properly. In particular, these arrangements raise the following considerations:

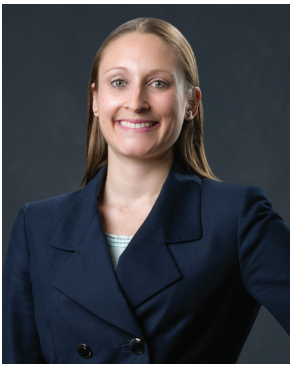
- Many states have adopted laws that govern this type of activity, and multiple states' laws might apply, depending on how the venture is conducted. Florida's law requires, in part, that the commercial co-venturer (the for-profit entity) obtain the charity's written consent to the use of its name by the co-venturer, prepare a final accounting of the promotion and provide it to the charity, and keep the accounting from the venture for a period of three years. Other states may require registration or the posting of a bond with the state before the campaign begins.
- In addition to specific legislation adopted by states, federal and state laws generally prohibiting deceptive and unfair trade practices apply to these ventures. Certain attorneys general and other authorities have promulgated best practices to provide guidance to companies on how best to organize these promotions and advertise them to the public.

- NPOs also must take into account practical considerations when deciding whether to enter into one of these arrangements. Recently, there has been significant backlash by consumers against "pinkwashing" (the sale of goods bearing a pink ribbon or designed in a pink color to benefit breast cancer). Public opinion has started to turn against some of these promotions, viewing them as the commoditization of a cause.

Recommendation: Before an NPO embarks on a joint promotion with a for-profit entity, it is important to conduct an assessment of the relevant laws, regulations, and best practices to confirm that the NPO and the commercial co-venturer will be able to comply with their applicable requirements. It is also important to carefully consider how to design the promotion with the public's perception in mind.

Conclusion

Intellectual property can have many benefits for NPOs. And the use of others' intellectual property, if handled improperly, can come with liability. We have presented just a few considerations for NPOs to keep in mind as they navigate their day-to-day business to maximize the potential—and minimize the risks—that comes with intellectual property in this modern age.



Liz is a partner with Williams Parker.

Liz leads the firm's intellectual property practice with a focus on transactional law. She counsels corporate clients regarding mergers, acquisitions, and joint ventures. Prior to joining the firm, Liz practiced in the New York office of a Global 100 law firm. She is a graduate of Stanford Law School and earned her BA from Dartmouth College.