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Nonprofits: Don't Get Caught Naked (Licensing)

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Nonprofit organizations often allow others to use their trademarks – such as their logos – without much control. This was not a major problem years ago when nonprofits were less aggressive in disputing trademarks and had charitable missions that made courts more tolerant. Today's nonprofits are different.

The Wall Street Journal noted the rise in trademark battles among nonprofit organizations in a page-one story on August 5, 2010. As I told the *Journal*, "The days are probably over when nonprofits just said, 'We'll just get along with anybody who's a nonprofit because we're all trying to do good here.'"

More recently, in November 2010, a federal appeals court, in a case called *Freecycle*¹, found that a nonprofit abandoned its trademarks because it engaged in what is called "naked licensing." Simply said, naked licensing is when a trademark owner allows another party to use its trademarks without sufficient control. All trademark rights are lost when abandonment occurs.

The amount of control required to avoid naked licensing depends on the circumstances, though *Freecycle* provides some guidance. The big-picture mistakes of the trademark owner in *Freecycle* would apply to most trademark owners. In *Freecycle*, the court found the owner failed to have an overall system of control. Specifically, the owner (1) failed to retain express contractual control over use of the marks by its members, (2) failed to exercise actual control over use of the marks by its members, and (3) was unreasonable in relying on the quality control measures of its members. Thus any trademark owner should establish control in writing, exercise actual control, and not rely on members to control themselves, as discussed further below.

To determine what type of control is needed within this system, it is useful to understand the type of mark being challenged in *Freecycle*. In *Freecycle*, the marks (e.g., FREECYCLE) appeared to be traditional trademarks (i.e., marks that identify the source of goods/services); the owner sought to register its logo as such. The marks did not appear to be certification marks (i.e., marks that certify the quality of goods/services) or collective membership marks (i.e., marks that just signify membership in an organization).

Arguably collective membership marks require less – or at least a different type of – quality control compared to traditional trademarks and certification marks. This is because collective membership marks just signify membership in an organization. These marks do not signify that goods/services come from a particular source (like the traditional trademark THE NATURE CONSERVANCY on a magazine) or that a product is of a certain quality (like the certification mark UL on an electronics device, which shows approval by the nonprofit Underwriters Laboratories). This distinction is important in considering how to treat marks used by the members and chapters of nonprofits. It may help to treat such marks as collective membership marks to avoid naked licensing.

Often a nonprofit wishes to allow members and chapters to use the nonprofit's primary logo as a sign of membership, though the nonprofit does not wish to manage a certification program like UL or a traditional trademark license (e.g., as used in merchandising). In that case, the nonprofit should take three steps.

First, the nonprofit should ensure the mark does not make the impression of a certification mark or traditional trademark, but instead makes the impression of a membership mark. An effective way to convey this to the world is to add the word "MEMBER" (for members) or "CHAPTER" (for chapters) to

the mark and apply to register the mark as a collective membership mark with the U.S. Patent and Trademark Office (USPTO).

Second, the nonprofit should change its bylaws and/or policy manual in such a way that will license the mark to members and chapters, and automatically bind them to specific controls for use of the mark. The specific controls would include a requirement not to use the mark other than as a sign of membership (except that chapters could provide limited services the nonprofit expects from a chapter). The controls would also require members/chapters not to change the mark, and to stop using the mark when member/chapter status is lost.

Third, the nonprofit should actively enforce the trademark terms of the bylaws and/or policy manual. (Note that, barring an instance of a nonprofit's members agreeing to be bound by the terms of a policy manual as a condition of membership, only a nonprofit's bylaws are contractually binding on members of the nonprofit – if the organization has *bona fide* members – so that if the provisions are included in a policy manual, you will want to cross-reference that fact in the bylaws. For non-membership nonprofits, there will need to be some affirmative agreement to the terms and conditions, such as an online click-and-accept feature.)

As a final point, it is important to note that the trademark owner in *Freecycle* alleged that a 1993 case called *Birthright*² stood for the principle that loosely organized nonprofits, which share "the common goals of a public service organization," should be subject to less stringent quality control requirements. The court in *Freecycle* said that even if it were to apply a less stringent standard, the trademark owner in *Freecycle* would not meet the lower standard (and that even a lower standard would still require some monitoring and control, consistent with *Birthright*). The court did not take the chance to say whether the "less stringent" requirements should still apply to nonprofits in today's world, though the court seemed skeptical.

We would expect a modern court that takes a position on the *Birthright* issue will say the "less stringent" requirements for quality control do not apply to nonprofits in today's world – especially nonprofits without charitable missions. The party in *Birthright* provided charitable, emergency services for women with crisis pregnancies. Many nonprofits today are not focused on charity but are more like businesses. Many nonprofits today have the size, professional staff, and resources to manage their trademarks like any for-profit company. Thus nonprofits today should be prepared to be viewed like for-profit companies for trademark law purposes.

Even if nonprofits happen to be subject to "less stringent" requirements, they should be prepared to face aggressive adversaries in trademark disputes. Thus nonprofits should rise to meet basic quality control requirements by establishing control in writing, exercising actual control, and not relying on members to control themselves. In any case, it may help nonprofits to treat certain marks as collective membership marks and take appropriate steps to ensure the marks are treated that way by consumers, the USPTO, and courts – or risk getting caught engaged in naked licensing.

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This article is not intended to provide legal advice or opinion and should not be relied on as such. Legal advice can only be provided in response to a specific fact situation.

¹ *FreecycleSunnyvale v. Freecycle Network*, 626 F.3d 509 (9th Cir. 2010).

² *Birthright v. Birthright Inc.*, 827 F.Supp. 1114 (D.N.J. 1993).