



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

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Release copies to District
Date [REDACTED]
Summary [REDACTED]

Date: JAN 09 2001

Contact Person: [REDACTED]

Identification Number: [REDACTED]

Contact Number: [REDACTED]

[REDACTED]

Employer Identification Number: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code. We have determined that you do not qualify for exemption under that section of the Code. Our reasons for this conclusion and the facts upon which it is based are explained below.

The information submitted indicates that you were incorporated on [REDACTED] under the laws of the [REDACTED]. Your Articles of Organization state that your specific purpose is to develop and promote standards for an open systems architecture to be used in automated document production. Your bylaws provide that any person, firm, or corporation engaged in the [REDACTED] industry for automated document production may become a member; any person formerly engaged in the [REDACTED] industry for Document Production or its applied industries may also be accepted as a member.

In your application, you state that you plan to have board meetings and an annual meeting for all members to discuss the needs of the industry, to share ideas, and to establish committees to develop an open print language that can be used as a common standard. You have established a web site which provides information to your members, and provides links, at their option, to all Gold and Corporate Sponsors. Your dues schedule provides that Gold Corporate Sponsors pay annual dues in the amount of \$[REDACTED]. Corporate Sponsors pay annual dues in the amount of \$[REDACTED]. Sponsors pay \$[REDACTED]. Members pay \$[REDACTED] and the fee is waived for educational institutions.

In your letter dated [REDACTED] you state that your general purpose is to provide the users of hardware and software technology with an open architecture path to implement solutions in a standardized, modular, and non-proprietary manner, and that your function is to provide a forum for equipment manufacturers and software developers to provide end users with a standardized and modular approach to scalable document production solutions. You explain that the definition of the standards for the open system architecture is being defined by your members, and that most of the work, outlines, and desired structure for standards will be defined by committee; all your dues paying members are required to donate some time to

[REDACTED]

accomplish the standards. You state that your services will be in the form of dispensing information regarding open standards and architecture, that you will not be providing sellable goods in the form of services and software, and that some information will be provided free on the web; you state that non-members will have access to public pages. You also state that your board reserves the right to protect, seek patent and/or copyright protection to insure open access across a wide field of use, that any resultant standards for open architecture developed by your members will be available to all members, free of copyright or royalties, and that technical and white papers will be made freely available to the industry manufacturers and end users alike.

You also submitted copies of your web pages. Your index page states: "In response to demand for open systems, [REDACTED] and [REDACTED] have created the [REDACTED] a non-profit group of software and hardware vendors, and industry consultants. [REDACTED] is an open standards architecture to enable production, using a real-time, networked system for tracking, handling and certifying outbound documents, both paper and electronic." The web page about your organization states that your members are committed to creating and implementing systems, software, and services that provide automated document factory (ADF) functionality based on widely accepted formats and standards. This web page also indicates that you have three directors, one each from [REDACTED] and [REDACTED]. The web page about your members shows that you have four Gold Corporate Sponsors ([REDACTED], [REDACTED], [REDACTED] and [REDACTED]) and two Corporate Sponsors [REDACTED] and [REDACTED].

In your White Paper entitled [REDACTED] dated [REDACTED], you make the following statements:

- (1) Next-generation ADF models must define ways to help operations become more self-sufficient, while expanding their ability to communicate with a larger enterprise network.
- (2) As markets grow more competitive, clients are asking their service bureaus or document operations to support new initiatives, or they will move on to a provider who can. Even operations that have attempted ADF find these efforts fall short as clients continually ask them to do more;
- (3) At its core, the ADF remains concerned with document creation and delivery, however, document structure and delivery options have expanded. When ADF was first discussed, few could have envisioned how quickly the business communication landscape would change. Now there are multiple ways a statement can be presented from a stream of data: e-mail, fax, fiche, CD, or paper. There may be multiple versions for account managers, clients, customer service, and archiving.
- (4) Considering the cost and complexity, how many companies are candidates for a full [REDACTED] implementation? What assistance will they require to move forward?
- (5) As even more components become involved through the merging of print and mail operations, it is essential to create standards; so many vendors can tie in to the document process. Going forward, a viable ADF architecture must support all major formats, not just one niche. Previous models have been too narrow in this regard [REDACTED] gives

[REDACTED]

document managers the freedom to select a wider range of vendors, because its interface is platform-independent.

(6) [REDACTED] is a response to first generation ADF solutions, which set up a rigid framework, requiring users to find pieces to fit. These solutions had high costs of operation and set up, largely because they could only be supported by proprietary technology.

(7) [REDACTED] is defining the new standards-based architecture for a real-time networked system for tracking, managing, and certifying all outbound documents, both paper and electronic. Towards this goal, several vendors have made the commitment to focus on developing open standards, and expedite the development of an open automated document factory architecture.

(8) [REDACTED] concept springs from a strong software background and uses the Internet model for its open standards. Standard Generalized Markup Language (SGML)-based open standards support the widest range of protocols. When the automated document factory was first defined, XML (eXtensible Markup Language) was not even an acronym. Now it is the basis of an open ADF architecture.

(9) XML is a common language for sharing data and integrating independent systems. This standard provides an open framework for integration, supported by emerging industry standards, third party solutions and expanding resource pools. XML helps document creators by separating format from content. Other vendors are moving forward with XML as the basis of data exchange. Eventually, some predict, XML will be the primary document tool, with legacy streams converted to XML as needed for paper documentation. This will help operations of all sizes protect and use their legacy print technology.

(10) [REDACTED] has introduced these new XML-based SN (Snip and Snmpp) protocols as part of the architecture definition.

(11) [REDACTED] architecture proposes a simple concept of putting a layer on top of the document process, with interfaces to the various components. This simplicity creates a flexible architecture for total document certification, not just for postal verification.

(12) While component technologies such as printers and inserters have advanced considerably, the development of new architectures to link them has languished. An effective [REDACTED] implementation can help users maximize the advanced technologies now available.

(13) [REDACTED] is proposing open standards in an area where there have been no standards, thus taking document automation to the next level. An open architecture can create a new level of customer service for service bureaus and other document operations. Web-enabled communications will let customers be more involved in controlling reacting to the document delivery process.

[REDACTED]

(14) New [REDACTED] products allow operations to streamline development and maintenance. With a common architecture, users familiar with one component can easily pick up the techniques of others based on the standards. [REDACTED] creates an intuitive operation that executes through automation.

(15) The process is the key to a successful ADF by any definition. Processes are becoming less rigid, less linear, and more parallel.

Section 501(c)(6) of the Code provides for the exemption from federal income tax of business leagues, chambers of commerce, real-estate boards, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for a profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league.

Rev. Rul. 56-65, 1956-1 C.B. 199, holds that a local organization whose principal activity consists of furnishing particular information and specialized individual services to its individual members engaged in a particular industry, through publications and other means to effect economies in the operation of their individual businesses is performing particular services for individual persons. Such organization, therefore, is not entitled to exemption under section 501(c)(6) of the Code as a business league even though it performs functions which are of benefit to the particular industry and the public generally. The activities of the organization consisted of the maintenance of plan rooms for the convenience of members, where plans and specifications for local construction projects, together with the names of general contractors bidding on specific projects, are filed.

Rev. Rul. 58-294, 1958-1 C.B. 244, discusses an organization that is organized and operated for the purpose of promoting uniform business, advertising, and fair trade practices in connection with the manufacture and sale of a certain patented product. Membership in the organization is limited to any person, firm, or corporation licensed to manufacture and sell the specified product. The organization owns the controlling interest in the corporation which holds the basic patents and sells to the members of the organization the materials and equipment necessary in the manufacture of the product. The revenue ruling holds that the organization does not qualify for exemption as an organization described in section 501(c)(6) of the Code because it is engaged in activities which are ordinarily carried on for profit and since it is engaged in furthering the business interests of the dealers in the particular patented product.

Rev. Rul. 66-338, 1966-2 C.B. 226, holds that an organization formed to promote the interest of a particular retail trade which advised its members in the operation of their individual businesses and sells supplies and equipment to them is not exempt under section 501(c)(6) of the Code. The revenue ruling states that by providing its members with an economy and convenience in the conduct of their individual businesses, the organization is performing particular services for individual persons as distinguished from activities aimed at the improvement of business conditions in their trade or business.

Rev. Rul. 67-77, 1967-1 C.B. 138, holds that an organization composed of dealers in a certain make of automobile in a designated area is organized and operated for the primary purpose of financing general advertising campaigns to promote, with funds contributed by dealer members, the sale of that make of automobile, and is therefore not exempt under section 501(c)(6) of the Code since it is performing particular services for its members. The revenue ruling states that it relates to whether an organization which is organized and operated for the primary purpose of financing advertising campaigns to promote the sale of a particular make of automobile is entitled to exemption under section 501(c)(6).

Rev. Rul. 68-264, 1968-1 C.B. 264, defines a particular service for the purposes of section 501(c)(6) of the Code as an activity that serves as a convenience or economy to the members of the organization in the operation of their own businesses.

Rev. Rul. 73-411, 1973-2 C.B. 180, in discussing the exempt status of a shopping center merchants' association under section 501(c)(6) of the Code, describes in detail the history of section 501(c)(6) and the types of organizations described therein. In the case of a chamber of commerce or similar organization, the common business interest required by section 1.501(c)(6)-1 of the regulations is usually the general economic welfare of a community, and it has been accepted that an organization seeking exemption under section 501(c)(6) as a chamber of commerce must be one whose efforts are directed at promoting the common economic interests of all the commercial enterprises in a given trade community. Trade associations or business leagues under section 501(c)(6) are similar to chambers of commerce, except that they serve only the common business interests of the members of a single line of business or of the members of closely related lines of business within a single industry. The revenue ruling also stresses that membership in section 501(c)(6) organizations is voluntary and open generally to all businesses and professional persons in the community.

Rev. Rul. 74-147, 1974-1 C.B. 136, describes an organization whose members represent diversified businesses that own, rent, or lease one or more digital computers produced by various manufacturers, without regard to identity of the manufacturer of any such computer. The sole activity of the organization mentioned in the revenue ruling is the holding of semi-annual conferences, at which operational and technical problems relating to computer use are discussed. The revenue ruling concludes that the organization's primary objective, provision of a forum for the exchange of information which will lead to the more efficient utilization of computers by its members and other interested users, improves the overall efficiency of its members' business use of computers and qualifies for exemption under section 501(c)(6) of the Code.

Rev. Rul. 83-164, 1983-2 C.B. 95, describes an organization whose purpose is to conduct conferences for the dissemination of information concerning computers manufactured by one specific company, M. Although membership is comprised of various businesses that own, rent, or lease computers made by M, membership is open to businesses that use other brands of computers. At the conferences, presentations are given primarily by representatives of M, as well as by other experts in the computer field. Problems related to members' use of M's computers are also discussed and current information concerning M's products are also provided. The revenue ruling holds that by directing its activities to businesses that use computers made by one manufacturer, the organization is improving business conditions in a segment of a line of business rather than in an industry as a whole and is not exempt under section 501(c)(6) of the Code. The revenue ruling concludes that by providing a focus on the products of one particular manufacturer, the organization is providing M with a competitive advantage at the expense of manufacturers of other computer brands.

In National Muffler Dealers Ass'n v. U.S., 440 U.S. 472 (1979), the Supreme Court held that an organization whose membership consisted of the franchisees of one brand of muffler did not constitute a line of business within the meaning of section 501(c)(6) of the Code because a single brand represented only a segment of an industry.

In National Prime Users Group, Inc. v. U.S., 667 F. Supp. 250 (D.C. Md. 1987), the Court held that an organization which served the needs of users of a specific brand of computer promoted only a segment of a line of business and was not exempt under section 501(c)(6) of the Code.

In Guide International Corporation v. U.S., 948 F. 2d 360 (7th Cir. 1991), aff'g No. 89-C-2345 (N.D. Ill. 1990), the Court concluded that an association of computers users did not qualify for exemption under section 501(c)(6) because it benefited essentially users of IBM equipment.

The information you have submitted establishes that you are interested in providing the users of hardware and software technology with an open architecture path to implement solutions in a standardized, modular, and non-proprietary manner, and that your function is to provide a forum for equipment manufacturers and software developers to provide end users with a standardized and modular approach to scalable document production solutions. These standards and systems, however, are in competition with other standards and systems, and are probably incompatible with them. It does not matter that your members are in competition with each other for a share of the market, or that your membership is open to the entire industry, or that your members are compatible, or that your program is an open system. The key consideration is whether your activities give a competitive edge to your special programs as opposed to other special programs, no matter whether they are open or closed. The fact that you may be engaged in an open exchange of information and ideas, does not alter the fact that your benefits are basically for a particular specification, especially since your Board of Directors, made up of individuals from [REDACTED] and [REDACTED] reserves the right to seek patent and/or copyright protection. In your White Paper, you indicate that all companies are not candidates for a full [REDACTED] implementation, even though the framework is less rigid than in the past. The fact that resultant standards for open architecture developed by your members will be available to all your

members does not mean that it will be available to nonmembers, and you may be providing services in a manner that is not described in section 501(c)(6) of the Code as described in Rev. Rul. 58-65, supra. As discussed in National Prime Users Group, Inc. v. U.S. and Guide International Corporation v. U.S., both supra, benefits essentially for a particular segment of an industry precludes exemption under section 501(c)(6). Also, the fact that while technical and white papers will be made freely available to the industry manufacturers, and nonmembers have access to "public" pages, you provide links for your members only, for example, to your Gold and Corporate Sponsors, which indicates that not all your information is available to the industry as a whole. Further, the restriction inherent in your membership, that members be engaged in the Open Systems Architecture industry, rather than being open to the computer industry in general, such as described in Rev. Rul. 74-147, supra, means that you do not represent a line or lines of business, as required under section 501(c)(6) and as discussed in National Muffler Dealers Ass'n v. U.S., supra. Therefore, we have concluded that you are not acting on behalf of a recognizable line of business within the intentment of section 501(c)(6).

Since your activities are not directed at promoting the common economic interests of all the commercial enterprises in a given trade community, your right to exemption under section 501(c)(6) of the Code, if any, must rest on your characterization as a business league or trade association. The information you have submitted, however, indicates that your membership is limited to entities engaged in the [REDACTED] Industry, which would not be considered to include a line of business for purposes of section 501(c)(6) of the Code. Thus, your membership does not appear to be freely entered into by individuals and organizations in your area or who are engaged in similar activities that do not use the Open Systems Architecture. Therefore, we do not consider your membership to be open generally to all individuals or companies in the field of computers or any other related line of businesses in your community, and you are not considered to be a business league or trade association within the meaning of section 501(c)(6) as described in Rev. Rul. 73-411, supra.

For these reasons, we conclude that you do not qualify for recognition of exemption from federal income tax under section 501(c)(6) of the Code. You are required to file federal income tax returns.

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement must be submitted within 30 days of the date of this letter and must be signed by one of your officers. You also have a right to a conference in this office after your protest statement is submitted. If you want a conference, you must request it when you file your protest statement. If you are to be represented by someone who is not one of your officers, he/she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to the Ohio Tax Exempt and Government Entities (TE/GE) Customer Service Office. Thereafter, any questions about your federal income tax status should be directed to that office, either by calling 877-829-5500 (a toll free number) or sending correspondence to: Internal Revenue Service, TE/GE Customer Service, P.O. Box 2508, Cincinnati, OH 45201.

[REDACTED]

When sending additional letters with respect to this case to the Internal Revenue Service, you will expedite their receipt by placing the following address on the envelope:

Internal Revenue Service
T:EO:RA:T:2-CCH
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

If you have any questions regarding this letter, please contact the person whose name and telephone number are shown in the heading.

Sincerely yours,

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Robert Fontenrose
Acting Manager
Exempt Organizations
Technical Group 2

[REDACTED]