

DEVOTED TO
LEADERS IN THE
INTELLECTUAL
PROPERTY AND
ENTERTAINMENT
COMMUNITY

THE

VOLUME 20 NUMBER 10

Licensing Journal

FEATURES

Edited by the Law Firm of Grimes & Battersby

*Monetization Strategies for Business
Method Patents*
Dean Alderucci and Kurt Maschoff1

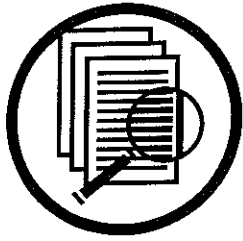
*Reasonable Royalties:
Deal Structure and Risk Transfer*
Bryan Benoit, Gary Abdalla,
and Andy Galbraith7

*Drafting Licensing
Agreements: Insurance and
Indemnification Issues*
Gregory J. Battersby, David A.
Gauntlett, and Chris Hale15

Licensing Markets22
Collegiate Licensing
Computer Software
Entertainment

Praxis27
Business Briefs
Financial Factors
Insurance
Licensee's Corner
Licensing World
Trademark Activity





Insurance

Michael Sean Quinn

Advertising Injury Insurance

Advertising is ubiquitous in US culture. The recent high tech "revolution" has substantially multiplied the number and types of ads. TV bombards us all with dotcom ads, and commercial modes of accessing the Internet are full of ads. The character of advertising has also changed. In the 1950s, it was uncivil, if not uncivilized, to refer to a competitor. Now it's done all the time—sometimes not only explicitly but acidly.

Liability insurers responded with coverage for "advertising injury." Initially, this coverage included "piracy." A number of courts held, however, that the concept of "piracy" might include patent infringement, trade secret misappropriation, and various types of unjust enrichment. Piracy coverage disappeared from policy forms.

Insurance coverage is now provided for various offenses committed in the course of an insured's advertising its goods, products, or services. The word "offenses" refers to various types of torts, and these include infringement of copyright, title, or slogan; misappropriation of advertising ideas; misappropriation of a style of doing business; publications invading a person's right of privacy; and defamation of a person, products, or services.

Obviously, if an advertisement mischaracterizes a competing product in a defamatory way and causes the loss of sales, that would be a covered injury, excluded only if the falsehood were consciously willed by the offending party. Similarly, if an advertisement involves

a picture or a statement about a person violating the person's right of privacy, that would be a covered injury. The statement or picture must actually be used in an advertisement. (Organizations probably do not have a right of privacy, and if they did it would not be covered by an insurance policy.)

Several years ago, one restaurant wrongfully appropriated another's style of doing business. The second restaurant uniformly painted its restaurant exteriors an exotic color. When the first restaurant did so as well, it triggered a lawsuit. There was some coverage for the injury.

Similarly, misappropriation of advertising ideas occurs when one advertisement too closely resembles another. Parodies and satires do not result in an award of damages, but they might trigger a defense under advertising liability coverage. (In most states, an insurer's duty to defend is triggered by what is said in the pleadings and not by what is true.)

There is coverage for copyright infringement, if that offense occurs in the context of advertising. The same is true when the name of one company infringes on the name of another (say, if two companies were both named "Touch of Class"), or when one company tries to utilize another's slogan or a too-close variation (consider, "You're in great hands with State Farm"). Sometimes, a title and a slogan are the same, as when the name of a company is actually a descriptive phrase (such as "Coyote Ugly" for a bar or "Magnificat" for a store for feline pets).

Coverage for advertising injury is quite narrow, and it is not gen-

eral coverage for business tort litigation. This is true for a number of reasons.

First, not every promotional activity undertaken on behalf of a business constitutes advertising. It must be devoted to selling goods or services. Not all publicity is advertising.

Second, although copyright infringement may be covered, patent infringement seldom is. Advertisements are not patentable and therefore cannot constitute the object of patent infringement. Advertising a good that infringes on the patent of another good does not constitute advertising injury. Sometimes, however, an advertisement does the copyright infringing. Similarly, merely advertising a product that infringes on a trademark is not covered.

Third, to be covered as an advertising injury, damages must result from the advertising activity. Damages from patent infringement, however, generally result from the use of an object or technology, and not from its mere advertising. Hence, coverage is not likely for patent infringement under the current version of coverage for advertising injury. (Theoretically, patent infringement can result from an offer to sell, and some commentators feel this fact might sometimes trigger advertising liability coverage. That is mere speculation, however, but it raises an interesting pleading point.)

Fourth, neither trade dress infringement nor service mark infringement outside the context of advertising is covered. Both, however, are covered if they occur within the context of advertising.

Fifth, the misappropriation of trade secrets is almost never a form of advertising injury. If something is advertised, it cannot be a trade secret; it is of the essence of trade secrets to be secret. A product may be advertised, and the product may include a trade secret—a fact which may be advertised. The trade secret, however, will not be

advertised, precisely because it must be kept secret.

Sixth, illicitly developing a product is not advertising injury. Advertising an illicitly developed product isn't either. In order for there to be coverage, the advertising activity—as opposed to the product—must be the source of damages.

Seventh, the tort of trade secret misappropriation almost never can be characterized as misappropriating a style of doing business or misappropriating advertising ideas. Trade secrets are secret; a style of doing business is quite public, as are advertising ideas. This claim about advertising ideas is true whether the ideas are apparent from the face of the

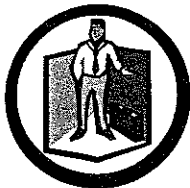
advertisement or whether they are ideas about where to place advertisements. In either situation, these matters are public.

A number of lawyers who represent businesses keep hoping that coverage for advertising injury can be expanded to cover whichever tort is alleged against their clients. Generally, this will not be reality. Perhaps insureds do have something to complain about. Perhaps this coverage is so narrow that is not really very helpful. That is not a matter for the courts, however, for the coverage is not illusory. It is a matter for the market.

Really adventuresome business litigators representing defendants try to prevail on lawyers repre-

senting plaintiff businesses to recast pleadings so as to trigger a duty to defend under the advertising injury coverage. Is there anything wrong with this conduct? Many lawyers are queasy about this approach. Some even think it may be tortious interference or a violation of federal Rule 11 type norms. So the practical question is: How good are your nerves?

Michael Sean Quinn is a shareholder with Sheinfeld, Maley & Kay in Austin, TX. He is a Visiting Professor of Law at the University of Texas at Austin. He is the current Chair of the Insurance Section, State Bar of Texas (2000-2001).



Licensee's Corner

Harold K. Kyle

Premium and Promotional Rights

This column is part of a series exploring various aspects of merchandising license agreements as viewed from the licensee's perspective. This installment examines premium and promotional rights as they relate to a typical merchandising license arrangement.

The standard product rights granted to a licensee under a merchandising license agreement typically encompass the types of products that can be manufactured and the retail channels of distribution in which the licensee may sell. Premium and promotional use of the licensed products is considered to be outside of the scope of rights granted by the agreement and is usually specifically excluded.

Definition

Basically, premium or promotional use means that the licensed product is being used or sold in a

manner that promotes the sale of another, nonlicensed product or service. Examples are giving away a licensed character figurine with the purchase of a kid's meal at a fast food outlet, or giving away, or selling at a bargain price, a NASCAR racing car model with the purchase of an oil change. Another example might be selling a licensed character stuffed doll prepackaged with a container of jellybeans that the stuffed doll is holding.

In years past, licensees argued that they should only pay the licensor the standard royalty rate based on their sale of the licensed product to the fast food chain, auto shop, or candy repackager. However, licensors soon recognized that this did not compensate them for the value added by the promotional use of the licensed character. The fast food chains sold far more kids meals than usual as a result of the "free" figurines, and the addition of the

stuffed doll allowed the candy repackager to sell those generic jelly beans at a much higher price and greater profit than would have been possible without the licensed character holding that container of jellybeans.

As a result, licensors have typically included provisions in their license agreements that prohibit the licensee from making sales to customers who will then utilize the products for premium or promotional use, unless the licensor's written permission is obtained in advance of such sale. The primary underlying purpose for this prior licensor approval is to allow the licensor to require the third-party customer to enter into a promotional license agreement with the licensor. The licensor will thus be in a position to obtain a royalty on that promotional customer's subsequent sale or use of the licensed product.

Double Royalty

The issue that the original licensee should keep in mind in this scenario is whether or not the licensor will be entitled to a "double" royalty. In other words, will the original licensee pay a royalty to the licensor on the sale to the promotional customer, and then