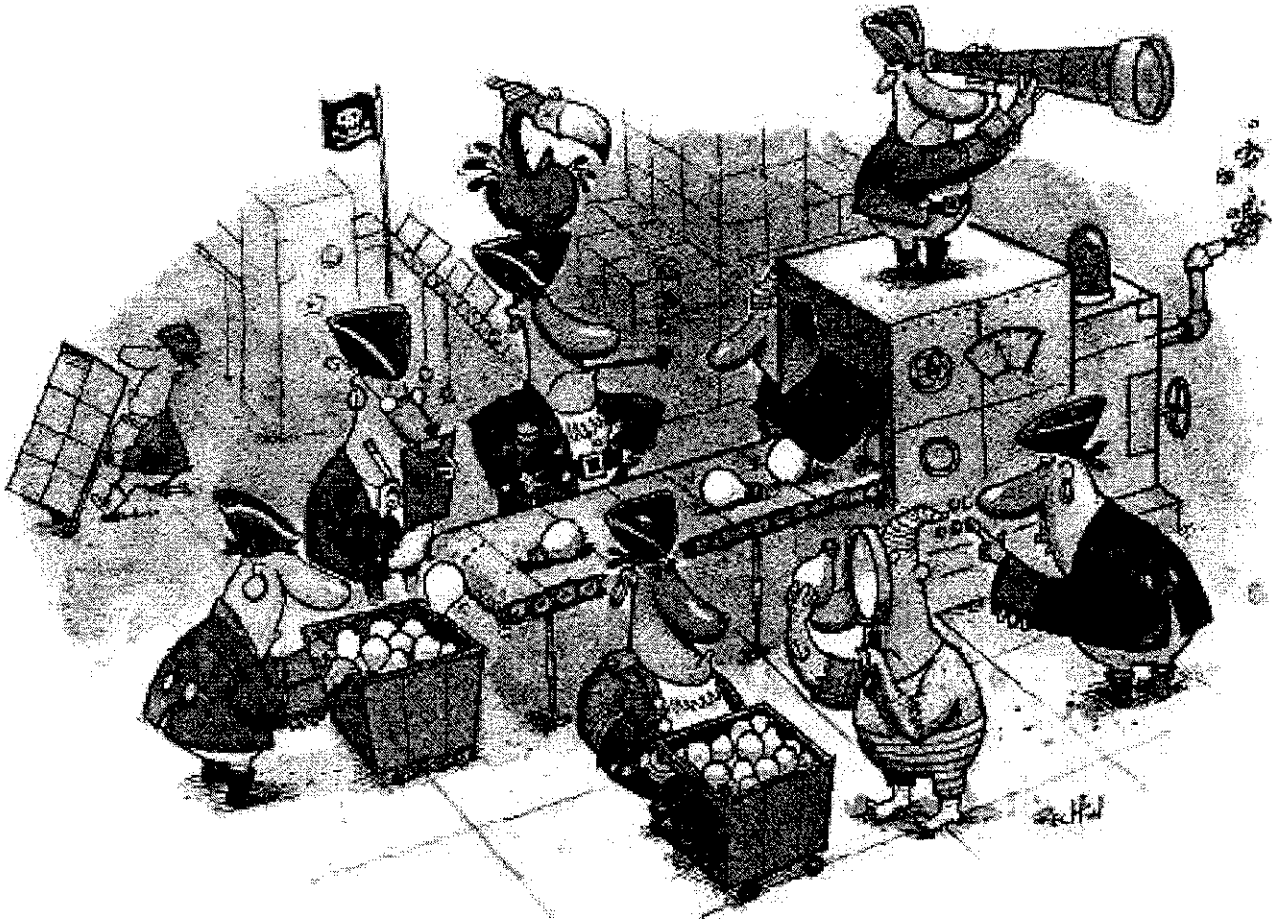


# BEWARE of the PIRATES

## How to Protect Intellectual Property



by Kay Millonzi and William G. Passannante

Many businesses have realized that intellectual property rights are increasingly important in a competitive global marketplace. The advent of "pirate factories," which duplicate protected works illicitly, and international trade agreements, which alter traditional protections, have created a brave new world for intellectual property owners and have made protecting intellectual property and avoiding related claims a significant risk management objective.

The global nature of the need to protect intellectual property is underscored by several current events. For example, recent headlines scream about "Chinese Pirate Factories" while the United States threatens 100 percent tariffs on Chinese imports worth billions of dollars. In fact, a recent study by the Clinton Administration detailed the "pirating of billions of dollars worth of American software, music and videos." Further, this study revealed that almost all of these "pirate factories" are

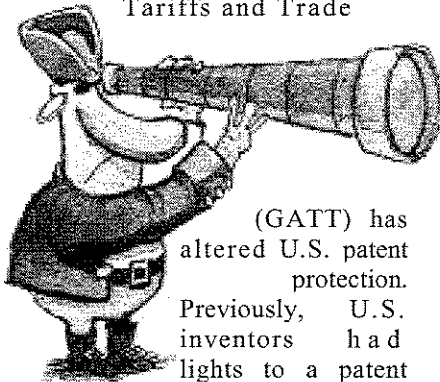
---

*Kay Millonzi is risk manager for Pleasant Company in Middleton, WI, and a member of RIMS. William G. Passannante is a partner in the New York law firm of Anderson Kill & Olick, P.C.*

partly owned by foreign investors or companies located in countries that are close allies and trading partners of the United States, such as Hong Kong, Taiwan, Singapore and Japan. It's hard to know whom to trust in the international world of intellectual property.

The explosive growth of electronic communications has increased the ease with which intellectual property can be duplicated, leading to a corresponding growth in litigation regarding intellectual property rights on the Internet.

Additionally, the international General Agreement on Tariffs and Trade



(GATT) has altered U.S. patent protection. Previously, U.S. inventors had lights to a patent for 17 years from the date it was issued. Under the new GATT-inspired law, patents protect inventors for 20 years from the date the patent application is first filed. Because a complex patent may take several years to be issued, the effective time period for U.S. patent protection may actually be shortened.

### Defining intellectual Property

In forms such as patents, trademarks, copyrights, trade secrets and trade dress, intellectual property can be the most valuable assets of any organization. They define to customers who you are, provide advantages over your competitors and can even serve as the basis of a business. Intellectual property includes secret formulas, inventions, logos and creative marketing materials. To protect the different types of intellectual property adequately, it is necessary to understand each of them.

A *patent* is a legal right, for a limited term, to exclude others from using, selling or making an invention or discovery". Patents have been grant-

ed for such items as the safety pin and the wet-dry vacuum.

*Trademarks* can be words, symbols, logos, designs or slogans that identify products or services as coming from a common source. Famous examples of trademarks include Apple® computers, the McDonald's® golden arches, Lexus® automobiles and the Nike® "Just Do It!®" slogan.

*Copyright* is a form of protection for original works of authorship giving the creator the exclusive right to reproduce the work, to display and perform the work publicly and to authorize others to do any of these activities. Works covered by copy-

including legal fees, can range anywhere from \$750 for a simple registration that goes smoothly to the tens of thousands for one that runs into opposition. If a trademark is important to a business, however, registration is a must.

Copyright registration is inexpensive (requiring only a \$20 application fee) and in most cases can be performed without legal assistance. Instructions and forms can be obtained from the U.S. Copyright Office. Generally, you should place notice prominently on any work for which you plan to claim copyright. The notice should contain; Copyright

Intellectual property defines to customers who you are and provides competitive advantages.

right include books, magazines, musical scores, motion pictures and computer software programs.

A *trade secret* is information known to a firm, but not others, which gives the firm a competitive advantage. Famous trade secrets include the formula for Coca-Cola® and the Colonel's recipe for Kentucky Fried Chicken®.

*Trade dress* is the total image and overall appearance of a product, which can include packaging, color, shape, size and graphics. Hershey's Kisses® chocolate candies, for instance, have a very- distinct trade dress.

### Protecting Your Property

There are several things a company can do to protect its intellectual property. Some methods require legal support; others can be handled by strong company policies. Registering trademarks, trade dress and copyrights with the Patent and Trademark Office or U.S. Copyright Office provides valuable protection, such as the right to sue in federal, court, and a number of remedies, including statutory damages, attorney fees and constructive notice of ownership. In addition, U.S. protection provides a basis for foreign registrations.

Trademark registration is not without expense. The application process,

© followed by the name of the claimant of the copyright and the year of publication. The notice should also slate "All Rights Reserved."

Obtaining a patent is critical to protecting an invention or design and can be a highly technical process requiring the skills of a patent attorney. A recent case may make protecting patented inventions more predictable.

In *Markman v. Westview Instruments*, the United States Supreme Court recently upheld a lower court's ruling that judges (and not juries) should decide the scope of a patent. At the trial level, a jury found that the patent at issue had been infringed, but the judge set aside the jury's determination, ruling that the patent did not cover the invention. A unanimous Supreme Court found that reviewing the construction of a patent, including the terms of art within its claim, is reserved for a judge. The court found historical precedent inconclusive regarding the application of the Seventh Amendment right to a jury trial and cited judicial expertise and uniformity as the basis of its decision. The *Markman* case may make protecting patents more predictable and less subject to the vagaries of the jury system,

Trade secrets are best protected by physical security. To maintain the

protected rights of a trade secret, the owner must take active measures to safeguard its confidentiality, such as locking the formula in a safe.

Any intentions to offer products in markets outside the United States or via the Internet require early action to protect your rights. Foreign and Internet registrations follow different (if any) rules, often to the detriment of an unsuspecting owner.

#### Correct Use

Once a mark or copyright has been registered, employees must be trained to use it correctly in order to preserve the desired protection. The most useful tool for informing employees is a style manual that provides detailed instructions and graphical examples of company marks and their proper usage. Trademarks must be used consistently, without alteration and with appropriate notice, such as the ® or symbols. If you desire to protect the name of a product as a mark, place a ™ symbol next to the mark on labels and promotional material. Once federal trademark registration is obtained, the ™ should be changed

to a ® symbol. The greatest fear for any trademark owner is *genericide*, when a mark becomes a generic term for a product through improper use. One of the most famous examples of a trademark that became a generic term is aspirin.

Other methods for protecting intellectual property include implementing a controlled process for reviewing the proposed (and unauthorized) use of your marks by others. Requests to reproduce copyrighted materials should be reviewed by a designated individual who has an established set of guidelines for reviewing permissions. Licensing agreements for any type of intellectual property should allow oversight to ensure that the mark is being used as intended. Finally, intellectual property owners must be vigilant in tracking down and stopping infringers. Trademark law in particular requires owners to make a "reasonable attempt" to police their marks, which may include suing a suspected infringer.

Mead Data Central, Inc., owner of the Lexis® mark used for its computerized legal research service, for example, sought to protect its mark

from "dilution" when Toyota Motor Sales, U.S.A., Inc. decided to begin, selling its new luxury automobiles under the mark Lexus®. Mead sued. The trial court determined that Mead was entitled to injunctive relief to prevent use of the Lexus® mark, but the United States Court of Appeals for the Second Circuit reversed this decision, holding that Toyota's mark did not dilute Mead's. The court found that the markets for the two products were so distinct that no confusion or "blurring" of the Lexis® and Lexus® marks was likely to take place.

#### Avoiding Liability

Just as organizations try to protect their marks by confronting infringers, so must they be aware of the potential liability of infringing upon the rights of another. The best way to avoid infringement claims is to perform searches before introducing new intellectual property to verify that no one else has prior rights to what you thought was your product, name or logo. Various databases and firms are able to conduct searches for a fee.

Before using another party's intellectual property, you must determine

## MEET THE RISK MANAGER

Kay Millonzi's involvement with the risk management profession, RIMS and Pleasant Company all came together during her graduate studies at the University of Wisconsin. After setting aside her original plans to pursue a legal education; Ms. Millonzi was introduced to insurance and risk management. "I knew I didn't want to get involved with accounting or finance," she recalls. "The insurance courses were so interesting I wanted to learn more."

While pursuing a double major in insurance and risk management and employee relations, Ms. Millonzi became involved with the RIMS Student Involvement Program and received a Spencer Educational Foundation Scholarship. "The local RIMS chapter would invite students to a dinner meeting every year, and I participated in those, and I was also able to attend the RIMS Annual Conference in New Orleans," she said.

During her studies, Ms. Millonzi interned at Wisconsin's Department of Transportation before

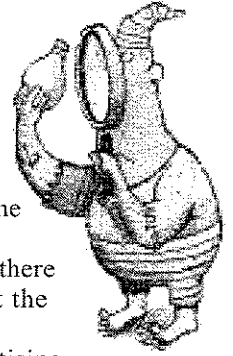


Kay Millonzi,

participating in a project at the request of Pleasant Company; a distributor of children's books and dolls.

"I performed a risk management analysis of the company, which didn't have a risk manager at the time. When I heard they were looking to hire someone, I called and told them I was graduating and that's how I got my foot in the door," Ms. Millonzi says. "As soon as I was hired, my boss brought in a flyer, describing RIMS and I said we should join." In addition to coordinating, the company's insurance programs; Ms. Millonzi is also involved with employee safety, training and OSHA compliance. Her involvement with safeguarding intellectual property began when the company recognized the potential that could result from trademark infringement. "I began to help managing the exposure, and now it fits in very well with risk management because it's so important for us to protect our property," she says.

In a long-awaited decision that was *only* one sentence long, the Supreme Court affirmed the appellate court decision without opinion.



whether or not it is necessary to obtain permission. If so, obtain that permission in writing and follow its terms. Marketing materials that compare your product to a competitor's in any way should be reviewed by legal counsel before being used. Organizations must also develop policies regarding photocopying and software duplication.

Similar care must be taken during product development to make sure new products do not have any characteristics that infringe upon another party's intellectual property. For instance, *Lotus Development Corporation v. Borland International*, the first case to reach the Supreme Court squarely addressing copyright protection for computer software, arose when Borland copied the menu structure from Lotus Development Corporation's Lotus 123® spreadsheet for a similar program. At issue in the case was whether the language used in menus developed for the Lotus software was protected as a copyrightable work.

Lotus won in the trial court, which found that its menu structure was protected under copyright law. In addition, the court held that Borland's products infringed on Lotus's copyright because Borland copied the Lotus menu structure into a program file. Borland appealed, and the decision was reversed. The appellate court held that the menu command hierarchy was not a protected method of operation. Lotus then appealed to the United States Supreme Court.

In a long-awaited decision that was only one sentence long, the Supreme Court affirmed the appellate court decision without opinion. The court thus left unanswered many questions regarding the extent of copyright protection as it applies to computer software. Stay tuned.

Recently, patents (as opposed to copyrights) have become an increasingly popular method of protecting software. The number of applications for software-related patents has increased 350 percent between 1987

and 1995. Similarly, the number of patents actually issued has increased four-fold since 1987.

#### Are You Covered?

In the event that an intellectual property claim is made against your company, insurance coverage may be available. In 1976, the insurance industry began marketing the "advertising injury" coverage provision as part of the "broadest package of coverage available to the average insured." Today advertising injury coverage remains one of the most valuable components of standard-form liability insurance. This provision is found either as a standard agreement within the body of the liability policy or as an endorsement.

Policyholders may be entitled to coverage for a number of offenses, including: copyright violation, trademark infringement, patent infringement or "piracy," defamation, slander, privacy violations and unfair competition. This coverage includes payment of the attorney's fees and judgments or settlements paid in such actions.

Risk managers and counsel for policyholders should be aware that many of the acts listed in the definition of advertising injury are classic business torts that can take place in relation to a policyholder's advertising. Recent cases have upheld insurance coverage, including the policyholder's defense expenses, for certain business torts.

Controversies over advertising injury insurance coverage generally arise under either the 1973 or 1986 standard-form provisions. The 1973 Broad Form Liability Endorsement states that:

"Advertising *injury* means injury arising out of an offense committed during the policy period occurring in the course of the named insured's advertising activities, if such injury arises out of libel, slander, defamation, violation of rights of privacy, piracy, unfair competition, or infringement of copyright title or slogan."

There are at least two things worth

noting about the 1973 endorsement. First, nearly all of the enumerated torts are intentional. Second, there is no indication that the words used in the definition of advertising injury are words of limitation.

In 1986, the definition of advertising injury was changed to mean injury arising out of one or more of the following offenses: oral or written publication of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services; oral or written publication of material that violates a person's right of privacy; misappropriation of advertising ideas or style of doing business; or infringement of copyright, title or slogan.

When a policyholder is subjected to an allegation of copyright violation, trademark infringement, patent infringement, defamation, slander, privacy violations or unfair competition, the underlying action should be examined for potential coverage. Risk managers or corporate counsel should first check to see whether such a liability insurance policy was in effect during the time period of the alleged offense. Next, they should determine whether the underlying action alleges that wrongful acts occurred during the effective period of the liability insurance policy. If it appears that a claim falls within the advertising injury coverage provision, a notice of claim should be sent immediately to the policyholder's insurance company.

As shown here, there are a number of strategies that can be employed as part of a risk management program to protect intellectual property and avoid claims. Risk managers need to be aware of the recent national and international developments affecting their companies' intellectual property. Further, in the event that intellectual property claims are made, policyholders may be able to reduce the financial effects through insurance. III