GAUNTLETT & ASSOCIATES

ATTORNEYS AT LAW

GLOBAL POLICYHOLDER INSURANCE RECOVERY & COMPLEX LITIGATION

Presented by:

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Insurance Coverage for Patent Infringement Lawsuits

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Mr. Gauntlett is the principal of Gauntlett & Associates in Irvine, California and represents policyholders in insurance coverage disputes regarding intellectual property, antitrust and business tort claims as well as in the underlying actions. He also serves as a consultant on structuring insurance programs to maximize insurance coverage for intellectual property risks, as a counsel for defendants, as well as plaintiffs where coverage issues impact the availability of settlement proceeds to resolve underlying intellectual property litigation.

He is the author of *Insurance Coverage of Intellectual Property Assets, Second Edition* (April 25, 2013), published by Aspen Publishers; *IP Attorney's Handbook for Insurance Coverage in Intellectual Property Disputes* (ABA Publishing Section of Intellectual Property (2010)), *New Appleman Insurance Law Practice Guide* Chapter 30 on *"Understanding Intellectual Property Insurance"* (LexisNexis 2009) (contributor); and *New Appleman on Insurance Law Library Edition* Chapter 44 on *"Intellectual Property Insurance"* (LexisNexis 2011) (contributor), as well as numerous other articles on this and related topics and holds leadership positions in various ABA committees.

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I. BEST CHOICES FOR DIRECTORS & OFFICERS / ERRORS & OMISSIONS COVERAGE

A. Directors & Officers

- This intellectual property exclusion only applies to claims **against** the **Insured Organization** under the Side "A" Difference in Conditions ("DIC") policies.
    - ***Acacia Research Corp. v. Nat'l Union Fire Ins. Co.***, No. CV 05-501 PSG (MLGx), 2008 U.S. Dist. LEXIS 96955 (C.D. Cal. Feb. 8, 2008) **(YES)** ($31,070,981.62 plus $310,442.19 present value of future royalty payments due to improperly delay and denial of a defense).
    - ***Am. Century Servs. Corp. v. Am. Int'l Specialty Lines Ins. Co.***, No. 01 Civ. 8847 (GEL), 2002 U.S. Dist. LEXIS 15016, at *26-27 (S.D.N.Y. Aug. 14, 2002) **(NO)** (Wrongful acts included patent infringement, but exclusion for "actual or alleged gaining of profit or advantage to which the Insured is not legally entitled" precluded settlement for "past or future use of a valuable technology in the course of its business[.]")

B. Errors & Omissions Professional Coverage

- Coverage for certain types of businesses

  a. The IP Endorsement

  > We shall reimburse the Insured for those sums which the insured becomes legally obligated to pay and shall have paid as "Damages" resulting from any "Claim" or "Claims" ["a demand for Damages"] made against the Insured for any "Wrongful Act" ["any violation of a legal right or rights associated with patents"] caused by [the] manufacture, use, development, distribution, advertising or sale of a "Covered Product" ["any product . . . sold or any process used . . . by the Insured"] committed by the Insured . . . occurring within the term of this policy.

  - ***Research Corp. v. Westport Ins. Corp.***, 289 Fed. Appx. 989, 992 (9th Cir. (Ariz.) 2008) **(YES)** ("[A]llegations of conversion, fraudulent concealment, and breach of fiduciary duties raised claims of 'wrongful acts'[.]")
  - ***Transcore, LP v. Caliber One Indem. Co.***, 972 A.2d 1205, 1208-09 (Pa. Super. Ct. 2009) **(NO)** ("Inducement of patent infringement . . . is an intentional act. . . . . [and] must be intentional and therefore is specifically excluded from coverage.").

C. Intellectual Property Insurance Services Corporation Coverage ("IPISC") — www.patentinsuranceonline.com

- **Enforcement**
  - claims made and reported policy
  - enforcement indemnification—to cover the substantial litigation expenses incurred in enforcing an organization's own IP rights against infringers
  - covers actions of most IP rights, including patents
  - optional extension for contractual indemnities to enforce agreement
- **Infringement**
  - claims made and reported policy
  - defense coverage insures infringement/misappropriation liability, including reimbursement for defense expenses and/or legal damages or settlements
  - covers infringement of IPR, but not trade secrets, e.g., patents, trademarks, copyrights

- available to companies domiciled and operating anywhere in the world
- optional extension for contractual indemnities to customers and distributors
- optional extension for directors and officers
- optional extension for extended reporting period
- optional extension for trade secrets

D. RPX Corporation ("RPX") — www.rpxcorp.com

- Proprietary cost and actuarial data from more than 2,500 litigations allows RPX to offer the only insurance policy designed specifically to cover NPE threats.
- Your company will join nearly 320 companies to dramatically lower your risk of patent litigation
- Limit your company's exposure to the costs of litigation
- Proactively manage patent risk with data driven insights.
- Receive a fast, fair and risk-free payment for patent assets

II. BEST CHOICES FOR COMMERCIAL GENERAL LIABILITY COVERAGE THAT MAY INCLUDE IP COVERAGE

A. Preferred ISO Policy Language

- **2007/2013 ISO CGL Policy Form CG 00 01 12 07 / CG 00 01 04 13**

Coverage B Personal and Advertising Injury Liability

1. Insurance Agreement:

a. We will pay those sums that the insured becomes legally obligated to pay as damages because of "personal and advertising injury ....

1. "Advertisement" means a notice that is broadcast or published to the general public or specific market segments about your goods, products or services for the purpose of attracting customers or supporters.

. . . .

14. "Personal and advertising injury" means injury . . . arising out of one or more of the following offenses:

. . . .

d. Oral or written publication of material that slanders or libels a person or organization or disparages a person's or organization's goods, product or services;

. . . .

f. The use of another's advertising idea in your "advertisement" . . . .

g. Infringing upon another's copyright, trade dress or slogan in your "advertisement"

B. Broader ISO Policy Provisions

Broader ISO Policy Provisions

- Offer a limited but broader coverage than Chubb, Travelers/St. Paul, Hartford, or Great American
- Consider a Commercial Umbrella Policy with ISO-based form If Primary Program Cannot Easily Be Replaced

Reputable Insurers Providing Broad Coverage with standard ISO:

- ACE Group (www.aceusa.com)
- AIG (www.aig.com)
- Admiral Insurance Co. (www.admiralins.com)
- Cincinnati Insurance Companies (www.cinfin.com)
- CNA Financial Corp. (www.cna.com)
- Mid-Continent Group (www.mcg-ins.com)
- Nationwide Mutual Insurance Co. (www.nationwide.com)
- OneBeacon Insurance (www.onebeacon.com)
- Utica National Insurance Group (www.uticanational.com)
- Zurich North America (www.zurichna.com)

C. Non-ISO Policies to Avoid

1. Chubb (Except as an Umbrella Policy)

> *"Arising out of breach of contract," or "an infringement, violation or defense of any . . . trademark or service mark or certification mark or collective mark or trade name,* ***other than trademarked or service marked titles or slogans.***"

2. Hartford/Travelers

> [T]here is no coverage under personal and advertising injury or damage alleged in any claim or suit that alleges infringement or violation of any intellectual property right.

3. Great American

> (l) Any claim or "suit" ... **arising out of any ... misappropriation, infringement, or violation** of ... copyright ... patent ... trademark ... trade name ... trade secret ... trade dress ... service mark ... slogan ... service name ...
>
> laws or regulations concerning piracy, **unfair competition, unfair trade practices**, or other similar practices; or ...
>
> any other intellectual property right or law. (emphasis added)

D. Basic Theory Of "Personal And Advertising Injury" Coverage

1. What Are The Facts In Analyzing Insurance Coverage?

- **California Law**

Scottsdale Ins. Co. v. MV Transp., 36 Cal. 4th 643, 654 (Cal. 2005) ("[T]he duty to defend [arises] where, under the facts alleged, reasonably inferable, or otherwise known, the complaint could fairly be amended to state a covered liability.").

Hudson Ins. Co. v. Colony Ins. Co., 624 F.3d 1264, 1270 (9th Cir. (Cal.) 2010) ("The technical label on a cause of action does not dictate the duty to defend whether the claimed cause of action was omitted out of negligence or 'for strategic adversarial reasons.'")

Pension Trust Fund v. Federal Ins. Co., 307 F.3d 944 (9th Cir. (Cal.) 2002) ("[R]emote facts buried within causes of action that may potentially give rise to coverage are sufficient to invoke the defense duty . . . [and the] law does not require that the insured's conduct proximately cause the third party claim in order to trigger the defense duty.").

- **Washington Law**
  - Facts Knowable to the Insurer
    - ***Truck Ins. Exch. v. VanPort Homes***, 147 Wn.2d 751, 761, 58 P.3d 276, 282 (2002) ("[F]acts outside the complaint may be considered if '(a) the allegations are in conflict with facts known to or readily ascertainable by the insurer or (b) the allegations of the complaint are ambiguous or inadequate.' . . . An insurer has an obligation to give the rights of the insured the same consideration that it gives to its own monetary interests.")
  - Facts That Evidence a Potential for Amendment
    - ***Kienle v. Flack***, 416 F.2d 693, 695-96 (9th Cir. 1969) ("[C]ould [the complaint] not have been amended to state a claim within the policy coverage.")

2. The Three-Part Test

(1) a claim that falls within one or more enumerated "advertising injury" offenses;

(2) an advertising activity by the insured; and

(3) a causal nexus between one of the advertising injury" Offenses and the "advertising activity."

3. Summary Of Commercial General Liability Coverage

a. Offense (f) – "Use of Another's Advertising Idea In Your 'Advertisement'"

(1) Patent Infringement

(a) Coverage Opportunity for Patent Infringement Claims in Commercial General Liability Policies

- Patent infringement (business method) where method is an advertising technique (misappropriation of "advertising ideas") 1986-ISO CGL ("use of another's advertising idea in your 'advertisement'"). **1998/2001/2004/2007 ISO CGL**
- **Patent Infringement PLUS** conjoined with tortious interference, false advertising, unfair competition in a complaint or counterclaim. (1986/1998/2001/2004/2007 CGL ISO)
- *But see*, Travelers/Hartford ("Nor will we cover any injury or damage . . . alleged in a claim or suit that also alleges any such infringement or violation.")

(b) Piracy

- ***Union Ins. Co. v. Land & Sky, Inc.*, 247 Neb. 696, 701-02, 529 N.W.2d 773, 776-77 (1995) (YES)** ("Land and Sky cites several dictionary definitions which support the claim of ambiguity regarding the term 'piracy.' . . . In *National Union Fire Ins. Co. v. Siliconix Inc.*, 729 F. Supp. 77 (N.D. Cal.1989), the court stated that 'piracy' was susceptible of two interpretations . . . . Because the term is susceptible of two reasonable interpretations, one encompassing patent infringement and one not, we construe the term 'piracy' in favor of the insured as encompassing patent infringement.").

- ***Iolab Corp. v. Seaboard Surety Co.*, 15 F.3d 1500, 1506 (9th Cir. (Cal.) 1994) (NO)** ("In the context of policies written to protect against claims of advertising injury, 'piracy' means misappropriation or plagiarism found in the elements *of the advertisement itself* – in its text form, logo, or pictures – rather than in the product being advertised. Iolab's claim of piracy arising out of advertising has no basis because Dr. Jensen's claim was based on Iolab's infringement of his patent for the intraocular lens itself rather than on an element of Iolab's advertising of the lens.").

b. Patent *Plus* Claims/Complaint/Counterclaim

- "Offense (d) – Publication . . . That . . . Disparages . . . [An] Organization's . . . Products"
  - ***Millennium Labs, Inc. v. Darwin Select Ins. Co.,*** No. 12-cv-2742 BAS (KSC), 2014 U.S. Dist. LEXIS 89746 at *4-5 (S.D. Cal. July 1, 2014) **(YES)** (" 'Millennium's actions have evidenced its intent to do harm to Ameritox in the marketplace at any cost, and Millennium has instructed its sales reps to do the same.' ... Millennium 'engaged in a concerted plan to "attack" Calloway ... through its marketing efforts' as well as Calloway's discovery responses mentioning the PowerPoint presentation as a basis for the counterclaim.").
  - ***Hartford Cas. Ins. Co. v. Swift Distribution, Inc.,*** 59 Cal. 4th 277, 289, 291, 294-299 (2014) **(NO)** ("[C]ourts have found certain kinds of statements to specifically refer to and derogate a competitor's product or business by clear implication.... A 'reasonable implication' in this context means a clear or necessary inference.... There is no coverage for disparagement simply because one party tries to sell another's goods or products as its own.... Similarly, a party's attempt to copy or infringe on the intellectual property of another's product does not, without more, constitute disparagement.... '[S]uperior' does not necessarily imply a derogatory comparison[.] '[P]atent-pending' does not guarantee that a patent will be granted or that the product is of higher quality.... [T]hese statements are not specific enough to call into question Dahl's proprietary rights in his product[.]'")

(c) Misappropriation of Advertising Ideas

- ***Hyundai Motor Am. v. National Union Fire Ins. Co. of Pittsburgh, PA*, 600 F.3d 1092, 1101 (9th Cir. (Cal.) 2010) (YES)** (Defendants argue that the source of the advertising idea must be from a competitor. Because Orion is a patent-holding company and not a direct competitor of Hyundai's, Defendants reason, the Orion action cannot constitute a "misappropriation of advertising ideas." As an initial matter, nothing in the policy's text – "misappropriation of advertising ideas" – suggests that it must be a misappropriation of *a competitor's* advertising ideas. Nor can we discern any contextual, public-policy, or logical significance to who owns the legal rights to the advertising idea in question. In any event, we find no support for Defendants' competitor-only rule in California law.")

- ***Auto Sox USA Inc. v. Zurich North America*, 121 Wash. App. 422, 428 (2004) (NO)** ("The present invention concerns an apparatus and related method for displaying removable advertising sign on a vehicle. Magnetic means are provided for removably attaching the advertising sign to the vehicle, and includes illumination means for night-time visibility of the advertising message. Means are also provided for storing a plurality of the advertising members. . . . The patented product itself relates to a product used to advertise. It is not, however, an 'advertising idea' that relates to ideas about soliciting customers. [*Green Mach. Corp. v. Zurich-Am. Ins. Group*, 313 F.3d 837, 839 (3d Cir. (Pa.) 2002).]").

- ***Amazon.com Int'l, Inc. v. American Dynasty Surplus Lines Ins. Co.*, 120 Wash. App. 610, 619, 85 P.3d 974, 976, 978 (2004) (YES)** (" 'Each of the Defendants has at least one network web site, which allows consumers to preview pre-selected portions of pre-recorded music over the internet.... Intouch contends that each of the Defendants' web sites ... infringe upon the Patents.' . . . [T]he alleged injury derived not merely from misappropriation of the code, but from *its use as the means to market goods for sale.* In other words, the infringement occurred in the advertising itself. Intouch's allegations therefore satisfied the causation requirement for a potential advertising injury.").

(d) Use of Another's Advertising Idea in your "Advertisement'

- ***Amazon.com. Inc. v. Atl. Mut. Ins. Co.***, No. C05-00719RSM, 2005 U.S. Dist. LEXIS 47186, at *24, 26-27 (W.D. Wash. July 21, 2005) ("Patent infringement may constitute an advertising injury 'where an entity uses an advertising technique that is itself patented.' *Amazon*, 120 Wn. App. at 616[.] Similar to the '490 Patent and the '649 Patent, the '142 Patent is designed as 'an improved electronic catalog system capable of providing a customer at a remote location with accurate updated product information from a vendor each time the customer uses the electronic catalog system.' ... Also, 'one object of the present invention is to provide the customer with an instantaneous distribution of the latest catalog data available.' ... [P]laintiff's website 'exists for the purpose of promoting products for sale to the public. This is advertising.' ... [It is of no moment] that only a single user accesses plaintiff's website[.] [T]he patented technology targets the public at large, and the purpose is to allow multiple users to benefit from the electronic catalog system.").

- ***Dish Network Corp. v. Arch Specialty Ins. Co.*, 743 F. Supp. 1173, 1184 (D. Colo. 2010) (NO)** ("[I]n *Discover Financial*, the court found no coverage where the alleged infringement involved many of the same patents at issue in the Katz complaint. ... [I]deas protected by the Katz patents were not incorporated as elements of the alleged 'advertising'[.] The Katz complaint ... does not allege that the patented technologies are themselves incorporated as an element of DISH's communications and interactions with its customers.").

(2) Trade Secret Misappropriation (Disclosure)

- **Croskey, et al., California Practice Guide**: *Insurance Litigation* ¶7:1036 (The Rutter Group 2015) ("The 2001 and later CGL forms specifically *exclude* liability based on infringement (misappropriation) of trade secrets. Although not specifically excluded, such claims were not covered under earlier CGL forms *unless* the misappropriated trade secrets related to the insured's 'advertising ideas or style of doing business.'").
  - ***Tetravue, Inc. v. St. Paul Fire & Marine Ins. Co.***, No. D061002, 2013 Cal. App. Unpub. LEXIS 5074, at *29-30 (Cal. App. 4th Dist.July 19, 2013) **(YES)** ("St. Paul cannot rely on the absence of express allegations in the cross-complaint that General Atomics used the relevant materials to 'attract the attention of others' . . . . First, one would not expect that in a complaint alleging misappropriation of trade secrets by Banks and TetraVue, General Atomics would discuss how *it*, General Atomics, may have used the materials in question. . . . ' "[T]he third party plaintiff cannot be the arbiter of coverage." [Citation.]' (*Ibid.*)").
  - ***Maryland Cas. Co. v. Blackstone Int'l Ltd.***, No. 51, September Term, 2014, 2015 Md. LEXIS 286 (Md. Apr. 21, 2015) **(NO)** (Concluding that no potential coverage arose for "unjust enrichment" claims, even though it conceded that the allegations evidenced "use of another's advertising idea" under offense (f) because "product packaging" did not satisfy the "in [the insured's] 'advertisement'" prong of offense (f) where the court concluded that "damages as a result of advertising" must be proven and were not sought.)

(3) Trade Secrets Act of 2016

- Trade Secret Examiner [rmarkhalligan@fisherbroyes.com]
  - Adds federal cause of action for misappropriation of trade secrets.
  - Provides typical remedies, plus civil seizure.
  - Adds federal jurisdiction for trade secret lawsuits under the Act.
  - Not an IP claim but what about an intellectual property exclusion that includes, within its scope, "trade secrets and other intellectual property rights."

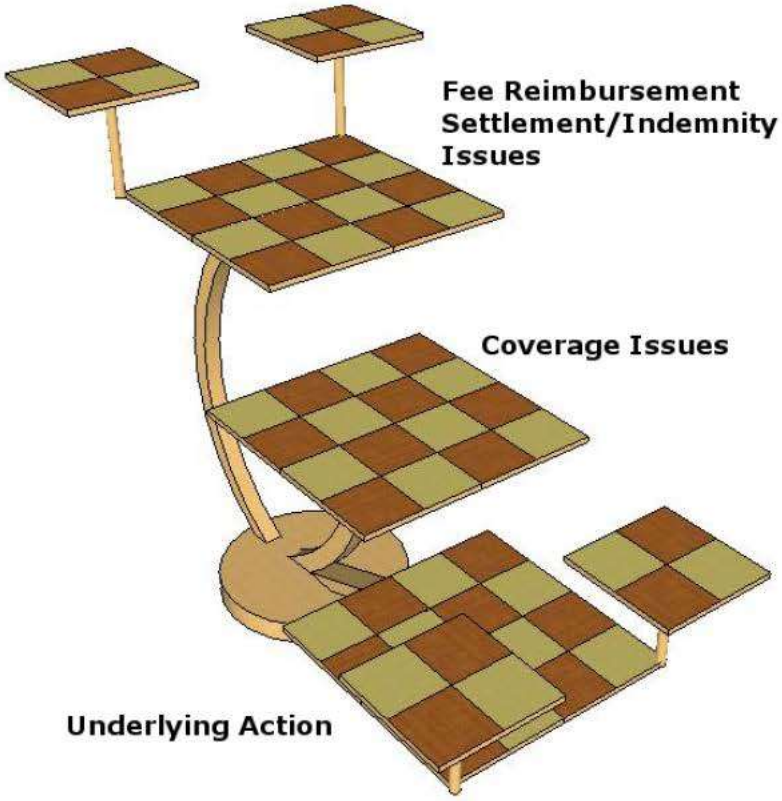
    This section and the amendments made by this section shall not be construed to be a law pertaining to intellectual property for purposes of any other Act of Congress.

- ***Norfolk & Dedham Mut. Fire Ins. Co. v. Cleary Consultants, Inc.***, 81 Mass. App. Ct. 40, 48 (2011) *review denied,* 461 Mass. 1108, 961 N.E.2d 591 (2012) "It is of no significance that other factors may have contributed to those damages apart from conduct covered by the policy."); *Atlantic Mut. Ins. Co. v. J. Lamb, Inc.*, 100 Cal. App. 4th 1017, 1032 (2002) (" '[C]overage ... is triggered by the **offense**, not the injury or damage which a plaintiff suffers.' ") (emphasis added).

4. Strategic Thinking Means Focusing of Insurance Coverage Availability Before, During and After the Underlying Litigation

FAIR USE. Images For Educational Purposes Only

Each movement must be triangulated as the impact in each of the three dimensions must be calibrated, analyzed, integrated into the strategy of the party moving the chess piece



5. Looking for Coverage "Outside the Box" But Beware Nature of Business

- Pre-2001 policy forms (Think Canada)
- Indemnity Provisions / Other Controls
- Field of Entertainment

- ***Manzarek v. St. Paul Fire & Marine Ins. Co.***, 519 F.3d 1025, 1032 (9th Cir. (Cal.) 2008) **(YES)** (Former drummer of "Doors" suffered mental anguish and mental anguish damages when people were led to believe he was not an integral and respected part of the band).

- ***Princeton Express & Surplus Ins. Co. v. DM Ventures USA LLC***, No. 15-CV-81685-MIDDLEBROOKS/BRAN, 2016 U.S. Dist. LEXIS 98740, at *19 (S.D. Fla. July 18, 2016) **(YES)** ("Field of Entertainment" exclusion illusory. Far from carving out only particular type of advertising injury — such as certain statutory violations, al advertising injury coverage for offenses (d)(d)(f) and (g) was barred, yet the policy purported to offer "advertising injury" coverage.)

- Counterclaims

- ***Teleflex Med., Inc. v. Nat'l Union Fire Ins. Co. of Pittsburgh, PA***, Ninth Circuit, Case No. 14-56366 (Primary Insurer paid $1M, Excess National Union OH, and no alternative offer to take up the defense offers primary insurer paid policy limits. District court awarded $3.75M of $4.75M settlement to claimant LMA).

E. Pertinent Exclusions

1. First Publication Exclusion

This insurance does not apply to: "Personal and advertising injury" arising out of oral or written publication, in any manner, of material whose first publication took place before the beginning of the policy period.

- ***Lexington Ins. Co. v. MGA Entm't, Inc.***, 961 F. Supp. 2d 536, 557 (S.D.N.Y. 2013) **(YES)** ("[T]he Umbrella Insurers had a duty to defend in the Underlying Action because the extrinsic evidence produced does not conclusively eliminate the potential for coverage under the 2001 Policy. . . . The mere existence of a factual dispute regarding the first date of publication establishes that the Umbrella Insurers had the duty to defend in the Underlying Action.").

- ***Street Surfing, LLC v. Great Am. E&S Ins. Co.***, 776 F.3d 603, 609 (2014) **(NO)** ("[W]hen Great American reviewed the allegations in Noll's complaint, it would have ascertained only that Noll used 'Streetsurfer' as a recognizable brand name to identify his products, not as a phrase promoting that brand. Because Street Surfing points to no facts alleged in the complaint or otherwise that would have given rise to an inference that slogan infringement would be at issue in the Noll action, its claim for coverage under that provision fails.").

2. Knowledge of Falsity/Knowledge of Advertising/Personal Injury

This insurance does not apply to: "Personal and advertising injury" arising out of oral or written publication, in any manner, of material, if done by or at the direction of the insured with knowledge of its falsity.

"Personal and advertising injury" caused by or at the direction of the insured with the knowledge that the act would violate the rights of another and would inflict "personal and advertising injury".

- ***CGS Indus., Inc. v. Charter Oak Fire Ins. Co.,*** 720 F.3d 71, 83 (2d Cir. (N.Y.) 2013) **(YES)** ("Despite the boilerplate allegation of willful misconduct, Five Four's Lanham Act section 43(a) claim did not require it to prove that CGS intended to infringe on its trademark, as such a claim does "not require proof of intent to deceive." *Johnson & Johnson v. Carter-Wallace, Inc.*, 631 F.2d 186, 189 (2d Cir. 1980). Our inquiry ends there: as at least one of the claims in the Underlying Action did not require intent, Charter was required to defend the entire action.").
- ***Navigators Specialty Ins. Co. v. Beltman***, No. 11-cv-00715-RPM, 2012 U.S. Dist. LEXIS 156666, *28-29 (D. Colo. Nov. 1, 2012) **(NO)** ("This exclusion bars coverage because the Chevron Action is replete with allegations of intentional misrepresentations. . . . The thrust of the claims against the Stratus Parties is the fabrication and publication of the Cabrera Report and supporting material. The Stratus Parties "disseminat[ed] false statements about Chevron through [their] authorship of the Cabrera Report and through [their] later 'evaluation' of that report."

3. Breach of Contract

This insurance does not apply to: "Personal and advertising injury" arising out of a breach of contract, except an implied contract to use another's advertising idea in your "advertisement".

- ***Bridge Metal Indus., LLC. v. Travelers Indem. Co.***, No. 11-4228-CV, 2014 U.S. App. LEXIS 4463, at *11-12 (2d Cir. (N.Y.) Mar. 11, 2014) **(YES)** ("We conclude that it is at least a plausible interpretation that but-for causation is lacking in this case, since National's right to protect its trade dress—which antedated the confidentiality agreement with Bridge Metal—could be infringed regardless of the contract. The 'operative act giving rise to any recovery,' *Mount Vernon,* 668 N.E.2d at 406, was the alleged copying of National's designs, not the breach of the confidentiality agreement.").

- ***GK Skaggs, Inc. v. Hartford Cas. Ins. Co.***, No. 12-56501, 2014 U.S. App. LEXIS 11161, at *5 (9th Cir. Cal. June 16, 2014) **(NO)** ("Any disparaging statements GKS purportedly made allegedly culminated in CCA, Central Beer, and/or GKS breaching their contracts with L&N. '[E]xamin[ing] the conduct underlying [L&N's] lawsuit, instead of the legal theories attached to the conduct,' the injury here arose out of a breach of contract. *See Medill*, 49 Cal. Rptr. 3d at 579 (internal quotation marks omitted).").

4. Intellectual Property

This insurance does not apply to: "Personal and advertising injury" arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights. Under this exclusion, such other intellectual property rights do not include the use of another's advertising idea in your "advertisement".

However, this exclusion does not apply to infringement, in your "advertisement", of copyright, trade dress or slogan. [ISO 2007]

- ***Aurafin-Oroamerica, LLC v. Fed. Ins. Co.***, 188 F. App'x 565, 567 (9th Cir. 2006) **(YES)** ("Because patent misuse is not a true intellectual property claim, it does not fall within the policy's intellectual property exclusion.").

- ***AU Elecs., Inc. v. Harleysville Group, Inc.,*** Case No. 13 C 5947, 2015 U.S. Dist. LEXIS 28887, at *14 (N.D. Ill. Mar. 10, 2015) **(NO)** ("So the fact that Sprint and T-Mobile sued under § 43(a) and *could have* brought trade dress claims against AU under that provision does not mean that they actually *did* so. To determine what Sprint and T-Mobile actually *did*, it is necessary to examine their complaints[.]").

5. Failure To Conform

This insurance does not apply to: "Personal and advertising injury" arising out of the failure of goods, products or services to conform with any statement of quality or performance made in your "advertisement".

- ***Jar Labs. LLC v. Great Am. E&S Ins. Co.***, 945 F. Supp. 2d 937, 947 (N.D. Ill. 2013) ("Unlike the underlying plaintiff's claims in Skylink, TPU's claims allege injuries flowing directly from plaintiff's advertisements, not from consumers' discovery that the advertisements were false.").

- ***Basic Research, LLC v. Admiral Ins. Co***., 297 P.3d 578, 582 (2013) **(NO)** ("[E]ach of the underlying claims is premised on Akävar's failure to perform as advertised. . . . The underlying claims assert injury and damages resulting from Akävar's failure to live up to the promises of quality and performance expressed by the slogans.").

III. OTHER ISSUES BEARING COVERAGE

A. Notice to Insurers

1. Which Insurers Should Be Notified and What Should They Be Told?

- Whom Should Be Notified?
  - First carrier on risk when a bad act is alleged potentially triggers coverage.
  - Develop facts in underlying action.
  - What if complaint is silent on this issue, as most are?
  - Asking the insurer to clarify the facts upon which its denial is based.
- Notifying Policyholder of a Reduction in Coverage (Jurisdictions That Follow This Rule: California, Kansas, Illinois, Maryland, Minnesota, Missouri, New Jersey and New York)
  - Insurer may not reduce coverage without notification.
  - Notification must be clear and conspicuous.
  - Applies to commercial policyholders.
  - Applies to all coverage.

2. Why Tender

- Broad duty to defend may implicate potential coverage.
- An insurer must defend an action even though only one claim is potentially covered.
- It avoids a malpractice claim against outside defense counsel.
- Higher prospective premium depending on a variety of factors may be time to shop the market.

3. The Perils of Saying "No" to a Rule 26(a) Inquiry to the Presence of Insurance for IP Claims

- Practitioner may need to do more than simply inquire as to whether their clients believe that they may have no potential coverage.

4. Is Your Notice Timely and Can Pre-Tender Fees Be Recovered?

- Having An Insured Contact Its Insurance Broker May Be Inadequate as the Broker May Be The Insured's Agent
  - ***Clement v. Smith,*** 16 Cal. App. 4th 39, 46 (1993) ("[T]he agent's representations of coverage as to an *existing* policy are the functional equivalent of representations made by the agent to induce the purchase of *new* insurance.") (emphasis in original)

- ***J.F. Meskill Enters., LLC v. Acuity***, No. 05-CV-2955, 2006 WL 903207, at *7 (N.D. Ohio Apr. 7, 2006) (Broker's opinion of no coverage for trade dress claims creates exposure for negligent misrepresentation but not professional negligence).

5. Pre-Tender Fees Are Generally Not Recoverable

- ***Burgett, Inc. v. Am. Zurich Ins. Co.***, 875 F. Supp. 2d 1125, 1127 (E.D. Cal. 2012), ***as corrected*** (Aug. 24, 2012) ("Plaintiff, conversely, has cited no California law holding that an insurer who declines to accept defense after tender will subsequently be obligated to pay pre-tender expenses if a court finds the insurer did owe a duty to defend.").
- *But see*, ***Axis Surplus Ins. Co. v. James River Ins. Co.***, 635 F. Supp. 2d 1214 (W.D. Wash. 2009) (Trigger event is lawsuit, not notice to insurer which is a mere condition subsequent to the insurance contract).

B. Choice of Law

- Place of contract was entered into (*lex loci contractus*) Georgia, Florida, Kansas; (Bermuda wrap-around for punitive damages.)
- Place of Performance (California)
- Most Significant Contracts (Washington)
  - ***Fluke Corp. v. Hartford Accident & Indem. Co.***, 145 Wn.2d 137, 34 P.3d 809 (2001)

IV. SUMMARY OF KEY POINTS

- Design An Insurance Program That Includes The Broadest Possible Coverage For Business Tort Claims Looking Beyond Traditional CGL, D&O And E&O Policies
- Tender Early Claims For Damages As Well As Complaints/Counterclaims To All Potentially Implicated Insurers, Not Just The Insurance Broker
- Keep Insurers Apprised Of Facts That Potentially Impact Coverage Suit Including Developments In The Underlying Action That Clarify The Claims Asserted Whether Through Discovery Or Motion Activity
- Be Careful To Notify Insurers In Advance To Avoid The "Voluntary Payments" Provision And Be Aware That Resolving Business Disputes Or Securing A License May Entitle The Insurer To Allocate A Portion Of The Settlement To Uncovered Claims
- Revisit Prior Denials In Light Of Developing Coverage Law To Unearth "Buried Treasure"

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