Contents

Introduction xiii

1 Intellectual Property Attorney’s Checklist 1
   A. Commercial General Liability/Umbrella/Excess Insurance Policies 1
      1. Insurance Services Office (ISO) Commercial General Liability
         (CGL) Policy Forms “Advertising Injury” Coverage 1
      2. Non-ISO CGL “Advertising Injury” Coverage 2
         under Personal and Advertising Injury Coverage in ISO CGL/
         2007] 5
      4. Broad View of Coverage Opportunities Based on Business
         Interests in Accord with Principles of Enterprise Risk
         Management 6
      5. Insurance Coverage for Corporate Counsel 8
   B. Intellectual Property Insurance Policies 9
      1. Insurance Policy Providers 9
   C. Cyberspace/Multimedia Coverage 14
      1. Selecting the Coverage That Suits the Company 14
      2. Insurance Product Offerings: Analyzing Their Applicability to
         Exposure 18
      3. Policy Provisions 23
      4. Issues Posed by Claims-Made Insurance Coverage and the
         Requirement of Prompt Notice 31
      5. Coverage Case Analysis 33
   D. Directors and Officers Policies 36
      1. Representative Policy Forms 36
      2. Coverage Case Analysis 36
   E. Errors and Omissions (Professional Liability) Policies 37
      1. Representative Policy Forms 37
      2. Coverage Case Analysis 37
2 What Intellectual Property Owners Should Know about Insurance Coverage 41
   A. The Insurance Product Marketplace for Intellectual Property Insurance 41
      1. The Entrepreneurial Insurance Marketplace 41
      2. Surmounting Corporate Roadblocks to Integrated IP Insurance Risk Management 41
      3. The Insurance/IP Audit 42
      4. Setting Up Protocols to Assess Coverage for Claims Involving IP Assets 42
      5. Restoring Balance to the IP/Insurance Interface 43
   B. Questions IPOs Should Ask Regarding Insurance Coverage 43
   C. IPOs as Plaintiffs 44
      2. Industries Likely to Benefit from Pursuit Coverage 45
      3. Coverages Available for Pursuit of Patent Infringement Lawsuits 45
   D. IPOs as Defendants/Counterdefendants 47
      1. Issues to Confront in Assessing the Potential for Insurance Coverage 47
      2. What Insurance Coverage Will Litigation against Your Company Trigger That Benefits Its Interests? 48
      3. Recommendations for IPOs Serving as Defendants/Counterdefendants 50
      4. When Can an Insurer Be Compelled to Pay the Full Amount of the Contemplated Settlement of an Underlying Action? 50
   E. Assessing an Insurance Portfolio as an IPO to Maximize Value 52
      1. New Insurance Policies Covering Cyberspace Torts 52
      2. Cyberspace Policies 53
      3. Net Secure Policies 54

3 Special Aspects of Coverage under Offense-Based “Personal/Advertising Injury”/Cyberspace/Multimedia Coverage 55
   A. Ten Rules of Policy Construction Applicable to Offense-Based Coverage 55
   B. Ten Key Rules for Policyholders in Coverage Disputes 56
   C. Ten Rules for Communications with Carriers 56
What Are the Facts for Purposes of Coverage Analysis?

A. Distinct Tests for Determining What Facts Are Pertinent

B. Facts Asserted in the Complaint
   1. The Complaint Allegations Rule
   2. Amended Complaint May Trigger a Defense
   3. Limitations on Use of the Complaint-Allegations Rule in Analyzing Offense-Based Coverage
   4. Case Law Applying the Complaint-Allegations Rule to Offense-Based Allegations
   5. Survey of Case Law

C. Facts Known or Knowable to the Insurer/Facts Asserted in the Complaint
   1. Facts Known or Knowable Places a Burden on Policyholders to Alert Insurers to Ongoing Facts
   2. Survey of Case Law

D. Facts Available to the Insurer (Duty to Investigate)
   1. Facts Can Be Developed to Enhance Coverage Prospects
   2. Survey of Case Law

E. Shaping the Underlying Litigation to Clarify the Duty of Defense and Right to Independent Counsel
   1. Defense Counsel Should Not Dismiss Covered Claims
   2. Opposing Claimant’s Discovery into Insurer/Policyholder Communications
   3. Insurance Brokers Who Advise Policyholders Not to Give the Insurer Notice May Be Liable for Affirmative Misrepresentation
   4. Recovery of Pre-Tender Fees
   5. Relation Back Doctrine

Proper Parties Covered under the Policy

6. Notice
   A. Who Should be Notified?
   B. Late Notice Rules


8. Survey of Key Jurisdictions’ Late Notice Rules

9. Facts Known or Knowable Places a Burden on Policyholders to Alert Insurers to Ongoing Facts

10. Defense Counsel Should Not Dismiss Covered Claims

11. Opposing Claimant’s Discovery into Insurer/Policyholder Communications

Notice

A. Who Should Be Notified?

B. Late Notice Rules

4. What Are the Facts for Purposes of Coverage Analysis?

5. Proper Parties Covered under the Policy

6. Notice

A. Who Should Be Notified?

B. Late Notice Rules


8. Survey of Key Jurisdictions’ Late Notice Rules

9. Facts Known or Knowable Places a Burden on Policyholders to Alert Insurers to Ongoing Facts

10. Defense Counsel Should Not Dismiss Covered Claims

11. Opposing Claimant’s Discovery into Insurer/Policyholder Communications
C. Notifying the Policyholder of a Reduction in Coverage 84
   1. General Admonition to Read the Policy Is Not Enough 84
   2. Survey of Case Law 86
D. Circumstances in Which Notice Can Be Established When an Insurer Was Not Directly Provided with a Copy of a Potentially Covered Lawsuit 86
   1. Voluntary Payment Provisions as a Bar to Coverage Following Late Notice 86
   2. Failure to Understand the Scope and Application of Offense-Based Personal Injury Coverage Is No Excuse for Late Notice 87
   3. Where Notice Is a Condition Precedent to Coverage, Extra Vigilance in Providing Prompt Notice Is Required 88
   4. Notice May Be Constructive and Actual in Many Jurisdictions 88
   5. Late Notice Is Especially Problematic in Procuring Coverage in Intellectual Property / Antitrust Litigation 91

7 Choice of Law 93
A. Once a Forum Is Selected, What Law Will Apply? 93
B. Survey of Forums’ Choice-of-Law Rules 93
   1. Lex Loci Contractus (Place Contract Made) 93
   2. Most Significant Relationship Test 93
   3. Two-Pronged Test 95
   4. Place of Performance 95
   5. Government Interest Analysis 95
   6. Place of the Last Act to Give Rise to a Valid Contract 96
   7. Most Intimate Contacts Test 96
   8. Greatest Interest in the Outcome Test 96
   9. Balancing the Competing Interests of the States 96
   10. Aggregation of Contacts: Five-Factor Test 96
   11. Center of Gravity Test 97
   12. Most Significant Contacts Test 97
   13. Governmental Interests 97
   14. Location of Risk 98
C. Preferred Venues for Choice of Forum 98
   2. States That Permit Recovery of Attorneys’ Fees to the Prevailing Policyholder in a Coverage Litigation 99
3. States That Award Prejudgment Interest in Excess of the Market Rate to a Prevailing Policyholder 100
4. States That Permit the Selection of Independent Counsel at the Insurer’s Expense When a Conflict of Interest Arises Due to the Presence of Covered and Uncovered Claims in a “Mixed Action” 102
5. States That Find Ambiguity in Policy Language Evident Where Courts Disagree 105

8 Errors & Omissions Exposure for Failure to Notify Insurer of Claims 107
   A. Broker Exposure for Failure to Notify 107
   B. Lawyer Malpractice for Failure to Provide Notice 109
      1. Rule 26(f) Requires Intellectual Property Defense Counsel to Advise the Court Whether There Is Potential Coverage 109
      2. Coverage Cases Increasingly Look to “Facts Known to the Insurer” 109
      3. A Survey of “Facts Known” Coverage Reveals Additional Duties Insurers May Impose on Defense Counsel 109
      4. The Failure to Assure Effective Access to Policy Benefits Triggers IP Counsel’s Malpractice Exposure 111
      5. The Duty to Protect Policy Benefits Includes Securing Insurer-Funded Settlements 113
   C. Broadening Intellectual Property Counsel’s Retainer Agreement to Include Securing the Assistance of Coverage Counsel 114

9 Advertising Injury Provisions 117
   A. Three-Part Test 117
   B. Applying the Three-Part Test 117
      1. The Offense Element 117
      2. The Advertising Element 118
      3. The Causal Nexus Element 134
      4. Patent Infringement 137
      5. Trade Secret Misappropriation 138
      6. Trademark Infringement 138
   C. Fourth Element: During the Policy Period 141
      1. Scope of Meaning 141
      2. Coverage 141
      3. No Coverage 141
   D. Fifth Element: As Damages 142
1. Scope of Meaning 142
2. Coverage 143
3. No Coverage 144

10 IP Insurance Coverage Cases 147
A. Copyright 147
   1. Nature of Copyright Claims 147
   2. Coverage Cases (Offense) 147
   3. Coverage Cases (Causal Nexus) 148
B. Patent 166
   2. Coverage Cases (Offense) 166
   3. Coverage Cases (Causal Nexus) 204
   4. Patent Infringement Lawsuits Conjoined with Other Potentially Covered Claims 223
   5. Non-ISO Policy Language 227
C. Trademark 235
   1. Nature of Trademark Claims 235
   2. Coverage Cases (Offense) 235
   3. Non-ISO Policy Language 270
   4. Coverage Cases (Causal Nexus) 276
   5. Non-ISO Coverage Cases (Causal Nexus) 283
D. Trade Secret 292
   1. Trade Secret Claims That Potentially Implicate “Advertising Injury” Coverage 292
   3. Coverage Cases (Causal Nexus) 313
   4. Non-ISO Policy 316

11 Personal and Advertising Injury Exclusions 321
A. Breach of Contract (All ISO CGL) 321
   1. Policy Language 321
   2. Scope of Meaning 321
   3. Coverage 322
   4. No Coverage 326
B. Business of Advertising (All ISO CGL) 331
C. Failure to Conform to Advertising (All ISO CGL) 331
   1. Policy Language 331
   2. Scope of Meaning 332
3. Coverage 332
4. No Coverage 333

D. First Publication (All ISO CGL) 338
1. Policy Language 338
2. Scope of Meaning 338
3. Exclusion Limited to Offenses That Require an Oral or Written Publication of Material: Libel, Slander, Disparagement, Invasion of Privacy 340
4. Complaint Silent as to When Infringing Conduct Commenced 348
5. No Injurious Use of Infringing Publication before Policy Inception 350
6. Distinct Material Published After Policy Inception Even Though Related to That Published Before 352
7. Same Publication Both Before and After Policy Inception 355

1. ISO Exclusions 358
2. Trademark, Service Mark, Trade Name, Other Than Titles and Slogans 368
3. Non-ISO Exclusions 370
4. Field of Entertainment Limitation Endorsement 383

1. Policy Language 384
2. Scope of Meaning 384
3. Coverage 386
4. No Coverage 390

G. Knowledge of Falsity (All ISO CGL) 390
1. Policy Language 390
2. Scope of Meaning 390
3. Coverage 391
4. No Coverage 400

H. Knowledge of Personal and Advertising Injury 404
1. Policy Language 404
2. Scope of Meaning 404
3. Coverage 404
4. No Coverage 407

I. Liability Assumed under Contract (All ISO CGL) 408
1. Policy Language 408
2. Scope of Meaning 408
3. Coverage
4. No Coverage
J. Professional Services (All ISO CGL)
   1. Policy Language
   2. Scope of Meaning
   3. Coverage
K. Public Policy (Dependent on State Law)
   1. Statutory Language
   2. Scope of Meaning
   3. Coverage
L. Willful Violation of Penal Statute (All ISO CGL)
   1. Policy Language
   2. Scope of Meaning
   3. Coverage
   4. No Coverage
M. Business of Publishing (All ISO CGL)
   1. Policy Language
   2. The Advertising Exclusion Cannot Preclude a Defense for an Insured Whose Business Is Not Primarily an Advertiser
   3. “Business of Advertising” Has Been Narrowly Construed by Courts
N. Unauthorized Use
   1. Policy Language
   2. Coverage
   3. No Coverage
O. Intended and Expected Exclusion
   1. Policy Language
   2. No Coverage
12 Counterclaims
   1. Policy Language
   2. Scope of Meaning
   3. Coverage for Defamation
1. Policy Language 433
2. Scope of Meaning 433
3. Coverage for Disparagement 434
4. No Coverage for Disparagement 442
C. Making Known Material That Violates a Person’s Right of Privacy 446
1. Policy Language 446
2. Scope of Meaning 447
3. Coverage 447
4. No Coverage 458
D. Malicious Prosecution 461
1. Policy Language 461
2. Scope of Meaning 461
3. Coverage 462
4. No Coverage 464
E. Unfair Competition 466
1. Policy Language 466
2. Scope of Meaning 467
3. Coverage 468
4. No Coverage 469
5. Causal Nexus 471
F. Non-ISO Language 475
1. Discrimination 475
2. Idea Misappropriation under an Implied Contract 478

Table of Cases 483

Index 543