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SPECIALTY INSURANCE FOR INTELLECTUAL PROPERTY:

ADDITIONAL SECURITY FOR OWNERS OF INTELLECTUAL PROPERTY ASSETS

By Todd M. Rowe

I. INTRODUCTION

The Industrial Age presented a number of challenges as the world moved from cottage industries to factories: "chimneys caught fire, coals fell out of hearths, ovens and copper wash tubs overheated when left alone by servants, tar kettles boiled over . . . lids blew off sills, burning candles touched bed sheets and curtains, and toppled into casks of oil and spirits or onto straw and hay stables, hot ashes were thrown into back yards setting household rubbish a light, and sparks from burning warehouses blew across docks to set alight the rigging of ships." These risks gave rise to a market for fire insurance to protect property owners. Today, as we may be in the closing stages of the Industrial Age, we have seen a significant decrease in number of tar kettles boiling over and lids blowing off sills. However, while the risks may have changed since the Industrial Age, the need for insurance has not.

While fire insurance was at one time a novel concept, specialized insurance coverage for intellectual property assets is becoming a more conventional need for many businesses. Businesses, large and small, have started to take steps to protect intellectual property, and, accordingly, a market has developed specifically for insurance for intellectual property assets. This article first analyzes issues related to coverage under Commercial General Liability ("CGL") insurance policies for insurance for intellectual property assets. Part II of this article briefly examines the history of insurance coverage under the "Advertising Injury Clause" found in CGL policies. After providing a basic

1. Todd M. Rowe is an attorney with Tressler, Soderstrom, Maloney & Priess, LLP in Chicago, Illinois where he specializes in insurance coverage.
3. See id.
4. This article is not meant to provide an exhaustive analysis of the
examination of the policy language and provide of the advertising injury clause, Part II of this article contains an abbreviated review of the how courts have construed the advertising injury clause when analyzing coverage for intellectual property claims. In the interest of brevity, Part II is not meant to be a comprehensive analysis of the advertising injury clause. The question of whether coverage under the advertising injury clause has been triggered is dependent upon a number of variables that may be outside the scope of this article. Additionally, an in-depth analysis of these variables may be irrelevant to the extent that later generation CGL policies have incorporated an exclusion expressly barring coverage for intellectual property assets. Rather, this article is limited to an overview of the inconsistent law related to coverage for intellectual property assets in earlier versions of CGL policies and the restrictive language of intellectual property exclusions found in later versions of CGL policies.

One way to manage this inconsistency in insurance coverage for intellectual property assets is to seek insurance coverage specifically designed to protect intellectual property assets rather than relying solely upon CGL policies. This article provides an examination of insurance for intellectual property assets beyond CGL policies and the scant law interpreting this insurance coverage. Specifically, Part III of this article provides an analysis of the latest-generation of insurance coverage tailored specifically for intellectual property. Part III provides support for the conclusion that businesses with significant intellectual property assets are best served by obtaining intellectual property insurance in addition to CGL insurance.

Finally, this article concludes that while CGL coverage is essential for every business, any businesses owning significant intellectual property assets should obtain insurance coverage specially tailored for intellectual property in addition to traditional CGL coverage. CGL coverage only is no longer sufficient to protect intellectual property. This article stresses that a business advertising injury clause. Rather, this analysis is meant to provide a basic understanding of the advertising injury clause to intellectual property practitioners.

5. The law related to intellectual property insurance is rather undeveloped.
with significant intellectual property assets must compliment its general liability coverage with intellectual property coverage.

II. INCONSISTENT RESULTS: INTELLECTUAL PROPERTY AND THE ADVERTISING INJURY CLAUSE.

A. The Development of the Advertising Injury Clause in CGL Policies.

For decades, business of all types and sizes have looked to the commercial general liability policy for the lion’s share of their insurance needs.

Created in 1941 in response to a need for a ‘general purpose liability insurance policy’ that any business in the commercial market could use, the CGL is a collection of standardized forms that have emerged from the property and casualty insurance industry, designed to allow carriers to assess risk in potential policyholders and alter premiums accordingly.  

The insuring agreement in the typical CGL policy consists of coverage for “bodily injury,” “property damage” and “advertising injury.” Coverage A of the typical CGL policy is limited to coverage for Bodily Injury and Property Damage. Coverage B of the typical CGL policy is limited to Personal and Advertising Injury Liability, which is commonly referred to as “the Advertising Injury Clause.” Over the years, the Advertising Injury Clause has undergone a number of revisions. These developments have resulted in the following standard language for the advertising injury clause: “We will pay those sums that the insured becomes legally obligated to pay . . . as damages because of ‘Personal Injury’ or ‘Advertising Injury’ . . . . This


7. See State Farm Fire & Cas. Co. v. Steinberg, 393 F.3d 1226, 1231 n.2 (11th Cir. 2004) (providing a concise history of advertising injury coverage).
insurance applies to ‘advertising injury’ . . . caused by an offense committed . . . in the course of advertising your goods, products or services.” Advertising injury means injury arising out of one or more of the following offenses:

(a) 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;

(b) Oral or written publication of material that violates a person’s right of privacy;

(c) Misappropriation of advertising ideas or style of doing business;

(d) Infringement of copyright, title or slogan.

Or, a policy may have a broadened definition to include the following offense: “e. Infringement of trademark, copyright, title or slogan.”

Initially, the advertising injury clause was not part of the Insuring Agreement of a standard CGL insurance policy. Beginning in 1973, the Insurance Services Office (“ISO”), the organization that publishes and drafts the standard-form CGL policy language first introduced standard-form coverage for “advertising injury.” Initially, advertising injury coverage was only available through an endorsement to CGL policies. This transition of the advertising injury clause from endorsement to Coverage B of CGL policies has been succinctly stated as:

9. Id.
10. Id. at n.10.
11. The 1973 Broad Form Endorsement excluded coverage for trademark infringement. Id. § 33:5.
The "advertising and personal injury" coverage is a relative newcomer to the CGL policy, having been added by ISO when the CGL form was revised in 1986. Before then, "advertising and personal injury" coverage had been offered as part of the so-called Broad Form endorsement that many insureds purchased but which was not a standard feature of the policy. Today, bodily injury and property damage claims are insured as Coverage A, whereas "advertising and personal injury" claims are insured as Coverage B. 13

In 1986, the ISO incorporated advertising injury coverage into the main policy form and made significant changes to the coverage by, among other things, introducing the four enumerated offenses defining "advertising injury." 14 From that point forward, the advertising injury clause was left virtually untouched until 1996, when the ISO revised "a supplemental payment provision that expanded coverage to benefit companies that would have an obligation to indemnify other companies." 15 The 1998 standard form replaced the term "advertising injury" with the phrase "personal and advertising injury." 16 Also in 1998, the ISO changed its definition of advertising injury clause from having an offense for "infringement of copyright, title or slogan" to having an offense for "infringing upon another’s copyright, trade dress or slogan in your 'advertisement.'" 17 and defined "advertisement" in the policy definitions as: "a notice that is broadcast or published in the general public or specific market segments about your goods, products or services for the purpose of attracting customers or supporters." Finally, in 2001, an intellectual property exclusion was added that barred coverage for "infringement of copyright,

14. Broad Form Comprehensive General Liability Endorsement, GL 04 04 (ed. 3-81); see also, DAVID A. GAUNTLETT, INSURANCE COVERAGE OF INTELLECTUAL PROPERTY ASSETS, § 1.01(A) (2008).
15. GAUNTLETT, supra note 14, § 1.01(C).
16. MCCARTHY, supra note 8, § 33:5.
Based upon the modifications of the advertising injury clause over the last three decades, coverage will only be triggered when the injury is “caused by an offense committed in the course of advertising [the insured’s] goods, products or services” and the injury must arise out of at least one of the specified enumerated offenses. Despite what appears to be a rather simple grant of coverage, the body of law interpreting the advertising injury clause has produced inconsistent results. Moreover, there has been more inconsistency as courts have increasingly been called upon to interpret the advertising injury clause in the context of intellectual property claims—that is, claims involving concepts that may be unfamiliar to many courts that predominantly handle insurance coverage litigation.\(^{18}\)

Acknowledging the inconsistent interpretations of the advertising injury clause, one court commented “[a]n insurance company’s duty to defend intellectual property claims under the rubric of ‘advertising injury’ is the subject of countless lawsuits — indeed, a recent litigation explosion — throughout the country.”\(^{19}\) “Advertising injury provisions have been part of the standard form CGL insurance policy for many years, and a growing body of case law has developed around claims that advertising injury provisions provide coverage for intellectual property lawsuits, including trademark and trade dress, patent, copyright, and trade secret cases.”\(^{20}\) Recently, courts have adopted tests to determine whether allegations in the underlying complaint trigger coverage under the advertising injury clause.

\(^{18}\) The development of the Internet has spawned a number of new questions related to insurance coverage for intellectual property that are outside the scope of the present analysis. See e.g, Keith A. Dotseth & Johanna J. Hillard, Sailing Uncharted Waters: Insurance Coverage for Intellectual Property Disputes Arising from the Internet, 28 WM. MITCHELL L. REV. 1125 (2002).


\(^{20}\) Fireman's Fund Ins. Co. of Wis. v. Bradley Corp., 660 N.W.2d 666, 674 (Wis. 2003); see also GAUNTLETT, supra note 14, § 1.03 (“Decisions over the last decade have reached mixed results, with courts often inappropriately focusing on the labels of causes of action and not looking at how liability will attach to the claims pled.”).
B. Judicial Tests To Determine Whether Coverage Has Been Triggered Under the Advertising Injury Clause.

In an effort to limit this inconsistent, a number of courts have adopted a "test" to determine if the advertising injury clause has been triggered by a particular claim. One example of a court adopting a test is seen in State Farm Fire and Casualty Co. v. Steinberg.21 The Steinberg court stated there is a need for a test because "courts have been called on to examine the applicability of advertising injury clauses in CGL policies to an ever-expanding array of underlying factual allegations and alleged torts based on them, even as the standard CGL policy language has undergone periodic revision by the Insurance Services Office ("ISO")." In order to provide a uniform analysis of an "ever-expanding array of underlying factual allegations," the Eleventh Circuit adopted the following three-part test for coverage actions based upon the typical CGL policy:

(1) the suit must have alleged a cognizable advertising injury;

(2) the infringing party must have engaged in advertising activity; and

(3) there must have been some causal connection between the advertising injury and the advertising activity.22

A number of state and federal courts have adopted a similar test while interpreting the advertising injury clause. Amazingly, courts have reached varying results using virtually the same three-part test.23 In applying this three part test in Steinberg, the Eleventh

22. Id. at 1232.
23. Additionally, this test has been applied by a number of other courts. See, e.g., Hyman v. Nationwide Mut. Fire Ins. Co., 304 F.3d 1179, 1187 n.7
Circuit required that "[t]he insured's claim . . . satisfy all three prongs of the test for the court to hold that the insured has a duty to defend and/or indemnify its insured."\textsuperscript{24} For example, the Eleventh Circuit found the insured in \textit{Steinberg} failed to meet the requirements of the three-part test while attempting to establish coverage under the advertising injury clause for an alleged misappropriation of confidential client information. While the \textit{Steinberg} decision was based upon a claim for coverage for the misappropriation of confidential client information rather than traditional intellectual property infringement, it offers insight on the mechanics behind this three-part test.\textsuperscript{25}

While providing an example of the mechanics of the three-party test, the \textit{Steinberg} decision also illustrates how litigants can read ambiguity into the advertising injury clause in order to establish insurance coverage despite a uniform analysis. Of course, it is well-settled that "[i]f the language in the insurance policy is clear and unambiguous, then it should be given its plain and ordinary meaning, but if the language is ambiguous, the insurance contract should be strictly construed against the insurance company."\textsuperscript{26} For example, in \textit{Steinberg}, despite the underlying claim being based upon the misappropriation of customer lists, the insured argued that the customer lists were akin to the misappropriation of trade secrets and, therefore, constituted a "misappropriation of advertising ideas or style of doing business" that would have triggered coverage under the advertising injury clause. After an extensive analysis of whether customer lists trigger coverage under the advertising injury clause\textsuperscript{27}, the Eleventh Circuit held "[a]

\begin{itemize}
\item \textsuperscript{24} \textit{Steinberg}, 393 F.3d at 1232.
\item \textsuperscript{25} The Eleventh Circuit ultimately rejected the insured’s position in \textit{Steinberg} that allegations of stealing customer lists constituted an "infringement of copyright, title or slogan" under the insured’s CGL policy. \textit{See id.}
\item \textsuperscript{26} \textit{See, e.g.}, Officer v. Chase Ins. Life & Annuity Co., 541 F.3d 713, 715 (7th Cir. 2008).
\item \textsuperscript{27} The Eleventh Circuit’s analysis was driven by the fact that "[a]mong federal appellate courts, only the Ninth Circuit has specifically addressed the applicability of the ‘misappropriation of advertising ideas or style of doing business’ clause in a CGL policy’s advertising injury coverage for a lawsuit alleging misappropriation of a customer list and other confidential information.”
\end{itemize}
confidential customer list is a trade secret, not an idea about advertising or an outward expression of a business’s style.”

Consequently, in finding that the misappropriation of customer lists was not an “infringement of copyright, title or slogan” or “a misappropriation of advertising ideas or style of doing business,” the Eleventh Circuit found “the Steinberg defendants fail the first prong of the three-part test . . . [and] we need not reach the second and third prongs.”

The Steinberg decision illustrates the ambiguity that may arise in the advertising injury clause under circumstances where the underlying claim does not involve the complexities seen in claims of patent, trademark or copyright infringement. The flaws with the three-part test become more prevalent when the underlying

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Steinberg, 393 F.3d at 1233. The Eleventh Circuit cited a Ninth Circuit case for the proposition that

the insurer had a duty to defend its insured under the “misappropriation of advertising ideas or style of doing business” clause where the underlying complaint alleged that the insured had induced a third party to breach a non-competition agreement with the underlying plaintiff company, to misappropriate its “trade secrets, including customer lists, marketing techniques, and other inside and confidential information” and, together with the insured, to solicit the underlying plaintiff's customers.

Id. (citing Sentex Sys., Inc. v. Hartford Accident & Indemnity Co., 93 F.3d 578, 581 (9th Cir. 1996). However, the same year it decided Sentex, moreover, the Ninth Circuit rejected a coverage claim under the “misappropriation of style of doing business” clause for a suit alleging theft of trade secrets that did not arise in the course of advertising activities. See Simply Fresh Fruit, Inc. v. Cont'l Ins. Co., 94 F.3d 1219 (9th Cir. 1996). While not on point, the Eleventh Circuit also cited to a Third District decision for its reasoning supporting its conclusion that "[t]he allegation that[the insured] engaged in unfair competition by misappropriating trade secrets relating to manufacture of a product line does not allege misappropriation of advertising ideas or styles of doing business as such." See Steinberg, 393 F.3d at 1234 (quoting Frog, Switch & Mfg. Co. v. Travelers Ins. Co., 193 F.3d 742, 748 (3d Cir. 1999)) (alterations in original).

28. Steinberg, 393 F. 3d at 1234. Additionally, the Steinberg court found the reasoning in Winklevoss Consultants, supporting the holding that trade secret misappropriation did not constitute "infringement of title," to be persuasive. Steinberg, 393 F.3d at 1232 (citing Winklevoss Consultants, Inc. v. Fed. Ins. Co. 991 F. Supp. 1024, 1040 (N.D. Ill. 1998)).

29. Steinberg, 393 F.3d at 1234.
allegations related to patent, trademark or copyright infringement. That is, insurance companies and owners of intellectual property have minimal guidance as courts have rendered inconsistent findings on each prong of the three-part test. The following will examine the conflicting results under each prong of the three-part test:

1. The First Prong Of The Three-Part Test: The Suit Must Have Alleged A Cognizable Advertising Injury.

This first prong of the three-part test requires the underlying pleading to contain allegations of an “advertising injury” as that term is defined in the policy at issue. “The touchstone for determining whether [an underlying] complaint has alleged an advertising injury is the enumerated offense in the insurance policy.”30 The latest generation of CGL Policies defined the term “advertising injury” as requiring at least one of the following “offenses:”

(a) 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; (b) Oral or written publication of material that violates a person’s right of privacy; (c) Misappropriation of advertising ideas or style of doing business; or (d) Infringement of copyright, title or slogan.31

The question as to whether an insured meets this first-prong typically hinges upon whether the underlying complaint contains allegations of an insured’s conduct that would constitute an “offense.” This question is left entirely to a court’s interpretation of the allegations in the underlying complaint and the offenses identified in the policy at issue. Understandably, this first prong has spawned a fair amount of controversy.

For example, in *Fireman's Fund Insurance Co. of Wisconsin v. Bradley Corp.*, the Wisconsin Supreme Court found the advertising injury clause was triggered based upon the “reasonable inference” that the underlying complaint had allegations that constituted an offence under the advertising injury clause. Specifically, the insurance policies at issue in *Bradley* defined the term “advertising injury” as “injury arising out of . . . infringement of trademark, copyright, title or slogan.” The insured in *Bradley* sought coverage based upon an underlying complaint devoid of the terms trademark, trade dress, copyright or patent. The *Bradley* Court opined “[i]t is not dispositive that the specific words ‘trademark’ and ‘trade dress’ are not included in the complaint or that neither the complaint nor Bradley identifies a single distinguishable, non functional feature of the [alleged infringing product] that could be the subject of a trade dress claim.” Under a cause of action entitled “Federal Unfair Competition,” the underlying plaintiff sought redress for an alleged violated section 43 of the Lanham Act. More precisely, the underlying plaintiff sought damages based upon allegations of “Bradley’s misappropriation of. . . Trade Secrets, technologies and designs relating to” the infringing product. The Wisconsin Supreme Court found the allegations, which were related to misappropriated “trade secrets, technologies and designs,” arguably constituted trade dress infringement, and, therefore, triggered coverage under the subject policy.

32. 660 N.W.2d 666 (Wis. 2003).
33. *Id.* at 674.
34. *See id.* at 677.
35. 15 U.S.C. § 1125 (2006). The Wisconsin Supreme Court analyzed the underlying claim:

Section 43 of the Lanham Act was designed to create a new federal remedy for the particular kind of unfair competition that results from false designation of origin or other false representation used in connection with the sale of a product. The key to finding a violation under § 43 "is a determination that the materials used by the defendant created a likelihood of confusion, deception or mistake on the part of the consuming public."

*See id.*
Finding coverage in Bradley required multiple steps in order to transform an unfair competition claim into a trade dress infringement claim. The advertising injury clause at issue in Bradley did not include “Federal Unfair Competition” as an offense. Nevertheless, the Bradley court found coverage had been triggered because the Lanham Act provides the statutory framework for both a cause of action for Federal Unfair Competition and trade dress infringement. Therefore, the Bradley court found coverage because unfair competition and trade dress infringement trace their origins back to the same statutory framework, the Lanham Act. Irrespective of whether the holding in Bradley was correct, there is no dispute that there is a certain level of uncertainty as to what the advertising injury clause would cover based upon the Wisconsin Supreme Court’s interpretation. For example, it is doubtful that an insurance broker would be able to confidently tell a client there is coverage under an advertising injury clause that provides coverage for trademark infringement used in an insured’s advertising for Federal Unfair Competition claim based upon the client’s advertising.

2. The Second Prong Of The Three-Part Test: The Infringing Party Must Have Engaged In An Advertising Activity.

The second-prong of the three-part test requires the insured engaged in “advertising activities. This second-prong focuses on the insured’s advertising with an examination of whether the alleged “advertising injury” was “committed in the course” of an insured’s advertisements or “advertising activities.” Remarkably, there is even a disagreement concerning whether the term “advertising” needs to appear in the underlying pleading in order to trigger coverage under the advertising injury clause. “For purposes of an ‘advertising injury’ coverage provided under commercial general liability and catastrophic liability policies, the specific mention of the word ‘advertising’ in pleadings in the underlying action is not indispensable to a finding that an insurer has a duty to defend.”36 It is overly optimistic to hope for clarity when courts have actually found ambiguity in the word

"advertising."

Unlike the term "advertising injury," most, if not all earlier CGL policies will not contain a definition for "advertising" or "advertising activity." Lacking any policy language, a number of courts rely on the ordinary meaning of "advertising" which can typically found in the dictionary. However, the Wisconsin Supreme Court in *Acuity v. Bagadia* examined whether Wisconsin courts should adopt the broad or narrow definition of "advertising." Simply, the inconsistent interpretations of the advertising injury clause are not surprising when courts are able to craft multiple definitions of the term "advertising."

Nevertheless, there was no dispute that the insured in *Acuity* met the first-prong of the three-prong test seen in *Steinberg*. UNIK, the insured in *Acuity*, was described as a vendor that sold computer software at discount prices, sought coverage for a judgment taken against it by Symantec Software in the United States District Court of Oregon. More precisely, the District Court granted Symantec’s motion for summary judgment holding the insured "among other actions, advertised, distributed, and sold Symantec’s copyrighted and trademarked products without authorization. Symantec also alleged that UNIK’s actions caused injury to Symantec, including consumer deception and confusion." The District Court found the insured’s placed Symantec trademarks and products in the insured’s advertising and unlawfully sent its customers Symantec’s products. Simply put, the District Court found the insured violated Symantec’s copyrights and trademarks.

*Acuity* filed a declaratory judgment action in Wisconsin to determine whether it had a duty to defend its insured against Symantec’s allegations. After the Wisconsin Supreme Court found the insurance policy at issue provided coverage for both copyright infringement and trademark infringement, the Court

37. Recently, CGL policies have started to define the term “advertising.” *See*, e.g., Kreuger Int’l v. Fed. Ins. Co., No. 07-C-0736, 2008 WL 4962669, at *2 (E.D. Wis. Nov. 19, 2008) (where the policy at issue defined “advertising” as “attracting the attention of others by any means for the purpose of seeking customers or increasing sales or business”).

38. *See* *Acuity* v. Bagadia, 750 N.W.2d 817, 827 (Wis. 2008).

39. *Id.* at 820.

40. *See id.*
addressed the dispute between the insured and insurer in Acuity regarding whether “advertising” should be narrowly or broadly defined. Specifically, the Acuity court, citing the Bradley decision, noted the two following definitions for “advertising”: “[t]he standard narrow definition is: ‘widespread announcement or distribution of promotional materials.’ The standard broad definition is: ‘any oral, written, or graphic statement made by the seller in any manner in connection with the solicitation of business.’” Adhering to the principle that ambiguous policy language should be construed in favor of coverage, the Acuity court adopted the broad definition of advertising.

Next, the Acuity court applied the broad definition of advertising to the allegations found in the underlying complaint. First, as to the copyright infringement allegations, the Acuity court found the insured “infringed Symantec’s copyrights by distributing sample disks containing Symantec’s copyrighted . . . software without Symantec’s authorization.” The Wisconsin Supreme Court found the insured’s copyright infringement involved “advertising activities” because supplying samples—which infringed upon Symantec copyrights—to potential buyers constituted advertising. Second, as to the trademark infringement allegations, the District Court of Oregon found the insured “distributed . . . disks containing computer software denoted by Symantec’s trademarked names and when it used Symantec’s trademarked names in print advertising.” The Acuity court found the insured’s conduct constituted advertising as “[t]he magazine advertisements contained in the record show Symantec’s trademarked name. [The insured’s] placing advertisements bearing Symantec’s trademark constitutes a ‘graphic statement made by the seller in any manner in connection with the solicitation of business.’”

The Seventh Circuit in Zurich Insurance Co. v. Amcor Sunclipse
North America, narrowed coverage under the advertising injury clause even further in finding that:

recent years have witnessed a surge of claims that one or another breach of contract or business tort that to a normal reader has nothing to do with advertising nonetheless should be classified as “advertising injury” [under the typical CGL policy]. Interpreting the law of all three states in [the Seventh Circuit], and of several others too, we have held that advertising-injury clauses should be given an ordinary-language reading, the one that parties likely supposed they were achieving when negotiation this language.47

The Amcor Sunclipse decision is premised upon the reasoning that “[a]dvertising is a subset of persuasion and refers to dissemination of prefabricated promotional material.”48 In further support of its determination, the Seventh Circuit held that decisions which have construed the advertising injury clause provide minimal authority in determine whether there is coverage for certain claims.

As seen from the above-cited decisions, there is great uncertainty over whether the term “advertising” should be broadly or narrowly interpreted. Once again, an insurance broker would not be advised to promise a client that a particular court would adopt the broad or narrow view of “advertising.” Simply, the current state of the law related to this second-prong fails to provide insurers or owners of valuable intellectual property rights with sufficient certainty.

3. The Third Prong Of The Three-Part Test: There Must Have


48. See id.
Been Some Causal Connection Between The Advertising Injury And The Advertising Activity

If the definitions of "advertising injury" and "advertising" can cause confusion then it should be no surprise that something as abstract as the "causal connection" between the insured's advertising and the alleged injury has produced inconsistent authority. The third-prong of the test hinges upon whether there is a causal nexus—that is, the connection between the allegations in the "offense" and the insured's advertising activities. Courts have disagreed as to how strong the "causal connection" must be in order to trigger coverage under the advertising injury clause.

Suffice it to say, there is a substantial body of law related to the causal connection requirement for the advertising injury clause. First, there is authority requiring a strong causal connection. The Sixth Circuit in Advance Watch Co. v. Kemper National Insurance Co. provides the seminal decision requiring a strong connection by holding that advertising injury clause cannot be triggered when there is nothing more than "some nexus between the ground of asserted liability and the insured's advertising activities." 49 The Advance Watch decision established the sufficiently strong causal nexus to preclude coverage under the advertising injury clause being triggered "whenever an advertised product or service is alleged to have caused harm, rendering the coverage applicable with respect to most claims against an insured business." 50

The reasoning that supports the requirement of a causal connection is clear and persuasive: "Taken to its extreme, [the argument that no causal relationship is necessary] would lead to the conclusion that any harmful act, if it were advertised in some way, would fall under the grant of coverage merely because it was advertised." 51

50. Id..
The strong causal nexus in the *Advance Watch* translates into a stringent requirement that the advertising directly cause the injury.

[I]t was not [the insured’s] advertising in itself which provoked [the suing plaintiff’s] claim; it was the fact that in each advertisement . . . there was [a product] deceptively similar in shape and appearance to [those of the suing plaintiff].

. . . [I]t is the shape and appearance [of the insured’s products that were] claimed to have caused injury. 52

Secondly, there is authority requiring a weaker causal connection: "*Advance Watch* has been sharply criticized for ignoring the real contours of intellectual property litigation, which often proceeds under a bewildering variety of different labels covering the same material facts." 53 One such requirement is seen in *R.C. Bigelow, Inc v. Liberty Mutual Insurance Co.*, decided in the Second Circuit. 54

The insured in *Bigelow*, a manufacturer/distributor of herbal teas, was accused of trade dress infringement, false advertising, unfair competition, and trade dress dilution, and for a cause of action arising under section 43(a) of the Lanham Act. 55 The trade dress claim was based upon allegations that "Bigelow introduced its herbal teas in new packaging with trade dress confusingly similar to that of [its competitors] boxes." 56 Bigelow sought coverage for these claims under the advertising injury clause of its CGL policy issued by Liberty Mutual. 57 Specifically, Bigelow asserted there was coverage because the alleged trade dress infringement constituted the offense for "[c]opying a person’s or

Supp. 77, 80 (N.D. Cal. 1989)) (alteration in original).

52. *Advance Watch*, 99 F.3d at 806-07.


55. *Id.* at 244.

56. *Id.*

57. See *id.*
organization's advertising ideas or advertising style” under the Liberty policy.\textsuperscript{58} Liberty took the position that the trade dress claims fell outside the advertising injury clause and declined coverage.\textsuperscript{59}

In finding the allegations triggered coverage under the CGL policy issued by Liberty, the Second Circuit in \textit{Bigelow} opined:

Decisions such as \textit{Advance Watch} appear to have considered the claim against the insured rather narrowly as limited to the initial act of copying the claimant’s trademark or trade dress, rather than more broadly as encompassing the continuing creation of consumer confusion by displaying the allegedly similar mark or dress in advertising. The continuing nature of trademark and trade dress torts has been widely recognized.\textsuperscript{60}

Consequently, the central issue in the \textit{Bigelow} decision was “where an advertising injury is alleged, the relevant causation issue with regard to insurance coverage is not whether ‘the injury could have taken place without the advertising,’ but ‘whether the advertising did in fact contribute materially to the injury.’”\textsuperscript{61} Using this standard, the \textit{Bigelow} court found Bigelow’s advertisements containing the allegedly infringing packaging “creat[ed] consumer confusion by the use of copied trade dress.”\textsuperscript{62}

Conversely, the Seventh Circuit in \textit{Western States Insurance Co. v. Wisconsin Wholesale Tire, Inc.} denied coverage under the advertising injury clause based upon a finding that there was no harm caused by the advertising at issue.\textsuperscript{63} The Seventh Circuit opined:

An “advertising injury” clause operates only when

\textsuperscript{58} \textit{Id.} at 245.
\textsuperscript{59} \textit{Id.}
\textsuperscript{60} \textit{See Bigelow,} 287 F.3d at 248.
\textsuperscript{61} \textit{See id.}
\textsuperscript{62} \textit{Id.} at 249.
\textsuperscript{63} \textit{W. States. Ins. Co. v. Wis. Wholesale Tire, Inc.,} 184 F. 3d 699, 703 (7th Cir. 1999).
there is something wrongful about the advertising ... Any other approach would lead a fairly narrow clause to coverage almost every injury connected with a business operation, a conclusion ... thought implausible. Citing and following cases from many other jurisdictions, Diversified Investments held that only when advertising is an independently tortious source of injury does the "advertising injury" clause supply coverage. 64

Acknowledging the hazard in allowing the advertising injury clause from being interpreted too broadly, a number of courts have required the advertising to not only be wrongful in and of itself, but also must cause the alleged loss. For example, in Tradesoft Technologies, Inc., the Superior Court of New Jersey held "in order to invoke the coverage of the policy, the advertising activities must cause the injury—not merely expose it." 65 Similarly, the Ninth Circuit in Microtec Research, Inc. v. Nationwide Mutual Insurance Co. held that allegations that would be considered to be related advertising would give rise to coverage under the advertising injury clause. 66 The insured in Microtech Research was sued for passing off computer software as though it had created the software. 67 The underlying complaint contained words “such as ‘marketing,’ ‘threatened that reputation,’ and ‘representing’ which seem, if taken in isolation, to suggest a claim for advertising injury. But read in context, they do not.” 68 Based upon this reasoning, the Ninth Circuit found there was no coverage for the allegations in the underlying complaint because “[t]he harm . . . is allegedly caused by the misappropriation of the [computer software], not by the advertising itself.” 69

64. Id. at 703 (citing Diversified Invs. Corp. v. Regent Ins. Co., 596 N.W.2d 502 (Wis. 1999)).
67. Id. at 970.
68. Id. at 971.
69. See id.
The "causal connection" requirement makes it nearly impossible for the owner of intellectual property rights or an insurance carrier to determine whether proper insurance coverage has been obtained without obtaining a judicial determination on the issue. The causal connection—regardless of whether a court requires a strong or weak connection—makes the CGL policy an impractical choice for an insured seeking to protect intellectual property rights. However, the advertising injury clause remains a near essential form of protection for any business that advertises.

C. Exclusions In CGL Coverage For Intellectual Property Claims

Recently, CGL policies have become more restrictive by expressly excluding claims related to insurance coverage. The issues presented by the "causal connection" will eventually become irrelevant, as more recent policies will include intellectual property exclusions. Nevertheless, the analysis of the causal connection is still important to the extent that some insurers are slower to adopt the language of ISO forms and claims will still be made under the earlier versions of CGL policies. Ultimately, claims for intellectual property under CGL coverage should become virtually non-existent. 70 The newer CGL policies have added intellectual property exclusions barring coverage under the following circumstances: 71

Intellectual property. We won't cover injury or damage that results from any actual or alleged infringement or violation of any of the following rights or laws:

- Copyright.
- Patents.


- Trade dress.
- Trade name.
- Trade secret.
- Trademark.
- Other intellectual property rights or laws.  

At present, there is scant authority concerning how courts will interpret and apply this exclusion.  In one of the more recent cases involving the intellectual property exclusion, *Kreuger International, Inc. v. Federal Insurance Co.*, the District Court for the Eastern District of Wisconsin did not have to address this exclusion because the court found the allegations in the underlying complaint did not trigger the advertising injury clause. Importantly, the intellectual property exclusion in *Kreuger* contains an exception for “advertising injury that results from unauthorized use of any copyrighted or trademarked advertising material, slogan, style, or title of others in your advertising.” Essentially, this exception creates coverage for copyrights and trademarks used in advertising. While the usage of copyrights and trademarks that will be covered is limited to use in advertising, this exception to the exclusion may provide the fuel for a litigant to argue the exception is ambiguous.

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72. The ISO exclusion in the 2001 coverage form bars coverage for:
   i. Infringement Of Copyright, Patent, Trademark Or Trade Secret
      “Personal and advertising injury” arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights.
      However, this exclusion does not apply to infringement, in your “advertisement” of copyright, trade dress or slogan.


74. See *Kreuger*, 2008 WL 4962669, at *12.

75. See id. at 3.
The decisions in Finn v. National Union Fire Insurance of Pittsburgh, a Massachusetts court recently held "the plain language of the intellectual property exclusion unambiguously precludes coverage." While the exclusion at issue in Finn was in a professional liability policy rather than a CGL policy, this decision is still instructive. The Finn court was called upon to construe an exclusion barring coverage for "any claim arising out of any misappropriation of trade secret." The Finn court further noted "[a] more difficult issue is whether the injury suffered . . . arose out of [a] misappropriation of . . . trade secrets." Specifically, the insured in Finn took the position that the alleged damages "(consisting primarily of foregone legal fees) are not the sort of damages normally sought in a misappropriation claim and consequently the requisite causal connection between the prohibited conduct and injury is lacking." While the Finn court opined "[the insured's] argument has some force, there is no indication in the record on appeal that [the insured would have allegedly caused] any loss in the absence of the [alleged] misappropriation." While the court held the claim arose out of the alleged misappropriation of trade secrets and was excluded from coverage, the insured's argument is indicative that there still may be a significant amount of litigation related to the intellectual property exclusion. The case law related to this exclusion is still undeveloped.

D. Uncertainty Related To The Advertising Injury Clause For Intellectual Property Claims.

The advertising injury clause has strayed into decisions related to intellectual property claims that have little or nothing to do with advertising. The following offers examples of the awkward fit between the advertising injury clause and the protection of intellectual property rights.

77. See id. at 1274.
78. Id. at 1279.
79. Id. at 1279.
80. Id.
1. Copyright Infringement

Copyright law protects literary works, musical works, dramatic works, pantomimes and choreographic works, pictorials, graphic and sculptural works, motion pictures and other audiovisual works, sound recordings and architectural works.\(^{81}\) It is entirely possible to have a viable copyright infringement claim without any advertising whatsoever. Therefore, it should be a rather simple analysis whether the advertising injury clause is triggered by a claim of copyright infringement. For instance, advertising injury coverage may be triggered where there are allegations of the use of a copyrighted work in the insured’s advertising. That is, there may be allegations that the advertisements caused the injury and the copyright infringement is nothing more than a supporting character. Unfortunately, it has not been that simple.

For example, commentators have described coverage for copyright infringement under the advertising injury clause in the following manner:

there are essentially two standards for coverage commonly appearing in CGL policies: one for copyright infringement in advertising and the other, older language for copyright infringement committed in the course of advertising. Almost all of the available case law focuses on the older language, but it seems that the newer language is, at least on its face, intended to be more restrictive. This change could adversely affect insureds seeking to establish a duty to defend—a requirement that the infringement be “in” the advertisement could make it harder to hinge defense costs on the “potential for coverage.”\(^{82}\)

Recent court decisions offer examples of court’s requiring more than mere allegations of copyright infringement to trigger coverage under the advertising injury clause. For example, the


\(^{82}\) 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHTS, § 19C.07[A] (2008).
Ninth Circuit in *UMG Recordings, Inc. v. American Home Assurance Co.* found no coverage under the advertising injury clause for allegations of copyright infringement involving the right to produce and market music recordings of a particular artist. The copyright infringement claim was based upon an announcement by the insured that the subject artists would have new music coming out in the future. The Ninth Circuit found coverage had not been triggered because the subject artist’s new music was not owned by the insured at the time. Therefore, “[b]ecause the allegation did not concern [the insured’s] good, there was no potential coverage under the ‘advertising injury’ clause of the policies.” The *UMG* decision illustrates the fact that litigants can find ambiguity in the most straightforward policy language when attempting to establish insurance coverage.

2. Trademark/Trade Dress Infringement

As mentioned above, trademark/trade dress infringement is admittedly intertwined with advertising more than copyright or patent infringement. The Lanham Act, which codifies common law trademark infringement, defines trademark as a “word, name, symbol, or device, or any combination thereof—(1) used by a person, or (2) which a person has a bona fide intention to use in commerce . . . to identify or distinguish his or her goods.” Therefore, advertising is essentially an element of trademark/trade dress infringement because it would be difficult to use a “word, name, symbol or device” “in commerce” to “distinguish his or her goods” without advertising. While trademark or trade dress infringement is not always included as an offense under the

84. *Id.*
85. *Id.*
86. *Id.*
88. “For insurance for trademark infringement cases to exist, there are certain basic requirements: (1) the offense must occur in the course of advertising (or, for the 1998 form, in an advertisement); (2) the offense must occur in the coverage territory; and (3) the offense must occur during the policy period.” *MCCARTHY, supra* note 8, § 33:6.
advertising injury clause, some courts have found coverage for trademark or trade dress infringement under the offense for "misappropriation of advertising ideas or style of doing business." Other courts have found trademark or trade dress infringement under the offense for infringement of title.

Without a question, an insured has the greatest chance of establishing insurance coverage under the advertising injury clause when the underlying lawsuit is based upon trademark/trade dress infringement. However, there are a significant number of decisions that have weighed the nuances of coverage for trademark/trade dress infringement differently. Therefore, obtaining CGL coverage is not an effective method to protect a business against allegations of trademark or trade dress infringement.

3. Patent Infringement Claims

It is well-settled that patent infringement will not typically trigger coverage under the advertising injury clause. The grant of a patent is based primarily upon functionality of object. There has been little opposition to the holding that "as a matter of law, patent infringement cannot occur in the course of an insured's advertising activities." Despite the body of law barring coverage for patent infringement claims being quite developed, the advertising injury clause has been found to be sufficiently ambiguous to allow the argument that patent infringement should


91. "A patent applicant is entitled to a patent only if their invention is new, adequately disclosed, useful, nonobvious, and fits within statutorily defined subject matter." See Sheldon W. Halpern et al., Fundamentals of United States Intellectual Property Law: Copyright, Patent and Trademark 186 (2d ed. 2006).

92. Simply Fresh Fruit, Inc. v. Cont'l Ins. Co., 94 F.3d 1219, 1222 (9th Cir. 1996); see also Heil Co. v. Hartford Accident & Indem. Co., 937 F. Supp. 1355, 1366 (E.D. Wis. 1996) ("[T]he gravamen of direct infringement of a patent is making, using, or selling a patented invention not advertising it.").
trigger coverage under CGL policies. Courts should reject insurer arguments against the coverage of patent infringement lawsuits. According to the Nebraska Supreme Court in *Union Insurance Co. v. Land & Sky, Inc.*, an insurer should defend patent infringement inducement when the insured's advertising is an element of the offense.

In a nutshell, it would not be recommended for a business to obtain CGL coverage with the intention of protecting itself from patent infringement claims.

### III. THE ONLY METHOD TO PROTECTING VALUABLE INTELLECTUAL PROPERTY: INSURANCE TAILORED FOR INTELLECTUAL PROPERTY CLAIMS

This article is in no way advocating that businesses consider foregoing CGL coverage. Of course, CGL coverage is essential to protect every business, large or small, regardless of its products or services. Without question, CGL coverage is the only method a business can be confident it is protected against claims constituting bodily injury, property damage or advertising and personal injury. In addition to coverage provided by CGL policies, a business that has extensive intellectual property assets should obtain coverage that will unambiguously protect intellectual property, irrespective of whether the claims for coverage are related to the insured's "advertising activities." That is, coverage under intellectual property policies are not conditioned upon the insured's competitor making allegations that sufficiently assert advertising in order for the insured to trigger coverage for infringement claims. More importantly, more recent versions of CGL policies expressly exclude claims related to intellectual property. A business that is not being distracted by questions related to insurance coverage can focus on innovation rather than litigation.

Recent steps taken by Microsoft illustrate the need to protect against risk while developing innovative products. Recognizing that innovation and litigation are unfortunately often intertwined,

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94. *Id.* at 24 (citing Union Ins. Co. v. Land & Sky, Inc., 529 N.W.2d 773, 778 (Neb. 1995)).
Microsoft has offered to "shield partner companies from exposure to legal costs and damage claims related to patent or other intellectual property disputes." Practically speaking, Microsoft's offer to indemnify its partners is equivalent to, and functions as insurance against infringement claims. Microsoft may be ahead of the curve by allowing its contractors to innovate rather than focusing on protecting the fruits of innovation.

There is no dispute that litigation related to intellectual property claims can be costly. Surveys conducted by the American Intellectual Property Law Association have found litigation costs for patent infringement suits can exceed $5 million, trademark infringement suits can exceed $1.5 million and copyright infringement suits can exceed $1.2 million. The Intellectual Property Insurance Services Corporation ("IPISC") reported that the American Intellectual Property Law Association bi-annual survey found the following litigation costs related to infringement actions:

97. The IPISC provides the following information related to these calculations:

[These calculations] are the mean (average) costs of litigation reported for patent, trademark and copyright infringement. These costs are based upon three categories of amounts at risk, and are presented as of two stages of a suit – through the discovery period and inclusive of discovery, motions, hearing and post-hearing. The costs consist of outside as well as local counsel, associates and paralegal services, travel and living expenses, fees and costs for court reporters, copies, couriers, exhibit preparation, analytical testing, expert witnesses, translators, surveys, jury advisors, and similar expenses. Awards and damages are not included in the results.

Id.
### Patent Infringement Litigation

<table>
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<tr>
<th>Amount At Risk</th>
<th>Less Than $1 Million</th>
<th>$1 Million to $25 Million</th>
<th>Greater Than $25 Million</th>
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<td>Approx. $3.3 Million</td>
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<td>All Costs</td>
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### Trademark Infringement Litigation

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### Copyright Infringement Litigation

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<td>$749,000</td>
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</table>

Recognizing litigation costs could take a toll on innovation and the development of technology that was intrinsically valuable, insurers began to issue "specialty policies for intellectual property disputes" in the mid-1990's. The market for specialty insurance coverage for intellectual property claims has been traced to two

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98. Id.
99. Id.
100. Id.
101. NIMMER, supra note 82, § 19C.10.
main factors: the ambiguity related to CGL coverage for intellectual property assets and growth in the number of potential consumers for intellectual property insurance.

First, based upon the conflicting body of law related to the advertising injury clause and recent exclusions for intellectual property claims, businesses have started to realize that CGL coverage may not be appropriate for all their needs. And, insurance carriers have been increasingly stepping in to fill this void of coverage for intellectual property assets. For example, the IPISC has made available certain coverage and a number of insurance companies have started to write coverage for intellectual property claims. Specifically, the IPISC has stated the purpose of intellectual property insurance is to “align the interest of the insured with the interests of the insurance carrier” by providing “the optimum outcome from litigation with minimal interruption to business and operations” with as little cost as possible.

Additionally, this recent development of insurance coverage for intellectual property is attributable to simple economics; that is, the market has recently grown larger for specialty policies for intellectual property. Unlike coverage under CGL policies that would arguably provides defense and indemnity for infringement against the insured, there are many insurance products developing covering more than a defense for infringement. Indeed, insurance policies for intellectual property claims is typically divided into three types of coverages: defense and indemnity; defense only; and offensive policy. Each type of coverage will be discussed in turn.

A. Multi-Peril Policy

The IPISC provides coverage forms for “Multi-Peril” policies covering intellectual property infringement that will reimburse the insured for certain losses identified as “loss of commercial advantage,” “business interruption” or “other liquidated

102. McCARTHY, supra note 8, § 33:20.
104. See McCARTHY, supra note 8, § 33:20 (“The second factor fostering the development of specialty products was an excess capacity in the insurance market place during the 1990s.”)
The purpose of this coverage is stated by the IPISC as: for "any company or individual with an insurable interest in their intellectual capital. The policy provides coverage for losses incurred as a result of an unsuccessful attempt to defend or enforce in an IP infringement suit." While Multi-Peril policies are routine in the insurance industry, Multi-Peril policies for intellectual property assets are a recent development. The IPISC released the Multi-Peril Intellectual Property Reimbursement Policy in early 2008. In fact, as of the time of writing this, there are no published decisions related to coverage under Multi-Peril policies for intellectual property.

Specifically, the Insuring Agreement of a Multi-Peril insurance policies provide for losses resulting from a LOSS OF INTELLECTUAL PROPERTY VALUE caused by specified "PERIL" directly caused by an ADVERSE HAPPENING. That is, to establish coverage the insured must show the alleged loss was from a specifically named peril. "By contrast, liability insurance policies insure something intangible, e.g., the risk of liability that the insured may be sued for injuries arising out of certain types of conduct. Liability policies do not insure against the happening of property damage or bodily injury per se but rather insure against the risk of the insured being held liable for such injuries." The Multi-Peril Policy provides an advantage over CGL coverage for intellectual property assets to the extent that coverage can be tailored to the specific needs of the insured.

First, the typical Multi-Peril policy defines "ADVERSE HAPPENING" as one of the following: a preliminary injunction; the "invalidation of a patent, trademark or copyright;" "loss of civil proceedings;" "unauthorized disclosure of trade secrets;"

105. See GAUNTLETT, supra note 14, § 20.04(C).
109. APPLEMAN, supra note 13, § 3.09[2][a].
"loss of an interference proceeding;" "wrongful termination, abandonment or suspension of performance of license;" "non-appealable finding of inequitable conduct or patent misuse;" or "loss of commercial advantage because of the use of the Hatch-Waxman Act." 110

Second, a Multi-Peril policy will only be triggered by what is referred to as a NAMED PERIL, which are defined to include the following:

1. BUSINESS INTERRUPTION shall mean the provable loss of business income directly caused by the ADVERSE HAPPENING. . .

***

2. LOSS OF COMMERCIAL ADVANTAGE shall mean the provable loss of business income directly caused by a non-appealable adverse holding or declaration of the ADVERSE HAPPENING. . . INVALIDATION of a PATENT, TRADEMARK or COPYRIGHT. . .

***

3. LOSS OF TRADE DRESS IDENTITY shall mean the provable loss of business income directly caused by the LOSS OF CIVIL PROCEEDING. . .

***

4. LOSS OF TRADE SECRET ADVANTAGE shall mean the provable loss of business income directly caused by the ADVERSE HAPPENING. . . UNAUTHORIZED DISCLOSURE of TRADE SECRETS. . .

***

110. Multi-Peril Policy, supra note 108, at II(a).
5. LOSS OF ONGOING ROYALTIES/LICENSE FEES shall mean provable loss of royalties being paid under a license of COVERED INTELLECTUAL PROPERTY...

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6. LOSS OF BENEFIT OF RESEARCH & DEVELOPMENT shall mean the loss of research and development investment resulting from: a. A PATENT being declared INVALID; or b. Loss of an INTERFERENCE PROCEEDING filed against a PATENT(s); c. A NON-APPEALABLE FINDING OF INEQUITABLE CONDUCT OR PATENT MISUSE vis-à-vis a PATENT; or, d. LOSS OF COMMERCIAL ADVANTAGE BECAUSE OF THE USE OF THE HATCH-WAXMAN ACT.

***

7. LOSS OF COVERED INTELLECTUAL PROPERTY PORTFOLIO VALUE shall be deemed to have occurred but only if directly caused by any one of the following ADVERSE HAPPENINGS: a. INVALIDATION OF A PATENT, TRADEMARK, OR COPYRIGHT. . .b. LOSS OF INTERFERENCE PROCEEDING. . .c. NON-APPEALABLE FINDING OF INEQUITABLE CONDUCT OR PATENT MISUSE. . .

8. COST OF REDESIGN, REMEDIATION AND REPARATION shall mean the actual cost of redesigning, retooling or disposal of INFRINGING MANUFACTURED PRODUCT(S) MARKS AND WORKS; shipping and restocking with NON INFRINGING MANUFACTURED PRODUCT(S), MARKS, AND WORKS; renaming
and/or redecorating of business premises; and rebuilding the goodwill of distributors, retailers and customers which above activities are directly necessitated and caused by: a. INVALIDATION of a PATENT, TRADEMARK OR COPYRIGHT. . .b. LOSS OF CIVIL PROCEEDING(S). . .c. LOSS OF AN INTERFERENCE PROCEEDING. . .or d. NON-APPEALABLE FINDING OF INEQUITABLE CONDUCT OR PATENT MISUSE. . .

There is virtually no authority interpreting the policy language or the mechanics of Multi-Peril insurance for intellectual property claims. As a general matter, courts have described multi-peril policies as those that “an insurer specifies the perils it will cover and the policyholder bears the risk of any unknown or unforeseen cause of damage.”\textsuperscript{111} The limited number of decisions concerning this insurance coverage may be attributable to the fact that there is little room for interpretation of the policy language,\textsuperscript{112} a reluctance by insurance carriers to write this coverage, a reluctance of policyholders to purchase this coverage or a combination of all three.\textsuperscript{113}


\textsuperscript{112} It is a well-settled principle in insurance law that [a] provision in an insurance policy is ambiguous if it is subject to more than one reasonable interpretation. Nonetheless, courts will not create an ambiguity where none exists; if a provision is clear and unambiguous there is no need for construction and the provisions will be applied as written. In determining whether an ambiguity exists, the provision in question must be read in its factual context, not in isolation. All the provisions of the insurance contract, rather than an isolated part, should be read together to interpret it and to determine whether an ambiguity exists. \textit{See Transamerica Ins. Co. v. South, 975 F.2d 321, 327 (7th Cir. 1992) (citations omitted).}

\textsuperscript{113} Multi-Peril coverage is analyzed to a great extent for property damage. For example, the Fifth Circuit has been called upon to determine
B. Abatement Policy

A market has developed for insurance designed to reimburse the insured for expenses arising from the enforcement of intellectual property rights. This coverage is commonly referred to as "pursuit coverage" because it "is designed to cover the costs of pursuing plaintiff-side actions." 114 "Intellectual Property Infringement Abatement Insurance" provides coverage for "[c]laims for reimbursement that are first made by the Named Insured to the Company during the Policy Period for Litigation Expense for Authorized Litigation." 115 The Insuring Agreement of this claims-made policy provides the insurer will indemnify the insured for certain expenses related to litigation brought by the insured for the "INFRINGEMENT, or the manufacture, use, sale, offer for sale by a person other than the Named Insured or a licensee of the process, machine, manufacture, or composition of matter or articles." 116 This "enforcement" coverage is limited to the infringement of the Named Insured's patents, trademarks or copyrights that the Named Insured "represents to the best of its knowledge and belief were legally and/or are being legally procured and as to which the Named Insured warrants it has no knowledge of any facts or circumstances adversely affecting their validity." 117 Under this coverage the Named Insured will have coverage for all "AUTHORIZED LITIGATION" or as that term is defined, coverage for "A Civil Proceeding ... before an Arbitration Panel or in a United States Federal District Court or United States appellate court alleging INFRINGEMENT of the INSURED INTELLECTUAL PROPERTY by one or more parties." 118 The process to obtain authorization typically can be closely scrutinized

whether Hurricane Katrina triggered an insurance policy providing coverage for a "windstorm." Broussard v. State Farm Fire & Cas. Co., 523 F. 3d 618, 625-26 (5th Cir. 2008).

114. Nimmer, supra note 82, § 19C.10[A].
116. See id. at § I(a)(2).
117. See id. at § II(B), definition of "Insured Intellectual Property."
118. See id. at § II(G), definition of "Authorized Litigation."
by insurers\textsuperscript{119} "and almost always requires an opinion letter from counsel, often pre-approved by the insurer."\textsuperscript{120}

The Abatement policy has a unique Condition requiring the allocation between the insurer and the insured of any monetary damages received by the insured. This allocation would be made of any amounts constituting "ECONOMIC BENEFIT" as defined in the policy. Economic Benefit is defined as:

\begin{quote}
[t]he greater of the cash value, the present value, or the fair market value of all consideration received in satisfaction of a judgment, settlement, or compromise of AUTHORIZED LITIGATION including but not limited to securities, property (real, personal, tangible, or intangible), and all other property, or legal or financial rights of whatever nature including but not limited to those which may result in the potential for increased market share. Where a value cannot be objectively measured, ECONOMIC BENEFIT shall be presumed to be 1.25 times the Company's total indemnification payments with respect to the AUTHORIZED LITIGATION.\textsuperscript{121}
\end{quote}

Typically, insurance policies are not offensive in nature and therefore do not have provisions that permit the insurer and the insured split amounts recovered in litigation. The Abatement Policy potentially indemnifies the insured for the prosecution

\textsuperscript{119} To meet this condition and insured is expected to submit: a comprehensive overview of the claim, discussion of the discovery and history of the infringement, projection of costs of the infringement over the remaining life of the property, evaluation of the prospects for success, comparison of the respective property of the insured and the alleged infringer, proposed court and counsel, litigation budget, and an opinion letter from independent patent counsel.

\textsuperscript{120} \textit{Nimmer}, \textit{supra} note 82, § 19C.10[A][1].

\textsuperscript{121} See IP Abatement Policy, \textit{supra} note 115, § II(K), definition of "Economic Benefit."

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against an infringing party. Consequently, the Abatement policy provides that any time the Named Insured receives an ECONOMIC BENEFIT that "such recovery shall be shared between the Company and the Named Insured pro rata in proportion to their respective contributions to" the prosecution of the infringement claim.\textsuperscript{122} From a practical standpoint, commentators have stated that while the Economic Benefit condition makes coverage affordable,\textsuperscript{123} this condition may "act as an incentive for insurers to the extent that they must authorize actions, to only allow the most promising cases go to trial."\textsuperscript{124} The Abatement policy further provides that any ECONOMIC BENEFIT received by the Company shall be used to "reinstate" the Policy Limits used to prosecute the infringement action.\textsuperscript{125}

The IPISC states the advantages for abatement insurance include:

- To strengthen the owners negotiation position and licensability of intellectual properties;

- To provide enough funds to support a strong legal front, thereby increasing the likelihood of a favorable outcome;

- To make funds available when necessary, rather than utilize operating capital or attempt financing; [and]

- To limit the risk of unsuccessful litigation

\textsuperscript{122} See id. at § III(D).
\textsuperscript{123} The IPISC provides the following cost estimations for this coverage: "Premiums are calculated based on the number of insured IP and their relative risk. One patent, of average risk, at $1 million in limits, is approximately $7000 - $9000 annual premium. Our average Abatement policy, regardless of limits and number of IP, is about $13,000." Intellectual Property Insurance Services: IP Abatement Insurance, http://www.ipisc.com/products/insurance-policies/abatement (last visited Jan. 14, 2009).
\textsuperscript{124} NIMMER, supra note 82, § 19C.10[A][1].
\textsuperscript{125} See IP Abatement Policy, supra note 115, § III(D)(5).
through more informed decision-making.126

There is scant law addressing the parameters of coverage under Abatement policies. Indeed, there are no significant decisions related to Abatement policies in state or federal courts. The decision in In re Cleveland v. Department of Insurance of the State of New York,127 provides one of the few examples of a published decision even remotely concerning an Abatement policy. The decision in Cleveland sheds light on the difficulties in obtaining this coverage rather than providing any guidance whatsoever concerning coverage under Abatement policies. The appellate court reviewed a decision by the Department of Insurance of the State of New York that Cleveland, an excess-lines insurance broker, did not have the authority to place a patent infringement insurance policy in New York.128

The appellate court’s decision in Cleveland was based upon its finding that, first, Cleveland did not have the proper licensing to issue claims-made coverage. Secondly, the appellate court found a patent infringement insurance policy was obtainable under New York law. In finding this type of coverage was impermissible under New York law, the Appellate Court opined:

In an attempt to force the subject policy into the definition of “burglary and theft insurance,” petitioner urges that infringement of a patent is a form of conversion. Whether this is true or not, it ignores the part of that definition which limits burglary and theft insurance to policies that insure against “loss of or damage to” the property insured. Respondents correctly note that even if a patent, or the rights it confers upon its owner, could be considered to be lost or damaged when infringed upon, the policy in question does not provide the indemnification for damages occasioned by the loss

128. See id. at 620-21.
of these rights, or for the loss of profits that may result. Rather than indemnifying for the loss of property, the policy simply provides for payment of litigation expenses arising out of certain litigation commenced by the named insured. As it was not unreasonable for the Superintendent to conclude that the insurance was not authorized by [New York law], this aspect of the Superintendent’s determination is upheld.\textsuperscript{129}

\subsection*{C. Defense Coverage For Intellectual Property}

Defense policies provide reimbursement for litigation expenses and damages for which the insured is liable and has paid to a third party arising out of covered litigation.”\textsuperscript{130} “A standard coverage grant in a defense policy reads: ‘We will pay those sums that the insured becomes legally obligated to pay as ‘damages’ because of ‘intellectual property’ liability’”\textsuperscript{131} The IPISC summarizes this coverage as insurance that “provides the funds to fight the legal battle when [an insured] is accused of IP infringement.”\textsuperscript{132} Specifically, the IPISC states intellectual property defense coverage may provide the following benefits: provides resources to defend infringement actions against insured; demonstrates “Insured’s ability to financially protect their business practices;” and offers protection to shareholders.\textsuperscript{133}

The intellectual property defense policy provides coverage for infringement claims against the insured. Essentially, defense policies unequivocally provide coverage for claims regardless of the insured’s advertising activities. Consequently, this coverage is better suited for intellectual property assets than the coverage

\begin{itemize}
\item \textsuperscript{129} See id. at 621-22.
\item \textsuperscript{130} Janik, supra note 6, at 199.
\item \textsuperscript{131} MCCARTHY, supra note 8, § 33:21.
\end{itemize}
provided by the advertising injury clause because there is no advertising requirement to trigger coverage.

Unlike the underwriting process for CGL coverage, the underwriting process for defense policies involves an analysis of the exact intellectual property asset in which coverage is to be obtained. From that point forward, premiums for this claims-made coverage reflect the risk associated with the product based upon the prevalence of the product in the marketplace. The IPISC estimates the premium for “[o]ne product/function, of average risk at $1 million in limits, is approximately $12,000 [to] $16,000, depending on inclusion of damages in the coverage.” Therefore, an insured can specifically list its particular trade dress that it seeks coverage and, there will be coverage should that insured ever be sued for infringement. It would be unnecessary to demonstrate the insured’s advertisements used the trade dress in a manner that would trigger coverage under the advertising injury clause.

IV. CONCLUSION

Businesses have obtained insurance coverage for bodily injury, property damage and personal and advertising injury through CGL policies for decades. CGL coverage functions best as general liability coverage and therefore, is essential for the general needs of virtually every business. Importantly, this article is not advocating that every business needs intellectual property. Rather, it is only important that a business with significant intellectual property assets compliment its general liability coverage with intellectual property coverage. Intellectual property insurance is a necessity as present-day CGL policies are including express exclusions barring coverage for intellectual property. Additionally, a business should not risk having to establish the causal nexus between its advertising and assertions of infringement while simultaneously defending itself against the

135. See id.
136. See id.
assertions of infringement. Rather, the market for intellectual property insurance has developed to allow a business to focus on innovation rather than wasting resources protecting its innovation.