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OC RIMS PRESENTATION

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- But Must Consider a Commercial Umbrella Policy with ISO-based form
- Reputable Insurers Providing Broad Coverage with standard ISO:
  - ACE Group (www.aceusa.com)
  - Admiral Insurance Co. (www.admiralins.com)
  - CNA Financial Corp. (www.cna.com)
  - First Mercury Insurance Co. (www.firstmercury.com)
  - Golden Eagle Insurance (www.goldeneagle-ins.com)
  - Great Am. Ins. Group (www.gamcustom.com)
  - Liberty Mutual Group (www.libertymutualgroup.com)
  - Mid-Continent Group (www.mcg-ins.com)
  - OneBeacon Insurance (www.onebeacon.com)
  - Zurich North America (www.zurichna.com)

B. Preferred ISO Policy Language

- **2007 ISO CGL Policy** Form CG 00 01 12 07

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, including consequential "bodily injury," arising out of one or more of the following offenses:

. . . .

b. Malicious prosecution;

. . . .

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. Infringement of copyright trade dress or slogan in your "advertisement"

C. Non-ISO Policies to Avoid

- **Chubb** (Coverage B limited to "D. electronic, oral, written or other publication of material that: 1. libels or slanders a person or organization which does not include disparagement of goods, products or services.")

> **Advertising injury** or **personal injury** arising out of, giving rise to or in any way related to any actual or alleged:
>
> assertion; or infringement or violation . . . of any intellectual property law or right
>
> This exclusion applies, unless injury . . . does not arise out of, give rise to or in any way relate to any actual or alleged assertion, infringement or violation of any **intellectual property law or right . . .**

- IP Exclusion
  - Two versions held invalid because illusory:
    - ***Aurafin-OroAmerica, LLC v. Federal Ins. Co.***, 188 Fed. Appx. 565, 567 (9th Cir. (Cal.) 2006) ("Because patent misuse is not a true intellectual property claim, it does not fall within the policy's intellectual property exclusion. . . . It is unclear what the exclusion meant when it excluded statements made in 'defense of' intellectual property rights.")
    - ***Align Tech., Inc. v. Federal Ins. Co.***, 673 F. Supp. 2d 957, 969 (N.D. Cal. 2009) ("Federal's language does not put an insured reasonably on notice that Federal will not cover claims in a lawsuit whenever that lawsuit also includes a claim for intellectual property. Thus, the 'regardless' clause does not conclusively eliminate coverage for all of the claims in the Cross-Complaint.")

- **Hartford** ("f. copying, in your 'advertisement,' a person's or organization's 'advertising idea' or style of 'advertisement' ")
    - ***Hartford Cas. Ins. Co. v. EEE Business***, No. C 09-01888 JSW, 2009 WL 3809817 (N.D. Cal. Nov. 10, 2009) **(No)** (No infringement of copyright in your "advertisement" where " '[a]dvertisement means the widespread public dissemination of information or images that has the purpose of inducing the sale of goods, products or services through: … **b.** The Internet … **c.** Any other publication that is given widespread public distribution. . . . Here, the EEE Defendants' alleged copyright infringement did not have any causal relationship with its . . . 'advertising injury.' . . . [T]he judgment . . . concern merely the fact that the EEE Defendants infringed Microsoft's software copyrights by importing and selling the software in the United States when it was only licensed for sale abroad and to educational institutions.").

- **Travelers** – Web Xtend Liability (CG D2 34 01 05) eliminates coverage for "f. the use of another's advertising idea in your 'advertisement' " and "g. infringement of . . . trade dress in your 'advertisement.' "

  - ***Michael Taylor Designs, Inc. v. Travelers Property Casualty Company of America***, ___ F. Supp. ___, 2011 WL 221658, at *7, n.9 (N.D. Cal. Jan. 20, 2011) **(Yes)** ("The apparent practice of providing policy holders with pages and pages of provisions that may or may not be in force, depending on what endorsements apply, is not to be commended. Given current technology, there would appear to be little practical impediment to preparing customized policy documents for each policy holder that either omit deleted verbiage entirely or plainly identify it as having been removed by endorsement.)

  - ***Premier Pet Products, LLC v. Travelers Property & Cas. Co. of America***, 678 F. Supp. 2d 409, 417 (E.D. (Va.) 2010) **(No)** (""An 'endorsement is not a complete contract in itself.' *Id.* Certainly a five-page endorsement that purports to change sections of the original sixteen-page policy cannot be read to replace entirely the underlying policy. The Court will consider, to the extent necessary, the entirety of the contract before it.").

- **St. Paul** – New limited definitions.
  - "Unauthorized use of any advertising material, or any slogan or title of others in your advertising";
  - "Slogan" means 'a phrase that others use and intend to attract attention in their advertising;
  - "Title" means "a name of a literary or artistic work."
- IP Exclusion (2002): "Nor will we cover any injury or damage or medical expenses alleged in a claim or suit that also alleges any such infringement or violation."
  - Not "conspicuous, plain and clear."
  - Exclusion may only limit indemnity by resolving the issue of how to allocate damages in a "mixed action" of covered and uncovered claims.
    - ***Lockwood Int'l, B.V. v. Volm Bag Co.***, 273 F.3d 741, 743 (7th Cir. (Wis.) 2001) ("[I]ts duty of indemnifying Volm for any damages that it was determined through judgment or settlement to owe Lockwood would have been limited to so much of the judgment or settlement as was fairly allocable to the claims in Lockwood's suit that were covered by the policy.")

D. Media Liability Vendors

ACE (www.ACEusa.com)
AIG netAdvantage (www.AIG.com)
Chubb (www.Chubb.com)
Media Pro (www.MediaProf.com)
OneBeacon (www.OneBeacon.com)
NetSecure (Marsh) (www.Marsh.com)

E. Cyberspace/Multimedia Policies/Representative Policy Form

- AIG NetAdvantage Liability Internet & Network Liability Ins., Policy Form - 78082 (6/01), www.aig.com:

  I. INSURING AGREEMENT

  We shall pay on **your** behalf those amounts . . . **you** are legally obligated to pay, including **content-based liability** . . . **as damages**, resulting from any **claim(s)** made against you from your **wrongful act(s)** in the display of **internet media** . . .

  U. **Wrongful Act(s)** means any actual or alleged breach of duty, neglect, act error, misstatement, misleading statement, omission that results in: . . .

  (2) an infringement of copyright, domain name, title, slogan, trademark, trade name, trade dress, mark or service name, or any form of improper deep linking or framing; plagiarism, piracy or misappropriation of ideas under implied contract or other misappropriation of property rights, ideas or information . . . .

III. BASIC THEORY OF "PERSONAL AND ADVERTISING INJURY" COVERAGE

A. 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."

B. Applying the Three-Part Test

1. The "Offense" Element

- "Misappropriation of Advertising Ideas" (1986 ISO)
- "Use of Another's Advertising in Your 'Advertisement'" (1998/2001/2003/2007 ISO)
- "Infringing Upon Another's Copyright, Trade Dress or Slogan In Your 'Advertisement'" (1998/2001/2003/2007 ISO)

2. The Advertising Element

- **Narrow:** "widespread distribution of promotional materials usually directed to the public at large"
- **Intermediate:** "notice that is broadcast or published to the general public or specific market segments for the purpose of attracting customers or supporters"
- **Broad:** "any activities designed to advertise, publicize or promote a particular good, product or service"

3. The Causal Nexus Element

- Causal Nexus between "offense" and "advertising activity," not "injury" and "advertising activities."
- Injury need only "arise out of" (be connected with) an "advertising injury" offense evidencing a causal relationship, but not one of proximate causation.
- The trigger of coverage is based on whether the "wrongful acts" alleged or available to the insurer potentially fall within an enumerated "advertising injury" offense not whether the insured's advertisement caused injury or damage.

IV. SUMMARY OF COMMERCIAL GENERAL LIABILITY COVERAGE OPPORTUNITIES FOR DISCRETE CLAIMS

- **Antitrust "Price Fixing" Violations/Antitrust Plus (False Advertising)**. Public pronouncements of reasons for price increases based on market-driven realities or legal defenses to such claims. Often conjoined with claims for unfair competition or tortious interference ("personal injury" [discrimination (some umbrella)]; disparagement; defamation; malicious prosecution. (**1986/1998/2001/2004/2007 CGL ISO)**

- **Patent Infringement** (**Business Method**) where the 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**).

- **Copyright Infringement** accompanied by Internet dissemination or widespread emails ("infringement in your 'advertisement,' " "invasion of a person's right to privacy").

- **False Advertising Claims** nested within various statutory claims, including fraud allegations ("misappropriation of advertising ideas" **1986 ISO CGL)** "use of another's advertising idea in your 'advertisement' " **1998/2001/2004/2007 ISO CGL)**.

- **False Patent Marking Claims** – "use of another's advertising idea in your 'advertisement'" or "infringement of title in your 'advertisement'" **1976/1986 ISO CGL** or **Travelers' WebXtend Endorsement (2002)** based on advertising a patented product whose patent expired.

- **Malicious Prosecution/Abuse of Process** by construction (California); by endorsement. Some umbrella policies may cover Rule 11 sanction motions. Trigger of coverage is the date underlying suit filed by its maliciously prosecuted. **(1986/1998/2001/2004/2007 CGL)**

- **Patent Infringement/ Patent Infringement Plus**. Defendants assert "freedom to operate" based on attacking the patent validity or their non-infringement of the asserted patents, which assertions are "published to a targeted market segment" or the "public." **(1986/1998/2001/2004/2007 CGL ISO)** Patent infringement conjoined with potentially covered tortious interference, false advertising, trademark infringement or unfair competition in response to a patent infringement claim. Beware of **St. Paul (2002) IP exclusion** "nor will we cover any injury or damage . . . alleged in a claim or suit that also alleges any such infringement or violation."

- **TCPA Violations** based on fax-blasting or unsolicited email advertisements ("invasion of a person's right of privacy").

- **Trademark Infringement/ Slogan Infringement**. Although not articulated as a discrete cause of action, fact allegations in trademark infringement, and unfair competition lawsuits resting on "an attention-getting statement or device" may be an "infringement of slogan in your 'advertisement.' " **(1998/2001/2004/2007 ISO CGL)** Where a moniker, statement or device is used to promote products or services which are likewise used by the claimant ("infringement of title") (**1986 ISO CGL or Travelers WebXtend Endosrement**).

- **Trade Secret Misappropriation** where proprietary information was made public in a manner harmful to claimant ("invasion of a person's right of privacy" **1976/1986 ISO CGL)** or distribution of proprietary information was accomplished by dissemination of material, "use of another's advertising idea in your 'advertisement'" via "publication to . . . a targeted market segment" or "the public."

- **Unfair Competition Claims/Unfair Competition Plus**. **1976/1986 ISO CGL** or "oral or written publication" of **Travelers' Web Xtend Endorsement (2002)** "infringement of title." The same mark that underlies claims for trademark infringement underlies unfair competition misappropriation of "advertising ideas" **(1986 ISO CGL)**; "Use of another's advertising idea in your 'advertisement'" **(1998/2001/2004/2007 ISO CGL)**

- **Wage and Hour Claims**. Dissemination of false information concerning wage and hour policies. **D&O/EPLI Coverage** for "employment-related misappropriation of claims" fell outside of FLSA exclusion for "wage & hour" as California Labor Code provisions were broader. Libel or slander related to an employment relationship or in some EPLI policies "any invasion of privacy."

V. SAMPLES OF POTENTIALLY COVERED IP LAWSUITS

1. Patent Plus

Some patent lawsuits may still trigger coverage. Wrongful acts should predate 2001 when ISO adopted its first IP exclusion. Patent must describe an "advertising technique" or "advertising methodology."

- ***E.piphany, Inc. v. St. Paul Fire & Marine Ins. Co.***, 590 F. Supp. 2d 1244 (N.D. Cal. (San Jose Div.) 2008) **(Yes)** (Claiming that product is the only marketing software that is all Java disparages competitor Sigma's software which does not possess those features)
- ***Molecular Bioproducts, Inc. v. St. Paul Mercury Ins. Co.***, No. 03-0046-IEG(LSP), 2003 WL 23198852, at *1 (S.D. Cal. July 9, 2003) **(No)** (" '[A]lleged in a claim' language was 'clear and explicit and ..., therefore, dispositive' because the counterclaims asserted against Molecular included claims for declaratory judgment of patent invalidity, i.e. of obtaining a patent in violation of the patent laws. *Id*. at *5.")

2. Trademark Plus

Where trademark infringement lawsuits are conjoined with lawsuits for unfair competition, IP exclusions may not bar a defense.

- ***Corporate Risk Int'l, Inc. v. Assicurazioni Generali, S.p.A.***, No. 95-1440-A, 1996 U.S. Dist. LEXIS 19720, at *8-9 (E.D. Va. Mar. 15, 1996) **(Yes)** ("[T]he complained of conduct goes beyond trade or service mark infringement. . . . [A]t paragraph thirty, the complaint asserted that CRI's advertising activity was 'in direct contravention of Plaintiffs' CONTROL RISKS MARKS and other proprietary rights. . . .").
- ***Marvin J. Perry, Inc. v. Hartford Cas. Ins. Co.***, 615 F. Supp. 2d 432, 438-39 (D. Md. 2009) **(No)** ("The independent unlawful conduct that caused P & W's business injury . . . is based upon MJP's use of its trade name, trademark, logo, and website to . . . connote its furniture business with the federal government. . . . In short, but for the alleged trademark violation, there would be no unfair competition claim.").

3. Slogan Infringement

The policy excludes coverage for any "advertising injury arising out of: Infringement of Trademark . . . other than . . . slogan . . . ."

- ***CGS Industries, Inc. v. Charter Oak Fire Ins. Co.***, __F.Supp.2d__, No. 10-CV-3186, 2010 WL 4720320 (E.D.N.Y., November 16, 2010) **(Yes)** ("Here, by contrast, [*Hugo Boss'*] relevant policy language is 'infringement of ... title, or slogan.' . . . The marks include symbols and styles that, according to the Five Four Complaint, help 'embody the spirit of modem culture.' ").

- ***Hugo Boss Fashions, Inc. v. Federal Ins. Co.***, 252 F.3d 608, 619619 (2nd Cir. (N.Y.) 2001 **(No)** ("[A] 'slogan' must be something, *other than the house mark or product mark itself,* that provides such a reminder. . . . [Boss does not qualify, as] a slogan can only function as a separate trademark if it creates a separate impression from the house mark.").

4. Copyright Infringement In Your "Advertisement"

- ***Acuity v. Bagadia***, 750 N.W.2d 817, 829 (Wis. 2008) **(Yes)** ("UNIK's activity in accepting sample orders from existing customers and then sending those customers samples in unmarked sleeves comports with the broad definition of advertising we adhere to in this context.").

- ***Kreuger Int'l, Inc. v. Federal Ins. Co.***, 647 F. Supp. 2d 1024, 1032, 1033-34 (E.D. Wis. 2009) **(No)** ("Unauthorized taking or use of any advertising idea, material, slogan, style or title of others [was not implicated] . . . . S & P's allegation that KI displayed the CAMPUS furniture in its showroom without authorization . . . is not alleged as part of a claim that KI somehow misappropriated S & P's advertising materials. . . . It is not the product *per se* that is the advertising . . . . Instead, advertising is communication *about* a product, and as such it cannot logically be the product *itself.*").

5. False Advertising

"Misappropriation of 'Advertising Ideas' "

- ***American Simmental Ass'n v. Coregis Ins. Co.***, 282 F.3d 582, 587 (8th Cir. (Neb.) 2002) **(Yes)** ("The plain and ordinary meaning of 'advertising idea' generally encompasses 'an idea for calling public attention to a product or business, especially by proclaiming desirable qualities so as to increase sales or patronage.' . . . Blue Dane used the term 'fullblood' to call attention to its Simmental cattle, and all parties agree that 'fullblood' was a desirable quality in Simmental cattle.").

- ***Clarcor, Inc. v. Columbia Cas. Co.***, No. 3:10-00336, 2010 WL 5211607 (M.D. Tenn. Dec. 16, 2010) **(No)** ("An 'Advertising idea' has been defined as 'an idea for advertising that is "novel and new," and "definite and concrete," such that it is capable of being identified as having been created by one party and stolen or appropriated by another.' . . . . 3M did not allege a trademark in its color scheme and its rating system nor that its color scheme coupled with its rating system, were wrongfully taken. . . . The gravamen of 3M's complaint was that Clarcor's color scheme and rating system reinforces Clarcor's false statements on its packaging . . . and testing of both brands by independent laboratories conclusively proved that Clarcor's Purolator's filters are not superior to 3M's. . . . 3M's action did not involve an 'advertising idea.' ").

"Use of another's advertising idea in your 'advertisement' " committed in the course of advertising your goods, products or services.

- ***General Cas Co. of Wis. v. Wozniak Travel, Inc.***, 762 N.W.2d 572, 580 (Minn. 2009) **(Yes)** ("Tolkien used the word 'hobbit,' its corresponding characters, and travel as an idea to promote the various mediums of its novels to the public, actions that fall within the scope of 'advertising idea.' . . . Hobbit Travel used the word 'hobbit' in its domain name and on its website to attract the national public's attention to its travel agency, and capitalize on the goodwill surrounding the Tolkien works.").

- ***Trailer Bridge, Inc. v. Illinois National Insurance Company***, No. 3:09-cv-1135-J-20MCR, 2010 WL 2927424, at *5 (M.D. Fla. July 22, 2010) **(No)** ("Put another way, '[a]n advertising idea is a concept about the manner a product is promoted to the public.' . . . It is merely asserted that Trailer Bridge made misleading statements about the reasons for increased prices, specifically, representing 'that customer decisions were driven by "[p]rice in an all-inclusive sense, which starts with the freight rate." ' . . . No effort was made to differentiate or promote any aspect of Trailer Bridge's products or services. . . . Regardless of whether the statement lulled customers into believing rates were controlled by the free market, its purpose does not appear related to promoting Trailer Bridge's product.").

6. Business Method Patent Infringement

- ***Hyundai Motor Am. v. National Union Fire Ins. Co. of Pittsburgh, PA***, 600 F.3d 1092 (9th Cir. (Cal.) 2010) **(Yes)**

- Hyundai was sued by Orion for infringement of business method patents based on allegations that Hyundai's website used a build your own vehicle ("BYO") (Orion patents at issue – patent no. 5,367,627 and 5,367,342) feature and a parts catalogue feature.
- Hyundai sought a defense from its insurers asserting that Orion's claims constituted allegations of "[m]isappropriation of advertising ideas" which was covered under the standard "advertising injury" provisions of their policies.)

- In *Hyundai*, "[T]he BYO feature is widely distributed to the public at large, to millions of unknown web-browsing potential customers, even if the precise information conveyed to each user varies with user input." *Id*.
- Hyundai "use[d] an advertising technique that is itself patented," and "[t]hat was the essence of [Plaintiff's] allegation against [Hyundai]." *Id.* at 1102.
- The use of the patented method was itself an advertisement that caused the injuries alleged in the third-party complaint, Hyundai has established the requisite causal connection." *Id.* at 1103-04.

o ***Dish Network Corporation v. Arch Specialty Ins. Co.***, No. 09-cv-00447-JLK, 2010 WL 3310025, at *8 (D. Colo. Aug. 19, 2010) **(No)** ("[I]n [*Discover Financial Services, LLC v. Nat'l Union Fire Ins.*, 527 F. Supp. 2d 806, 824 (N.D. Ill. 2007)] the court found no coverage where the alleged infringement involved many of the same patents at issue in the Katz complaint. . . . The court found the ideas protected by the Katz patents were not incorporated as elements of the alleged 'advertising'-on the contrary the court found the ideas protected by the Katz patents were means of conveying the alleged advertisements. . . . '[U]sing or selling automated telephone systems that have the ability to advertise goods or services . . . does not itself involve any elements of advertising.' *Id.* at 824.").

VI. ESCAPING THE APPLICATION OF IP EXCLUSIONS

A. First Publication Exclusion

This insurance does not apply to: (1) advertising injury: (b) arising out of oral or written publication of material if the first publication took place before the beginning of the policy.

- ***Santa's Best Craft v. St. Paul Fire & Marine Ins.***, No. 04 C 1342, 2004 WL 1730332, *8-10 (N.D. Ill. July 30, 2004) **(Yes)** *aff'd* 611 F.3d 339, 348 (7th Cir. (Ill.) 2010) (Slogans, allegedly copied, "patent-pending 'Stay-On' feature keeps bulbs lit" [and] "String Stays Lit even if a bulb is loose or missing," fall within "infringement of slogan" offense even if they create liability for excluded trade dress or unauthorized use of [J&L's] slogan.).

- ***Scottsdale Ins. Co. v. Sullivan Properties, Inc.***, No. Civ. 04-00550HGBMK, 2006 WL 505170, at *11 (D. Haw. Feb. 28, 2006) **(No)** ("The term 'material' means Defendants' infringing, or allegedly infringing, use of the 'Kapalua' trade names and trademark whether on the internet or in other advertising and promotional materials. The … Underlying Complaint accuses Defendants of infringing the 'Kapalua' name — the very same trade name that it infringed several years earlier.")

B. Knowledge of Falsity

This insurance does not apply to: a. "Personal injury" or "advertising injury": (1) Arising out of oral or written publication of material, if done by or at the direction of the insured with knowledge of its falsity.

- ***Western Wisconsin Water, Inc. v. Quality Beverages of Wisconsin, Inc.***, 738 N.W.2d 114, 124 (Wis. Ct. App. 2007) **(Yes)** ("There is no requirement that the proponent prove intent to deceive [to prove trademark infringement] … [T]he fact that the jury awarded punitive damages based on its finding that Crystal Canyon acted 'in intentional disregard of Western's rights' … is not the equivalent of an intent to deceive and cannot be invoked to demonstrate knowledge of falsity.")
- ***Del Monte Fresh Produce N.A., Inc. v. Transportation Ins. Co.***, 500 F.3d 640, 645 (7th Cir. (Ill.) 2007) **(No)** ("Del Monte does not point to a single factual allegation that is not a part of a specific allegation of fraud … Therefore, the complaints … fall squarely within the exclusion… for… statements made by the insured … with knowledge of falsity.")

C. Knowledge of Advertising/Personal Injury

*This insurance does not apply to "personal or advertising injury" that was 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."*

- ***Ohio Cas. Ins. Co. v. Cloud Nine, LLC***, 464 F. Supp. 2d 1161, 1168 (D. Utah 2006) **(Yes)** ("[T]he causes of action asserted against the Cloud Nine Defendants do not necessarily require that, in order to find liability, the defendant have … knowledge that its conduct would cause advertising injury. See 15 U.S.C. § 1114(1) (setting forth elements of trademark infringement); … Utah Code Ann. § 13-11a-3 (defining deceptive trade practices) ….").
- ***Educational Training Sys., Inc. v. Monroe Guar. Ins. Co.***, 129 S.W.3d 850, 853 (Ky. Ct. App. 2003) **(No)** (The insured acted with intent to confuse its service mark with that of ETS with the intent to harm ETS and therefore, the exclusion applied. As the deliberate use of Weikel's name was decided against Weikel on summary judgment, the intent element was plainly satisfied. No intent to cause harm need be proved. "It is in the knowledge that the intended act will cause harm that the exclusion is triggered …. the act itself must also be done with knowledge that it will violate the rights of another.")

D. Intellectual Property Exclusions

1. Travelers – IP Exclusion

This insurance does not apply to . . . "advertising injury" arising out of . . . infringement, violation or defense of any of the following rights or laws: . . . . 2. Patent . . . .

- ***KLA-Tencor Corp. v. Travelers Indem. Co. of Ill.***, No. C-02-05641 RMW, 2003 WL 21655097 (N.D. Cal. April 11, 2003) **(Yes)** (The third party had alleged that the insured made untrue statements regarding its financial condition, future viability, and its having lost large orders. Those allegations made no mention of the insured's patents and could have formed the basis of the interference with contractual relations and prospective economic advantage claims. As such, the statements gave rise to a potential liability covered under the policy.).

2. St. Paul Ins. Co. – IP Exclusion

We won't cover injury or damage . . . that result from . . . infringement or violation of any of the following rights or laws . . .: There is no coverage for "any other injury or damage that's alleged in any claim or suit which also alleges any such infringement or violation."

- ***S.B.C.C., Inc. v. St. Paul Fire & Marine Ins. Co.***, 186 Cal. App. 4th 383, 396, 397 (2010) **(No)** ("[N]o coverage is afforded if the alleged injury results from misappropriation of trade secrets or violation of other intellectual property rights or laws. . . . South Bay emphasizes that only one of SJC's claims was for trade secrets violation, and not all of the information taken from SJC was a 'work of the mind.' . . . [T]here is no coverage for '*any other injury or damage that is alleged in any claim or suit which also alleges any such infringement or violation.*' . . . *Molecular Bioproducts, Inc. v. St. Mercury Ins. Co.*, (S.D. Cal. 2003) 2003 WL 23198852 at *5 [where underlying suit contains patent infringement claim, intellectual property exclusion eliminates coverage for claims 'alleged in suit that also alleges any such infringement'] . . . Here St. Paul has demonstrated, 'by reference to undisputed facts, that the claim cannot be covered.' ").

3. Federal Ins. Policy – Exception to an Intellectual Property Exclusion

The policy excludes coverage of any advertising injury:

> *"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.****"*

- ***Houbigant, Inc. v. Fed. Ins. Co.***, 374 F.3d 192, 198-99 (3d Cir. (N.J.) 2004) **(Yes)** ("Title" includes "any name … appellation, … epithet [or] … word by which a product or service is known …. Houbigant's house mark and product mark (e.g., 'Chantilly') falls within this definition.").

4. National Union Fire Ins. Co. Exclusion

National's General Policy does not apply to:

"advertising injury" arising out of, or directly or indirectly related to, . . . any oral or written statement . . . which is claimed as . . . [a] violation of legal rights relating to . . .: [p]atent[ ] [or] [t]rade secrets.

- ***National Union Fire Ins. Co. of Pittsburgh, PA v. Seagate Technology****, Inc.*, 233 Fed. Appx. 614, 616 (9th Cir. (Cal.) 2007) **(Yes)** ("The Policy's clause excluding claims arising out of the misappropriation of trade secrets does not establish that AISLIC owes no duty to defend. While Convolve's claims that Seagate misappropriated its technology would be excluded by that clause, such misappropriation claims are not necessary for Convolve to maintain trade libel claims against Seagate. A trade libel claim by Convolve against Seagate could proceed and succeed even if, as Seagate maintains, it never misappropriated Convolve's technology.").").

VII. DIRECTORS & OFFICERS (IP)

- ***Acacia Research Corp. v. National Union Fire Ins. Co. of Pittsburgh**, PA*, No. SACV 05-501 PSG (MLGx), 2008 WL 4179206, at *13 (C.D. Cal. Feb. 8, 2008) **(Yes)** (The court awarded plaintiff $31,070,981.62 plus $310,492.99, the present value of future royalty payments, under a D&O policy issued from January 22, 1999 to January 22, 2002 where coverage was implicated on a claims-made basis with $10 million policy limits and a SIR of $150,000.

  "Wrongful acts" were implicated because "the underlying Nanogen action centered on Nanogen's accusations that Montgomery stole Nanogen's technology and brought it to Combimatrix." *Id.* at *10. Settlement entered into by the insured was involuntary and due to "economic necessity, insurer breach, or other extraordinary circumstances" because the insurer defendant refused to advise further on its insurance coverage position after initially denying a defense, thus rendering the policy's No-Voluntary Settlement Clause unenforceable.)

- ***American Century Servs. Corp. v. American Int'l Specialty Lines Ins. Co.***, No. 01 Civ. 8847 (GEL), 2002 WL 1879947 (S.D.N.Y. Aug. 14, 2002) **(No)** (Patent infringement claims against insured investment management corporation brought by designers of automated telephone and Internet security systems were potentially to wrongful acts occurring "solely in the course of the management and/or operation of [mutual] fund(s)." "As amended, 'Wrongful Act' means any breach of duty, neglect, error, misstatement, misleading statement, omission or other act wrongfully done or attempted by the Insured or *so alleged* by any claimant." *Id*. at *5. "Patent infringement is a wrongful act, and the infringements alleged by Katz and Stambler were committed (if they occurred at all) in the ordinary course of conducting—that is, managing and operating—American Century's investment funds." *Id.* at *7.

  However, exclusions for "any actual or alleged gaining of profit or advantage to which any Insured is not legally entitled" and reimbursement of any settlement for "past or future use of a valuable technology in the course of its business" barred coverage.

VIII. ERRORS AND OMISSIONS (IP)

- ***Research Corp. v. Westport Insurance Co.***, 289 Fed. Appx. 989, 993 (9th Cir. (Ariz.) 2008) **(Yes)** ("[A]llegations of conversion, fraudulent concealment, and breach of fiduciary duties . . . were "wrongful acts" within the meaning of the policy where "wrongful acts" means "any actual or alleged error or omission, negligent act, misleading act, or breach of duty committed by an 'insured.'"].

- ***Transcore, LP v. Caliber One Indem. Co.***, 972 A.2d 1205, 1209 (Pa. Super. Ct. 2009) **(No)** ("Here, the claim at issue on this appeal is that Caliber owed Amtech coverage over the allegation that it induced another party into patent infringement. Inducement of patent infringement is a specific violation of the Patent Act found at 35 U.S.C. § 271(b), which simply states: 'whoever actively induces infringement of a patent shall be liable as an infringer.' As the word 'induces' implies and the federal courts confirm, a violation of section 271(b) is an intentional act. . . . [T]o be liable for *inducing* another to violate the patent the act has to be intentional . . . an inducement to patent infringement must be intentional and therefore is specifically excluded from coverage. . . .").

IX. WAGE AND HOUR

- "Loss" under standard EPLI (Employment Practice Liability Insurance) provisions is not limited to "damages." "Wrongful acts" encompass the "misrepresentation of an employment practice."
- The following wage and hour lawsuits contain allegations that may fall within the definition of "loss":
  - Employee claims that their employer misrepresented how compensation would be paid because employer misclassified or improperly designated the status of their employees as:
    - "exempt" from overtime laws
    - as "independent contractors"
    - failed to enforce adequate wage hour policies
    - failed to provide required breaks
    - coerced employees into working excessive hours

- "Misrepresentation has been defined as '[a]ny manifestation by words or other conduct by one person to another that under the circumstances amounts to an assertion not in accordance with the facts or a concealment of the truth."
- Misclassification of employees under this broad definition is a "misrepresentation."
    - ***Professional Security Consultants, Inc. v. U.S. Fire Ins. Co.***, No. CV-10-04588 SJO (SSx), 2010 WL 4123786, at *3 (C.D. (Cal.) Sept. 22, 2010) (EPL insurer's motion to dismiss a complaint for reimbursement of costs to defend and settle wage and hour class action denied where claimant's "dissemination of false information" concerning wage and hour policies as well as failing to pay overtime was an "employment related misrepresentation.").
    - ***California Dairies, Inc. v. RSUI Indemnity Co.***, 617 F. Supp. 2d 1023, 1048-50 (E.D. Cal. 2009) (Exclusionary FLSA language in a D&O policy did not bar all types of wage and hour claims as many California Labor Code provisions are not found in the FLSA. These include the requirement to provide itemized wage statements, reimburse employees for cost and timely pay wages at termination to avoid an imposition of wage and hour penalties.).

- EPLI policies also often include coverage for any "invasion of privacy" as well as "libel and slander."
  - Investigations into alleged wage and hour violations may require access to computerized information and/or inquiry into how diligent and work-related an employee's tasks were so as to ascertain if overtime truly was appropriate.
    - ***Creative Hospitality Ventures, Inc. v. United States Liability Ins. Co.***, 655 F. Supp. 2d 1316, 1329 (S.D. Fla.) Sept. 1, 2009) **(Yes)** ("In considering the breadth of the phrase, 'publication, in any manner,' the Court finds it difficult to conceive of a more inclusive description of the categories of 'publication' to be covered by an insurance policy . . . .")

X. FALSE PATENT MARKING CLAIMS

A. Brief History of False Patent Marking Claims

- As of October 26, 2010 there have been **456** False Patent Marking Claims - and rising - filed since January 1, 2010 in the United States.
  - **35 U.S.C. § 292** – enacted 1994

    (a) Whoever marks upon, **or** affixes to, or uses in advertising in connection with any unpatented article, the word "patent" or any word or number importing that the same is patented for the purpose of deceiving the public . . . .

B. Why the Increase in Lawsuits?

- Penalty must be Imposed on a "per article basis." **Each** falsely marked **item** may represent up to a $500 fine
- The likelihood of success increased the financial incentive to sue (by *qui tam* action)

- ***Stauffer v. Brooks Brothers, Inc.***, 619 F.3d 1321, 1325 (Fed. Cir. (N.Y.) 2010) ("'[T]he assignee of a claim has standing to assert the injury in fact suffered by the assignor.'").

C. Three-Part Test for False Patent Marking

1. Marking Was False

- Item or packaging marked with the word 'patent,' 'patented,' 'patent applied for,' or 'patent pending'

2. At the Time Marking Occurred:

- Patent Expired

3. Marking Party Intended to Deceive Public

- ***Stauffer v. Brooks Brothers, Inc.***, 619 F.3d 1321, 1325 (Fed. Cir. (N.Y.) 2010) Defendant "should have known" patent marking was false.

- ***Simonian v. Irwin Industrial Tool Co.***, Case No. 1:10-cv-01260 (N.D. Ill. Aug. 27, 2010) ("[Defendant] knew or **should have known** that the patent marked on the products at issue had expired . . . .") (emphasis added)

- A reasonable person would know product is not covered by any claim of marked patent(s)
  - ***Simonian v. Oreck***, Case No. 1:10-cv-1224 (N.D. Ill. Aug. 23, 2010) ("By alleging that defendants had knowledge of their false marking and that the marks were false creates a rebuttable presumption of deceptive intent.")

D. FIVE-PART TEST for "Use of Another's Advertising Idea in Your 'Advertisement'": Applies to "Advertising Injury" Coverage

1. Use of
2. Another's
3. Advertising idea
4. In your
5. "Advertisement"

"Advertisement" – "a notice . . . published to . . . specific market segments about your goods or services for the purpose of attracting customers or supporters."

E. Five-Part Test Satisfied for False Patent Marking Claims

- *Apple Inc. adv. Americans for Fair Patent Use, LLC*, E.D. Tex., Case No. 2:10-cv-00237-TJW (Filed: 07/14/10)

1. Use:

- Does not need to be wrongful as long as the alleged injury arises out of the use
  - Marking products when the patent has expired or when product was never subject to patent protection.

2. Of Another's:

- Must not be the insured's own idea
  - Marking of a product (implying protection of the U.S. Patent (Office) which has now reverted to the public since the patent owner's exclusive rights are no longer viable.

3. Advertising Idea:

- The action of calling public attention to a product or business

- The promotion to the public of a patented product necessarily invites the public to value its patented character as an inducement to its purchase.

4. In Your:

- Under the pertinent offense, "use of the advertising idea of another" must occur "in **'your'** " "advertisement."
  - "Whoever … marks upon, **or** affixes to, or uses in advertising … the word 'patent' or any word or number … for the purpose of deceiving the public; …" 35 U.S.C. § 292(a) (emphasis added).
- The word "in" in the phrase "in your 'advertisement' " can have a variety of meanings.

- Dictionary definitions of "in" [http://www.yourdictionary.com/in]
  - *Contained or enclosed by; inside; within* (i.e., "in" the text of an advertisement)
  - *During the course of* (i.e., "in" the process of advertisement)
  - *With regard to; as concerns* (i.e., "in" conjunction with an advertisement)
  - *With; by; using* (i.e., "in" accompanying an advertisement)

- A causal link between an "advertisement" and the "use of another's advertising idea" such that the "use" occurred "in your 'advertisement.' "
  - The complaint is unclear as to whether Apple's advertising was a direct cause of the injury. False markings create consumer confusion by asserting a right to exclude others from any promotional activity for alleged infringing goods.
  - "False markings [may] create a misleading impression that the falsely marked product is technologically superior to previously available products, as articles bearing the term 'patent' may be presumed to be novel, useful, and innovative [and] marking products with an expired patent is a violation of [35 U.S.C. § 292]." [Apple Complaint ¶¶ 13 and 38]

5. Advertisement:

- In false patent marking, an advertisement exists where there is "a notice ... published to ... specific market segments about your goods or services for the purpose of attracting customers or supporters." [CGL Coverage Form, p. 12 of 16]
  - Display of a product as "patented" creates a distinct basis for liability.

- The display of the patent number on a product or in association with a product is separately actionable.
  - Physically placing a patent number on product packaging is an "advertisement" that is distinct from the product advertised to call attention to the patent holder's exclusive rights.
    - ***Fidelity & Guaranty Insurance Co. v. Kocolene Marketing Corp.***, No. IP 00-1106-C-T/K, 2002 WL 977855, at *12 (S.D. Ind. March 26, 2002).
    - "Placing a patent number on the packaging for a product provides constructive notice … to the public that the product is covered by that patent [and] Apple intended to and has deceived the public." [Apple Complaint ¶¶ 94 and 391].
- A website reference to the product, read in concert with the complaint, implies that Apple possesses what consumers would presume are patent rights.
  - Apple Press Release dated September 9, 2008 [http://www.apple.com/ pr/library/2008/09/09nano.html] advertising the iPod as featuring "Apple's New Genius Technology."

F. Exclusions

1. First Publication

This insurance does not apply to:

c. Material Published Prior to Policy Period

"Personal and advertising injury" arising out of oral or written publication of material whose first publication took place before the beginning of the policy period.

- *Apple Inc.* – While the marking of a product may be the same as in the first year of wrongdoing through each subsequent year, factually distinct methods of promoting a products patents may trigger coverage in more than one year.

- ***Taco Bell Corp. v. Continental Cas. Co.***, 388 F.3d 1069, 1074 (7th Cir. (Ill.) 2004) ("Fresh Wrong" – distinct advertising material creating liability post-policy inception.) Intellectual Property Exclusion

2. Knowledge of Falsity

This insurance does not apply to:

(a) "Personal injury" or "advertising injury"

(1) Arising out of oral or written publication of material if done by or at the direction of the insured with knowledge of falsity.

- The requirement under Section 292 that "Defendant had intent to deceive public" is not equivalent to common law fraudulent intent, but is more akin to negligence, i.e., no reasonable belief that product was properly marked.
- Assessment of intent based on objective criteria
  - ***Pequignot v. Solo Cup. Co.***, 608 F.3d 1356, 1363, 1364 (Fed. Cir. 2010) ("Because the statute requires that the false marker act 'for the purpose of deceiving the public,' a purpose of deceit, rather than simply knowledge that a statement is false, is required. 35 U.S.C. § 292(a). . . . Solo has cited the specific advice of its counsel . . . .")

- Insured's state of mind is irrelevant in patent infringement/false marking inquiry.
  - ***Elcom Technologies, Inc. v. Hartford Ins. Co.***, 991 F. Supp. 1294, 1298 (D. Utah 1997) (applying Pennsylvania law) ("Phonex's false advertising claim, however, does not require an intent to deceive or knowledge of falsity. . . . That claim can be proved by establishing that Elcom acted with reckless indifference in advertising the ezPHONE as the only patented wireless telephone jack on the market.")

3. Quality or Performance

> "Personal and Advertising Injury" arising out of the failure of goods, products or services to conform to any statement of **quality or performance** made in your "advertisement." (Emphasis added.)

- *Elcom Technologies, Inc. v. Hartford Ins. Co.*, 991 F. Supp. 1294, 1298 (D. Utah 1997) ("In [the underlying] claim, [Plaintiff] alleges that Elcom wrongfully advertised that its product was patented. Nowhere does [Plaintiff] claim that the quality of Elcom's product failed to rise to the level advertised.")

4. **Intellectual Property Exclusion – 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. *Under this exclusion, such other intellectual property rights do not include the use of another's advertising idea in your "advertisement."*

- ***Aurafin-OroAmerica, LLC v. Federal Ins. Co.***, 188 Fed. Appx. 565, 566-67 (9th Cir. (Cal.) 2006) ("[P]atent misuse is an equitable defense to a claim of patent infringement that 'arose to restrain practices that did not in themselves violate any law, but that drew anticompetitive strength from the patent right, and thus were deemed to be contrary to public policy.' . . . **Because patent misuse is not a true intellectual property claim, it does not fall within the policy's intellectual property exclusion.**" (emphasis added)).

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