Insuring Intellectual Property and Special Considerations for Risks that Rely upon Fair Use

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Confusion is the welcome mat at the door of creativity.

Michael J. Gelb[2]

Once the surprise wears off, a newly-served defendant in an intellectual property suit will start wondering how to pay for mounting defense costs and the exposure to loss, including the opposing party's legal fees should the plaintiff prevail. These lawsuits are aggressively pursued because intellectual property is a key business asset. Alternatively, threats against a company's trademarks and copyrights must be vigorously defended. Average defense costs will be six figures, if not higher.

A company's intellectual property should be protected by the best insurance policy available and never left to chance. Unfortunately, insurance defense coverage for claims arising from intellectual property assets is sometimes considered only after a lawsuit has been commenced, and counsel requests payment for legal bills. It is crucial that policyholders communicate on an annual basis, if not more frequently, with their insurance brokers, risk managers and corporate counsel to discuss acquisitions, divestments and new business activities to ascertain that adequate insurance is in place for intellectual property exposures. Companies should incorporate loss prevention techniques to avoid being sued for infringement.

Defense counsel must also understand the importance of communicating promptly with the client's insurance agent or broker and any insurers – including any excess insurers – upon the receipt of a summons and complaint so that all potential insurers receive timely notice. Many times, defense counsel does not always consider insurance issues in an intellectual property suit. A delay to the insurer can result in serious coverage issues arising from "late notice." Most states require the insurer to prove that the late notice impaired the insurer's ability to investigate or defend the claim – the "notice-prejudice" rule.[3] Under New York Insurance Law 3420, if notice is provided more than two years after it was due, the burden is on the insured to prove a lack of prejudice. If the notice is within this two year time frame, the insurer must show prejudice. In some jurisdictions, legal expense incurred prior to the tender of claim or suit to the insurer will not be subject to coverage. The financial risks to an insured can be significant for failing to timely notify the insurer pursuant to policy notice provisions.

This article, which bears some resemblance to the dog's breakfast because of the many issues attendant to intellectual property insurance, will address the following:

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[3] New York Senate Bill 8610 and Assembly Bill 11541 (July 23, 2008).

The evolution of Advertising Injury coverage under CGL policies, how specialty policies address intellectual property exposures, how to procure coverage for intellectual property exposures, key coverage provisions and the best methods for procuring insurance coverage for intellectual property exposures. Finally this paper will include a discussion about "fair use" and how this defense to copyright infringement plays an important role in insurance application process for documentary producers.

I. An Introduction to Intellectual Property[4]

Copyrights, trademarks and patents are types of intellectual property, but refer to different intangible property right forms. Similarities exist and there often is overlap between them, but each form of intellectual property is, in its purest form, very different. Copyrights pertain to original, creative and artistic expressions such as:

1) literary works;
2) musical works, including any accompanying works;
3) dramatic works, including any accompanying music'
4) pantomimes and choreographic works;
5) pictorial, graphic and sculptural works;
6) motion pictures and other audiovisual works;
7) sound recordings;
8) architectural works.

While the length of time for copyright protection involves complicated rules, some depending on the time of the original creation, copyrights generally exist for at least seventy years after the creator's death and can be renewed. [5]

Trademarks refer to *commercial* words, phrases, marks, logos or package designs and colors — or various combinations of all of the above — used by a manufacturer to identify its goods in commerce. For example, Coca-Cola at various times has had trademarks in red and white labels, various print and cursive writing forms, the use of the word "Coke" and formerly the ridged green glass bottle design. Trademarks are protected by notice in conjunction with the mark on the goods, packaging or advertising for same.

Patents pertain to inventions, typically of a scientific, engineering or mechanical nature. Patents are grants from the Federal government that allow the patent holder to exclusively manufacture or use the invention in question. It may refer to a medicine, machine, manufactured article or manufacturing process.

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[4] FIRST MEDIA, A Division of OneBeacon Professional Partners, 2006. *An Introduction to Intellectual Property Rights, by P. Blake Keating*. Online. http://www.firstmediainc.com/insights/ip101_iss1.pdf.
[5] United States Copyright Office, 2007. Circular 15, *Renewal of Copyright;* Circular 15A, *Duration of Copyright*; and Circular 15T, *Extension of Copyright Terms*. Online. http://www.copyright.gov/circs/.

The ability for third parties to use protected works and the owners' interests in protecting them from exploitation by others, create serious conflict. The ease of uploading and downloading protected works from the Internet has intensified this deep-seated disagreement between those who view intellectual property as a "creative good" to be used and enjoyed by the public and those who would prefer that all forms of intellectual property become indistinguishable from private property.

It is fitting that Wikipedia, "The Free Encyclopedia," be consulted in respect to an appropriate definition for intellectual property because the ability of third parties to quickly download protected content through the Internet and share it with others has resphaped the intellectual property landscape while creating mounting controversy between content creators and Internet users:

> *Intellectual property (IP) is a term referring to a number of distinct types of creations of the mind for which property rights are recognized—and the corresponding fields of law. Under intellectual property law, owners are granted certain exclusive rights to a variety of intangible assets, such as music, literary, and artistic works; discoveries andinventions; and words, phrases sympols and designs. Common types of intellectual property include copyrights, trademarks, patents, industrial design rights and trade secrets in some jurisdictions.*[6]

Not only has the use of intellectual property by others created significant conflict, but coverage under insurance policies for intellectual property disputes has also been fertile ground for disagreements between insurers and policyholders.

II. Insurance Coverage Under the Comprehensive General Liability Policy

If coverage for specific intellectual property exposures is not part of the risk management arsenal, defendants often seek coverage from their CGL policy which is the "catch all" policy for businesses. There is a significant body of case law, much of which is inconsistent, that has developed over the past 30 years wherein courts have struggled to determine if there is coverage under various "advertising injury" sections of Commercial General Liability ("CGL") policies for copyright and trademark infringement. The CGL policy is the "go to" policy for most businesses and provides coverage for third party liability arising from a number of perils, including "advertising injury". Generally, intellectual property claims arise when a new product – either tangible or intangible - is introduced into the marketplace. The good, product or work may not be infringing, but the manner in which it is advertised or publicized can be an infringement.

The review of most case law refers to two CGL forms, both of which have been in existence more than thirty years, and which were provided by the Insurance Services Office to its members. Most standard insurance companies utilize uniform ISO forms as the basis for their various policy forms and endorsements. These forms are revised

[6] http://en.wikipedia.org/wiki/Intellectual_property.

periodically and bear a form number and revision date. Insurance companies do not always adopt new forms immediately because of the costs associated with refiling the new forms with the state departments of insurance for admitted coverage. ISO has introduced successive editions of standard CGL Advertising and Personal Injury coverage forms. In 1973, Advertising and Personal Injury was added by endorsement. In 1986, these coverages were incorporated into the base form. Today, Coverage Part B. is the insuring agreement in the CGL policy that creates the greatest opportunity for coverage for third party intellectual property claims. This coverage part provides coverage for personal injury (defamation and privacy) and advertising injury (copyright an idea appropriation).[7] Over time, the CGL form has been revised to substantially eliminate coverage for trademark exposures, in particular. The current form also excludes coverage for copyright infringement, unless such claim arises solely from advertising. A review of coverage under the CGL policy illustrates how important it is to discuss potential coverage issues in advance and how the policy may apply to various intellectual property claims.

In respect to Advertising Injury coverage case law, most courts have analyzed the ISO 1973 Broad Form Endorsement and the 1986 ISO Coverage Part with respect to coverage for trademark, trade dress, unfair competition and patent infringement. It should be noted that these policies specifically covered copyright infringement if the alleged infringement arose in the course of advertising the insured's goods, products or services.

Today, most policyholders would likely have newer policy versions, which would be looked to for coverage given the relatively short statute of limitations for intellectual property claims. There may be some insurers, however, that have not adopted newer forms, utilize a variety of forms or simply made modifications to older forms, so a discussion of coverage under the older forms is still instructive. A review of the older forms also provides a historical perspective as insurers have attempted to narrow coverage for intellectual property claims under the succession of CGL forms.

A. The 1973 CGL Broad Form Endorsement

The 1973 Broad Form Liability Endorsement[8] was as follows:

> *The company will pay on behalf of the insured all sums which the insured shall become legally obligated to pay as damages because of… Personal Injury or Advertising injury to which this insurance applies…arising out of the conduct of the named insured's business…*

"Advertising Injury", was defined as:

> *An injury arising out of an offense committed during the policy period occurring in the course of the named insured's advertising activities, if*

[7] This paper will necessarily focus upon advertising injury claims.
[8] ISO Form GL 04 04.

such injury arises out of libel, slander, defamation, violation of right of privacy, piracy, *unfair competition or infringement of copyright, title or slogan.*

This endorsement specifically excluded coverage for any "advertising injury" arising out of:

Infringement of trademark, service mark or trade name, other than titles or slogans, by use thereof on or in connection with goods, products or services sold, offered for sale or advertised.[9]

Because the key term, "advertising," was not defined in the referenced endorsement, ambiguity was inevitable and coverage litigation ensued. Likewise, "unfair competition" received significant attention from claimants and courts since it was also undefined. More often than not, undefined terms are considered "ambiguous" by the court and construed against the insurer.[10]

The threshold issue under this endorsement was to determine whether the alleged offense committed by the insured took place in the course of the insured's advertising activities.[11] Without a defined term for "advertising", this pivotal issue was left to judicial construction. Many courts defined "advertising" as the widespread distribution of promotional materials to the public at large. [12] Other courts have found that the advertising requirement is met - even if the audience is small - as long as it "comprises all or a significant number of a competitor's client base."[13] Although extremely rare, some courts have even held that one-on-one advertising meets this requirement. [14]

Finally, the "advertising injury" giving rise to the claim must have a causal connection with "advertising activities." The California Supreme court stated in *Bank of the West v. Superior Court* [15] that without a causal relationship between the claim and the insured's advertising activities, the CGL policy's "advertising" injury" coverage would necessarily encompass every claim related to an insured's business, because every business that sells a product or service, also advertises.

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[9] It should be noted that many policies that provide liability coverage for intellectual property perils often exclude coverage for trademark infringement. It is perceived as an uninsurable moral hazard to provide coverage for an entity that does not have an established brand and can profit from creating confusion in the marketplace as to the origin of its goods.

[10] *See Playboy Enterprises, Inc. v. St. Paul Fire & Marine Ins. Co.*, 769 F.2d 425 (7th Cir. 1985).

[11] Ostrager & Newman, *Handbook on Insurance Coverage Disputes* §7.04[b][1] (9th ed. 1999).

[12] *MGM, Inc. v. Liberty Mut. Ins. Co.*, 17 Kan. App. 2d 492, 493-94, 839 P.2d 537, 539-40 (1992) *aff'd*, 253 Kan. 198, 855 P.2d 77 (Kan. 1993).

[13] *New Hampshire Insurance Co. v. Foxfire, Inc.*, 820 F.Supp.489 (N.D. Cal. 1993).

[14] *John Deere Insurance Co. v. Shamrock Industries*, 696 F. Supp. 434, 439-40 (D. Minn. 1988), *aff'd*, 929 F.2d 413 (8th Cir. 1991).

[15] *Bank of the West v. Superior Court (Industrial Indem. Co.)* 833 P.2d 545, 559-60 (Cal.1992).

B. The 1986 GCL Form

In 1986, the ISO form incorporated the advertising injury liability endorsement into the policy form as Coverage B of the Insuring Agreements.[16] ISO explained that by incorporating the Broad Form Endorsement as a Coverage Agreement, it simplified and streamlined the CGL form, but did not change the scope of the "advertising injury" coverage.[17] That said, the form did change significantly. "Advertising injury" was changed to mean an 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; or*
>
> D. *Infringement of copyright, title or slogan.*

The advertising injury coverage extended to damages that occurred in the course of the insured's advertising activities, arising out of one of the offenses enumerated in the policy, and taking place during the policy period.[18]

The 1986 form made three important revisions to the 1973 endorsement: 1) "piracy" and "unfair competition" were deleted; 2) the peril of "misappropriation of advertising ideas or style of doing business" was added; and 3) ISO deleted the trademark exclusion.

Many courts determined that "misappropriation of advertising ideas or style of doing business" was broad enough to trigger a duty to defend a trademark claim in that the trademark, in and of itself, was "advertising." [19] A minority of courts looked at the policy as a whole and reasoned that where the coverage agreements specifically enumerated some perils and omitted others, such as trademark infringement, the insurer did not intend to cover the omitted perils.[20] The majority of courts uniformly have held that patent infringement was not covered under any of the CGL forms because the injury arose from the manufacture and sale of a product and not from its advertising.[21]

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[16] ISO Form CG 00 01 11 86.
[17] See *ISO Introduction and Overview for the 1986 Standard Form Commercial General Liability Policy Revision* (April 1985).
[18] *Bank of the West v. Superior Court* (*Industrial Indem. Co*.), 833 P.2d 434, 560 (Cal. 1992).
[19] *Lebas Fashion Imports of USA, Inc. v. ITT Hartford Ins. Group*, 50 Cal.App. 4th, 548, 564-66 (1996).
[20] *Advance Watch Co. v. Kemper National Ins. Co*., 99 F.3d 795, 804 (6th Cir. 1996).
[21] *Aetna Casualty Surety Co. v. Superior Court*, 19 Cal.App. 4th, 320, 328, 23 Cal.Rptr.2d 442 (1993).

C. The 1998 CGL Form

The 1998 CGL form deleted the advertising injury offenses of "infringement of title" and "misappropriation of advertising ideas or style of doing business," which had previously been the Achilles Heel in respect to trademark and trade dress infringement. This language was replaced with "infringing upon another's copyright, trade dress, or slogan in your advertisement," and "use of another's advertising idea in your advertisement." The 1998 form also deleted the requirement that the offense take place "in the course" of the insured's advertising. This more narrow approach required that the named peril giving rise to the claim take place in a particular "advertisement" as opposed to taking place in "the course" of the insured's advertising activity.

This form was not without its problems to the insurer, however, as the policy was interpreted to cover trademark infringement.[22]

D. The 2001 CGL Form

In 2001, the ISO specifically excluded trademark from Coverage Agreement B.

E. The 2007 CGL Form

In 2007, the CGL form incorporated a new exclusion under Coverage B to eliminate claims for violating "do not call" laws, including the Telephone Consumer Protection Act (TCPA) or the CAN-SMPAM Act of 2003, which prohibits the sending, transmitting, communicating or distributing of unsolicited material or information.[23]

F. Coverage B. Exclusions

There are a significant number of exclusions that apply to the Personal Injury and Advertising Injury coverage. It is not enough for the policyholder to meet the various requirements of the Coverage B. insuring agreements, but the claim must not be disclaimed from coverage by one or more of the policy's exclusions. For example, the 2003 CGL policy provides coverage for some intellectual property perils, such as copyright infringement, as long as the claim arises from the insured's advertising of its own products and services and as long as the insured is <u>not</u> engaged in the media business. The relevant language from the 2003 ISO CGL policy that excludes coverage for media businesses is as follows:

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[22] *Central Mutual Insurance Com. V. StunFence, Inc*., 292 F.Supp.2d 1072, 1079 (N.D. Ill. 2003).

[23] Insurance Risk Management Institute, 2008. *CGL Insurance 2007 Edition – A Summary of Changes, by Craig F. Stanovich*. Online. http://www.irmi.com/expert/articles/2008/stanovich06-cgl-general-liability-insurance.aspx.

EXCLUSIONS

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Insureds in Media and Internet Type Businesses

This insurance does not apply to "personal and advertising injury" committed by an insured whose business is:

(1) Advertising, broadcasting, publishing or telecasting;
(2) Designing or determining content of web sites for others; or
(3) An Internet search, access, content or service provider.

*   *   *

For the purposes of this exclusion, the placing of frames, borders or links, telecasting or advertising, for you or others anywhere on the Internet, is not by itself, considered the business of advertising, broadcasting, publishing or telecasting.

*   *   *

ISO Properties, Inc., 2003

This CGL form also specifically excludes coverage for "personal and advertising injury" arising from electronic chat rooms or bulletin boards controlled by the insured, as well as the unauthorized use of another's name in the insured's e-mail address, domain name or metatag. In other words, the intellectual property cover in this CGL form extends to the advertising of a non-media business through relatively traditional means.

III. <u>Coverage under Specialty Liability Policies</u>

A. Coverage under Media Liability Policies

A media liability policy is a necessity for any company that publishes, broadcasts or advertises because media companies are specifically excepted from coverage under the CGL policy. It is for this reason, that media companies require a special professional liability policy. The media liability policy is an essential risk management component for companies that are in the business of gathering, creating or disseminating original or third party content – whether news, entertainment or advertising. The public's insatiable appetite for content has resulted in a proliferation of infringement claims, especially copyright infringement. The best possible media liability coverage provides coverage on an "open peril" or "all risk" basis, yet also specifically enumerates intellectual property perils – infringement of copyright, plagiarism, piracy, misappropriation of ideas or information, infringement or dilution of trademark, slogan, trade name, trade dress, service mark or service name – so there is little room for disagreement as to what the policy covers.

Specialty insurers provide an advantage in the defense of intellectual property claims because they employ experienced claims counsel, who will provide meaningful insight and assistance in respect to defensive strategy and oversight of the outside defense firm. Experienced insurance counsel is important because he or she will have input in respect to the selection of outside defense counsel, as well as other important decisions that will impact the insured. Knowledgeable insurance counsel will also help the insured negotiate hourly rates and manage defense costs, which may climb well into the six figure range and beyond.

A media liability policy will also provide broad definitions of "claim" and "loss," which are important terms in the intellectual property arena. It is important for the definition of "claim" to include a demand for equitable relief, such as a request for a preliminary injunction or other injunctive relief. If the definition of "claim" does not include equitable relief – but only a monetary demand - the coverage agreements may not be triggered under the policy. While most media policies will not cover the cost of complying with an injunction, i.e. the costs of recall, redistribution or correction, these policies will provide coverage for defense costs, which are often the most significant exposure. Statutory damages, multiplied damages, and attorneys' fees may be awarded to a prevailing plaintiff in a copyright or trademark suit. It is important for the definition of "loss" to clearly address the insurer's intent in respect to damages that are ordinarily part of a plaintiff's recovery.

There are certain standard exclusions that limit coverage under media policies. As set forth earlier in this article, media policies specifically exclude coverage for patent infringement. Media policies also exclude coverage for infringement claims brought by music licensing associations, such as the American Society of Composers, Authors and Publishers (ASCAP), Broadcast Music, Inc. (BMI) and others, on behalf of the musical artists, writers or composers they represent. These entities collect licensing fees on behalf of the music creators they represent for public performances and distribute royalties. The procurement of such music licenses by radio broadcasters, in particular, is considered a usual and ordinary cost of doing business that will not be assumed by the insurer. Media policy also typically exclude coverage for fee disputes, employment practices liability, antitrust and criminal acts. Like the CGL form, media policies increasing exclude coverage for claims arising from unsolicited faxes, emails and mobile messaging.

It should also be noted that many media liability *advertiser* policies, i.e. policies for companies that advertise their own products or services, specifically exclude coverage for trademark infringement. It is perceived as a moral hazard to provide trademark coverage for an advertiser who can profit by creating confusion in the marketplace as to the origin of its goods or services. Trademark coverage may be added back by endorsement for additional premium if the advertiser has a distinctive brand. For example, while a brand leader like McDonald's would not have incentive to create confusion in the fast food market, a new hamburger establishment named McDoogle's just might try to capitalize on the well established McDonald's trademarks.

Because media policies contain various exceptions to coverage, it is crucial that media companies employ and practice sound loss prevention techniques to better insulate themselves from expensive and time consuming litigation. Companies must be vigilant with respect to obtaining clearance for unoriginal content, such as for music or film clips. The creation of original content should be documented with a paper trail from inception. Companies also need to establish a policy for dealing with unsolicited idea submissions from third parties to avoid costly misappropriation claims. In light of the increasing importance and popularity of social media as an outlet for the dissemination of news and other information, media companies should also have an internal policy for Facebook, Twitter and other postings.

B. Coverage for Patent Infringement

Most mainstream liability insurance policies, including CGL and professional liability policies, will not provide coverage for patent infringement or inducement to infringe a patent as named perils. Many forms specifically exclude coverage. Most courts – even those in California - have consistently held that patent infringement claims arising from the advertising of an infringing product are not covered under CGL policies,[24] and even most media liability policies, which intend to cover other intellectual property claims, consistently exclude coverage for or arising from patent infringement and inducement to infringe a patent.

It should be noted, however, that the Ninth and Tenth Circuit Courts have recently reversed trial court decisions finding a duty for insurers to defend patent infringement cases under CGL policies when the alleged infringing conduct arose from the advertising itself – and not the advertised product. In *Hyundai Motor America v. National Union et al*., Hyundai was sued for patent infringement arising from an interactive "build your own vehicle" feature on its website.[25] The jury returned a $34 million verdict for the plaintiff. Hyundai brought a declaratory action seeking a determination that the insurers had a duty to defend the patent infringement suit and to recover its defense costs, although the insured did not seek indemnity for the verdict. The Ninth Circuit held that the phrase, "misappropriation of advertising ideas," was ambiguous as it applied to the facts in the case and could include patent infringement claims.

Similarly, in *Dish Network Corp. v. Arch Specialty Ins. Co*., the Tenth Circuit, applying Colorado law, concluded that Dish's customer service telephone system, which incorporated advertising functions by "making, using, offering to sell, and/or selling...automated telephone systems," may have triggered a duty to defend under the

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[24] Ostrager & Newman, *Handbook on Insurance Coverage Disputes* §7.04[b][4] (9th ed. 1999).
[25] *Hyundai Motor Am.v. National Union Fire Ins. Co. et al*., 600 F.3d 1092 (9th Cir. 2010).

advertising injury coverage under the primary and excess CGL policies.[26] In explaining its position for reversing the district court's entry of summary judgment for the insurers, the appellate court reasoned that "Dish allegedly committed patent infringement by using [patented] technology to sell Dish's own non-infringing…products and services." Thus, the method for delivering the advertising was potentially infringing – not the product, itself.

Coverage actions for patent infringement are often hard fought because defense cost can be exorbitant. The American Intellectual Property Law Association estimates that an average patent case can cost each side $5 million in legal expense. Patent judgments and settlements can also be staggering. In Centocor Ortho Biotech, Inc. v. Abbott Laboratories, Inc.,[27] a jury in the plaintiff-friendly Eastern District of Texas awarded the plaintiffs $1.67 billion, the largest jury verdict in a patent case. The jury found that the defendant's drug, Humira – which is a drug used to treat rheumatoid arthritis, infringed upon plaintiff's patent. In February of 2011, the appellate court overturned the judgment in its entirety ruling that the plaintiff's patent invalid on the basis of written description insufficiency.

The big verdicts, although later successfully appealed, have continued. On October 4, 2010, a jury awarded Mirror World Technologies $625.5 million in damages against Apple, Inc.[28] This patent infringement suit was also filed in the United States District Court for the Eastern District of Texas.

In light of these significant exposures to patent infringement damages, companies whose primary business operations involve the design, development, manufacturing and licensing of new products should procure a patent policy that provides coverage for not only the defense of patent infringement actions, but also provides coverage for the insured to initiate an action for declaratory relief as a plaintiff to enforce a patent. This type of "enforcement" or "pursuit" coverage is designed to aid the policyholder in pursuing infringers. Such coverage may be particularly important to a small company that is concerned that its patent rights may be infringed by a larger competitor.

These policies are expensive with high self-insured retentions and co-insurance provisions. Most are written on a claims-made basis. The underwriting process requires significant due diligence in respect to the applicant's documented loss prevention procedures, such as the patent research and development process and loss history.

IV. Key Insurance Coverage Provisions Regarding Intellectual Property

[26] *Dish Network Corp. v. Arch Specialty Ins. Co*., No. 10-14445, __F.3d__, 2011 U.S. App. LEXIS 20955 (10th Cir. 2011) *rev'g*, 734 F.Supp. 2d 1173 (D. Colo. 2010).
[27] 2:07-cv-00139-TJW.
[28] Mirror World LLC v. Apple, Inc., 08cv88, U.S. District Court for the Eastern District of Texas (Tyler).

Not all policies are created equal in respect to coverage for intellectual property exposures. They will vary significantly in respect to premium and breadth of coverage. The highest premium may not be indicative of the broadest coverage, but conversely, neither should an insurance applicant shop for the lowest-priced policy. There are some important insurance coverage considerations that should be identified and discussed in policy comparisons provided by an experienced insurance broker.

1) Scheduled Media – Specialty policies typically list or "schedule" the specific activities or media works that are to be covered under the policy. Policies rarely provide coverage for "blanket for media." Therefore, it is important to make sure that the language drafted by the underwriter adequately covers the insured's media operations. It should specifically address advertising, as well as social media activities.

2) Claims Made v. Occurrence Coverage Trigger – A claims made policy provides coverage for claims made against the insured during the policy term or extended reporting period regardless of when the occurrence giving rise to the claim took place. An occurrence policy provides coverage for any occurrence taking place during the policy term regardless of when the claim is made against the insured. A claims made policy often necessitates the purchase of an extended reporting period for at least the duration of any applicable statute of limitations. An occurrence policy does not expire.

3) Named Peril v. Open Peril Policy – A named peril policy provides coverage for the enumerated perils set forth in the policy's coverage agreements. An open peril policy, which is perceived as being broader, provides coverage for all perils, unless specifically excluded. Therefore, it is important to carefully review the exclusions as well as the policy's defined terms. Sometimes, defined terms will specifically except certain exposures or activities from the definition. For example, a definition of "advertising" may specifically except from the definition "one-on-one" oral or written communications.

4) Defense Within the Limits of Liability ("DWL") v. Defense Outside the Limits of Liability ("DOL") – The policy's limits of liability, which are the amounts available to pay for loss or legal expense, will be reduced by defense costs under a DWL form. Once the limits have been fully exhausted, the insurer is relieved of any obligation to pay further defense costs or indemnity. With a DOL form, the policy limits are not reduced by defense costs leaving the limits intact to pay any loss, including a settlement. If, however, the limits are completely exhausted with the payment of loss, the insurer's obligation to pay for any defense costs ceases. Because intellectual property claims are typically so expensive to defend[29], it is important to procure either a DOL policy so that the limit remains intact to pay for any loss or settlement or to procure high enough limits, i.e. a minimum of $1M, to pay for any combination of legal expense, settlement or judgment. Many large

policyholders build excess insurance towers well above $50,000,000.

5) Selection of Counsel – This is an important issue when intellectual property rights are at stake. The interests of the insurer and the insured may diverge in that the insured is interested in protecting its property rights at any cost and the insurer is interested in resolving the litigation expeditiously. Many specialty policies give the right to select counsel to the insured, although the insurer has the reasonable right of refusal. Most policies that are written on a DWL basis, give the right to select counsel to the insured because there is more at stake in that there is a risk that defense costs could erode the limits of liability. Policies written on a DOL basis, however, usually give the right to select counsel to the insurer. Whether a DWL or a DOL form, it is crucial that defense counsel have expertise in intellectual property law and be pragmatic and cost-effective.

6) Definition of "Loss" – the definition of loss should provide coverage for treble and statutory damages, which may be awarded in intellectual property litigation. Generally, this definition does not include the procurement of a license by the insured, which is often how intellectual property disputes are resolved. Because licenses are a usual and ordinary "costs of doing business," the insurance company should not have to pay for a license that the insured should have procured in the first place. Insureds would also be well-advised to procure a policy that provides coverage for punitive damages with favorable jurisdiction language.[30] Many policies specifically exclude coverage for punitive damages, which may be awarded in intellectual property, defamation or invasion of privacy cases.

7) Definition of "Claim" – A "claim" as defined by the policy should include a suit for injunctive or equitable relief wherein the policy responds to legal expense incurred by the insured in the defense of the action. In such cases, the claimant is often seeking to enjoin the insured's behavior and to prevent it in the future, as opposed to seeking monetary relief. Some policies only respond if the claimant is seeking monetary damages as opposed to injunctive relief. Very few policies, however, will extend to first party expenses incurred by the insured to comply with an injunction, i.e. the costs incurred to recall or change infringing materials.

8) Definition of "Occurrence" – This definition should be broad enough to include the insured's internet activities. There should be a discussion to determine whether the definition extends to claims arising from third party content posted by bloggers to an insured's website.

[30] Favorable jurisdiction language gives the insured the right to choose which state law applies in respect to the insurability of punitive damage, i.e. the state where the policy was issued, the state where the litigation is located, the state of the insured's domicile or some other state. The policy may further state that such a determination regarding the insurability of punitive damages, which must be proffered by the insured's attorney, shall not be questioned by the insurer.

9) Territory Condition – Because many advertising campaigns are global, including the reach of an insured's website, it is wise to have a global or world-wide coverage territory instead of one limited to North America and its territories. A global or universal coverage territory will provide coverage for lawsuits that arise anywhere in the world.

10) Settlement Clause Condition – Important and costly intellectual property rights are at stake in any intellectual property litigation. Some settlement conditions give the right to settle any claim excess the self-insured retention to the insurer. Other policies require that the insured agree to any settlement regardless of whether the retention has been exhausted. The policy may also allow the insurer to "buy out" of the claim by tendering to the insured the amount excess the self-insured retention demanded by the claimant. It is important to be familiar with this coverage term because it may have a profound impact in respect to the resolution of any litigation. An insured seeking to litigate through trial may be precluded from doing so if the insurance company is contractually able to settle with the claimant without the insured's approval.

V. TIPS for Procuring IP Coverage

Insurance underwriters are very selective in respect to insureds with intellectual property exposures because of the risk of high legal expense and loss. Applicants for insurance with adverse loss histories or without reasonable loss prevention techniques will be declined or face higher premiums, restrictive coverage endorsements, co-insurance provisions and high self-insured retentions. There are steps that should be taken to help maximize the potential for receiving favorable coverage terms at reasonable rates.

1) An insurance, legal and financial team should be assembled to identify intellectual property assets and exposures. This is often referred to as an Intellectual Property Audit ("IP Audit");

    a. The cost of performing such an audit should be included in the annual budget, but such audits need not be performed every year.

    b. Marketing materials (stock photographs), trade names, trademarks and internet materials can all give rise to intellectual property exposures. The use of ideas or materials supplied by independent contractors can give rise to exposure from third parties or to ownership disputes from the independent contractor. The manufacture and sale of products can give rise to patent infringement. Does the company license materials from the orignators of the content? Do the licenses expire? Do they need to be renewed? Is a different use that exceeds the license agreement contemplated? A thorough IP Audit will identify and resolve these issues, among others.

    c. The cost of procuring necessary insurance coverage should be included as a line item;

    d. The cost of procuring licenses for third party content, such as unoriginal music, should be included as a line item;

2) Implement and practice sound loss prevention procedures in respect to intellectual property;

    a. Use of in-house or outside counsel in respect to the review of advertising and marketing campaigns, including internet activities;

    b. Use of in-house or outside counsel in respect to the review of trademark and title searches and the development of new brands;

    c. If advertising and other marketing services are provided by third parties, use hold-harmless agreements in respect to ideas and other information contributed by such individuals or entities;

    d. Inquire whether hold-harmless agreements are backed by insurance. Ask to be an additional insured under the service provider's policy of insurance;

    e. Use contracts and license agreements with third-parties, who develop intellectual property, to better identify ownership expectations as to the end product;

    f. Require employees to execute confidentiality agreements regarding trade secrets and other proprietary information;

    g. Require key employees with access to trade secrets to execute noncompete agreements;

    h. Incorporate a procedure for dealing with unsolicited idea submissions;

    i. Establish internal guidelines for employee and corporate use of social media and blogs;

    j. Be familiar with web site content;

        i. Post clear online user agreements and terms of use policies;

            1. Comply with "take down" requests under the Digital Millennium Copyright Act;

                a. Can the website keep up with take-down requests?

            2. Comply with guidelines under the Children's Online Privacy Protection Act;

        ii. Implement and enforce a comprehensive policy for dealing with potentially defaming or infringing content;

3) Identify insurance producers with expertise in intellectual property coverage to submit insurance applications to a variety of insurance markets;

    a. Ask the insurance producer to compare key coverage terms;

b. If coverage under the CGL form is perceived to be adequate, thoroughly review the coverage on an annual basis and ask specific questions as to how the policy might respond to intellectual property exposures. It is always best to know about a policy's shortcomings up front rather than to find out after a claim has been denied.

4) Completely, accurately and neatly execute any insurance applications and include any supplemental information;

5) Conduct annual insurance meetings to discuss the insurance renewal and any new business activities and divestments. This process should be commenced well before the expiration date of the insurance policy.

Most companies have insurance coverage in place for tangible property interests, but insurance for intellectual property continues to be a rarity even though intellectual property assets are now more recognized as extremely valuable, and very difficult – if not impossible - to replace. Nothing may be more devasting to a business than to lose a valuable intellectual property right to a competitor or other third party. While some companies conduct business without this specialty insurance because of the perceived costs relatable to the premium, the majority do not even consider the coverage or the consequences of going without. Every business that manufactures and/or introduces new products or services to market should consider such coverage and its benefits with the assistance of an experienced insurance producer.

Coverage for Content that Relies upon Fair Use

There is a perception among insurance brokers and film producers, in particular, that insurance coverage is available for the copyright defense of fair use.[31] There is not any Coverage Agreement in any insurance policy providing an affirmative coverage grant for fair use. This misunderstanding demonstrates a lack of understanding about insurance policy construction, in general. Media liability policies do provide coverage for copyright infringement. Most insurers, however, will not knowingly bind coverage for a risk that is highly exposed to copyright infringement. The fair use defense to copyright infringement frequently comes into play as a necessary part of the risk acceptance process. Most media liability applications inquire whether the risk seeking coverage has procured all necessary licenses, releases and consents:

> *Are any clips (film or video excerpts from other sources) or photograph used in this Production. If Yes, have all licenses and content for the clips been obtained? If No, please explain.*[32]

If an applicant responds in the negative and without proper explanation, it is likely that the applicant will be declined for coverage or the insurer will specifically exclude

[31] Copyright Act of 1976, 17 U.S.C. § 107.
[32] New Business Application for MEDIAGUARD Producers Liability Coverage 4-03-0890 (04/2008), Chubb.

coverage for claims arising from the clip, film, etc., for which a license or consent was not obtained. In other instances, the applicant may receive an insurance quote with a significantly higher premium and/or self-insured retention to off-set exposure arising from the failure to procure licenses.

Many documentary filmmakers do not have consent from individuals, who are the subject of an unauthorized biography. Likewise, they perceive that it is a fair use to use news footage to illustrate cogent issues. Thomas Plotkin tackled fair use and insurance issues in his insightful law review article, "*Fair is Foul and Foul is Fair:" Have Insurers Loosened the Chokepoint of Copyright and Permitted Fair Use's Breathing Space in Documentary Films*?[33] Mr. Plotkin explains the financial problems facing documentarians as follows:

> *In recent years, documentarians have found that the cost of licenses for copyright material has ballooned astronomically, far beyond the reach of their meager budgets. This is in large part because the large media entities that hold copyrights have awakened to the value of their back-catalogs as cash cows: since Hollywood and the music industry itself pays top dollar for licenses, documentarians are expected to as well.*[34]

As a result, documentary filmmakers increasingly rely on the fact that the failure and/or inability to procure a consent or a release is protected by the fair use exception to copyright law. Film producers, who rely upon a fair use defense as a basis for not licensing unoriginal content, should include a legal opinion from counsel in support of the fair use exception. Because of the complexities surrounding fair use and the fact that fair use decisions must be made on a case-by-case basis, insurance underwriters – the majority of whom are not attorneys - are naturally reluctant to conduct an analysis of fair use and will rely significantly upon the applicant's opinion from counsel.

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[33] Connecticut Insurance Law Journal, 2008. online. www.insurancejournal.org/content/repository/journals/15/2/2.pdf
[34] *Id.* at 408.