

## **IP Remedies and Insurance: A Primer for Insureds, Agents and Brokers**

**(This material was included in the program manual from the 2002 DRI Intellectual Property and Insurance Seminar in Phoenix, AZ)**

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### **I. Searching for the right remedy: The economic and non-economic aspects of claim resolution in intellectual property litigation.**

Selecting and fashioning remedies in IP cases presents a number of interesting problems for the lawyer, client, claims representative, and court. This paper focuses on settlements, coverage concerns relating to recovery of damages, and on the injunctive and non-insurable aspects of IP settlements which are critical to successful resolution of any IP dispute. While insurance defense lawyers are well familiar with coverage for bodily injury and property damages, coverage for IP claims is not always well-appreciated or known.

Turning first to the economics of litigation and settlement, not the least of the challenges involves obtaining a mastery of the relevant insurance coverages that may apply to provide defense or indemnity for parties. In light of the cost of litigating IP cases, the duty to defend is critical. Apportioning or allocating between covered and non-covered damages is a separate and secondary consideration. Finally, there is the task of allocating expenses between defense costs and affirmative claims for relief where there are counterclaims asserts. All of this can create conflicts between the insurer, attorney and insured. Not only the must the prudent lawyer identify available coverages but the lawyer must be sensitive to the potential liability of agents

and brokers who may have failed to procure proper coverage or who failed to undertake a proper analysis of the insured's business and failed to make appropriate and necessary insurance recommendations. All of these issues are dealt with in the sections that follow.

## **II. The Duty to Defend: A Very Short History of IP Coverage under ISO forms**

Given the necessity of Rule 26 insurance disclosures, identifying liability insurance for both client and opponent should be at the forefront of every litigator's initial activity in IP litigation filed in federal court. While Rule 26 provides a mechanism for bringing the issue to light in federal court, insurance is no less important in state court litigation involving, for example, trademark, trade secret or state unfair competition statutes. Liability coverage for the client must be quickly obtained from the client, carrier or broker and the issue of the carrier's duty to defend must be quickly analyzed. This is not always a simple task. Some unsophisticated clients have poor insurance records. Agents and insurers are notoriously slow in delivering policies when needed in litigation. General liability carriers may have little familiarity with IP claims and coverage issues.

Litigation costs incurred before tender of the summons and complaint are almost never paid by the insurer, and given the amount of time that may be invested early in the case, an immediate tender of the complaint is necessary to protect the client's interests. This is particularly true if your client is facing a motion for issuance of a preliminary injunction. Liability for pre-tender litigation expenses is beyond the scope of this manuscript but has been extensively reviewed elsewhere. See Schenk, "Payment of Pre-Tender Defense Costs," *For the Defense* (July 1999).

The duty to defend raises four issues. Does an insurer owe my client or related co-defendants a defense? If there is no coverage, is the absence of coverage due to the negligence of the agent or broker? Does my opponent have coverage? Do I want my opponent to have coverage? Determining whether a defense is owed to your client in a claim for trademark infringement and unfair competition, for example, is not always clear at first blush. For purposes of this manuscript our discussion of standard general liability is synonymous with the ISO (Insurance Services Office) forms which are commonly used by the major insurers. For more on the Insurance Services Office go to [iso.com](http://iso.com).

Depending upon the allegations and the nature of the insured's business, a lawyer must also be mindful of other professional or errors and omissions coverage that may apply, including cyberliability, internet liability and media-related coverages which may contain some coverage for certain kinds of intellectual property related claims or some species of advertising injury coverage. Unless the client is in some form of advertising, media or creative endeavor, they will not have any form of specialty coverage. The only coverage will be under a general liability form. General liability policies have been construed broadly in many jurisdictions to recognize a

duty to defend, although in recent years carriers have been modifying their general liability forms in an effort to eliminate coverage and the duty to defend patent, trademark, and unfair competition claims under the Lanham Act or equivalent state statutes.

Any litigator prosecuting or defending IP cases should have an understanding of the history of insurance coverage for IP risks, be able to distinguish ISO and non-ISO forms and have an understanding of current trends in the insurance industry, and the impact of the most recent ISO changes. There are still insurers using (perhaps unknowingly) general liability forms that could give rise to a duty to defend patent, trademark and unfair competition claims. Even after the changes are made “some insurance companies continued to sell insurance policies - especially excess and umbrella insurance policies - with the 1973 Broad Form Endorsement or the 1986 ISO form.” *McCarthy on Trademarks and Unfair Competition*, §33:6. Identifying the relevant form year is critical to unraveling the case-law.

Historically intellectual property lawyers were unconcerned or at least only tangentially interested in insurance coverage because until approximately the mid-80's few lawyers found coverage for IP claims in general liability policies and there were few markets for stand alone IP products. No doubt many lawyers and clients in the past (and still today) overlook the possibility that coverage might exist for certain IP claims. The issue is also of critical importance for insurance agents and brokers who are increasingly subject to scrutiny for failing to provide adequate coverage for foreseeable risks or for failing to make appropriate recommendations to the insured.

Insurance issues are a problem for clients, lawyers and insurance agents and underwriters as the insurance industry attempts to deal with internet technology, the boundaries of defamation law, trademark infringement, cybersquatting, copyright violations and the explosion in internet advertising and content. The liability claims and coverage issues will also arise as we see improvement in web technology, video, voice, links, graphics, and animation. As shown below, the ISO response has been to narrow the “personal and advertising injury” coverage sections which are the source of coverage for IP claims by modifying definitions of advertising and requiring a closer nexus between advertising and the damage or injury.

The most problematic coverage issues would appear to lie in the area of trademark infringement and unfair competition, and so this will be the focus of the sections that follow. For a short while some courts were suggesting that patent infringement claims might trigger a duty to defend, but the great weight of authority now holds that there is no duty to defend and later cases undercut the rationale. The duty to defend patents infringement under ISO forms is probably a dead issue. *See e.g., Gencor Industries, Inc. v. Wausau Underwriters Ins. Co.*, 857 F. Supp. 1560 (M.D. Fla. 1994); *Aetna Casualty and Surety Co. v. Sup Ct. of Orange Co. (Watercloud Bed)*, 23 Cal. Rptr. 2d 442, 28 U.S.P.Q.2D 1424 (Cal. App. 4<sup>th</sup> Div. 1993); *Rivera v. Arlasky*, 857 F. Supp 1258 (N.D. Ill. 1994)

## ISO APPROACH 1973-86

Advertising injury coverage in some form was first introduced in CGL policy form in 1973 thru a broad form endorsement which included “personal injury” liability coverage for such torts as libel, slander, malicious prosecution, false arrest and invasion of privacy, The phrase “personal injury” was probably an unfortunate choice of words as the claims covered in this section are not personal injury claims in the legal or lawyer sense of the word, but typically involve no bodily or personal injury other than injury to reputation, emotional distress, and mental anguish. Nonetheless the phrase “personal injury” coverage remains in the ISO form.

In 1986 ISO made changes to CGL incorporating advertising and personal injury in coverage part B. *Significantly, this change deleted the exclusion for trademark infringement.* In 1986 ISO revised the form to replace “unfair competition” with the phrase “misappropriation of advertising ideas and style of doing business” while eliminating the trademark, service mark and trade name exclusion thus implying that claims related to trade dress would be included under the 1986 revision. *Adolpho House Distributing Corp v. Travelers Property and Casualty Ins. Co.*, 2001 U.S. Dist. LEXIS 14489 (S.D. Fla. 2001)(recognizing that Florida Supreme Court had not yet construed the insurance terms “advertising injury” and that trademark and tradedress infringement meet the definition of advertising injury in the CGL policy).

In 1996 ISO adopted form CG 00 01 01 96 where “advertising injury” and “personal injury” are defined separately. **Advertising injury** means

- a. libel or slander of person or their goods or services
- b. written publication of material violating right of privacy
  - c. *misappropriation of advertising ideas or style of doing business*
  - d. *infringement of copyright, title, or slogan*

### **Personal injury** means

- a. False arrest, detention or imprisonment
  - b. malicious prosecution
    - c. wrongful eviction, entry or invasion by owner, lessor or landlord
    - d. slander or libel of person or organization and their products or services
  - e. publication which violates person’s right of privacy
- ii. Under Coverage B - the insurance applies to advertising injury caused by an offense committed in the course of of **advertising** your goods,

products or services, but only if the offense was committed in the coverage territory during the policy period.

Parts “c” and “d” in the definition of advertising injury in the ISO form have been the source of much litigation. It is in these provisions where courts have found coverage for trademark, traddress, and copyright infringement, unfair competition, and related deceptive and unfair trade practice act violations. Some courts have held that subsection “c” in the **advertising injury definition** is broad enough to encompass a violation of a trademark. Courts have recognized that a “title” may include a trademark. *Adolpho House v. Travelers*, 2001 U.S. Dist 14489 (S. D. Fla. 2001); *Williamson v. North Star Companies*, 1997 Westlaw 53029 (Minn. Ct. App. 1997)(Case no. C3-96-1139); *Lebas Fashion v. ITT Hartford Ins. Group*, 50 Cal. App. 4<sup>th</sup> 548 (Cal. Ct. 4<sup>th</sup> 1996); *American Emp. Ins. Co. v. Delorme Publishing Co.*, 39 F. Supp.2d 64 (D. Me. 1999)(Maine law); *Dooglo v. Northern Ins. Co. of New York*, 907 F. Supp. 1383 (C.D. Cal. 1995); *A Touch of Class Imports, Ltd. v. Aetna Casualty & Surety Co.*, 901 F. Supp 175 (S.D. N.Y. 1995)(coverage provided in case involving sale of jewelry)

Some courts have taken **the opposite view** reasoning that if the drafters had intended to cover trademark infringement, they could have used the word trademark, which is a familiar term and well known legality. *Advance Watch Co. v. Kemper National Ins. Co.*, 99 F.3d 795 (6<sup>th</sup> Cir. 1996)(trademark infringement not covered under misappropriation clause); *ShoLodge, Inc. v. Travelers Indemnity Co. of Illinois*, 168 F.3d 256 ( 6<sup>th</sup> Cir. 1999)(trademarks did not fall within infringement of “copyright, title, or slogan” clause). Other courts have looked carefully at whether the offense was committed in the course of advertising to determine coverage. *Diversified Investments Corp. v. Regent Insurance Co.*, 1999 WL19162 (Wis. Ct. App. 1999); *Callas Enterprises, Inc. v. Travelers Indemnity Co.*, 193 F.3d 952 (8<sup>th</sup> Cir. 1999)(applying Minnesota law and finding no coverage for trademark infringement). For a relatively recent overview of the coverage issues in this area see Roach, “Technology Risks and Liabilities: Are You Covered?” 54 SMU Law Rev. 2009 (Fall 2001). The *Advance Watch* decision from the Sixth Circuit has, however, not been followed in the Eleventh Circuit and its logic has been attacked in a number of jurisdictions. *Hyman v. Nationwide Mut. Fire. Ins. o.*, 304 F.3d 1179 (11<sup>th</sup> Cir. 2002).

Of critical importance is understanding that there might well be a duty to defend patent or trademark infringement claims, although indemnity may later be in doubt or not be owed for a variety of reasons. *Charter Oak Fire Ins. Co v. Hedeem & Companies*, 2002 U.S. app. LEXIS 1764 (7<sup>th</sup> Cir. 2001)(noting duty to defend trademark claim under Wisconsin law); *Elan Pharmaceutical Research Corp. v. Employers Insurance of Wausau.*, 144 F.3d 1372 (11<sup>th</sup> Cir. 1998)(Georgia court recognized duty to defend patent claim where patent infringement was enumerated offense in policy).

Coverage for patent infringement was litigated but after a few decisions finding coverage or at least duty to defend, the case-law overwhelming came down on the side of insurers and established there is no duty to defend patent infringement under the 1986 and post-1986 ISO general liability forms. *Heritage Mutual Ins. Co. v. Advanced Polymer Technology, Inc.*, 97 F. Supp. 2d 913 (S.D. Ind. 2000). Be mindful of the fact that some general liability insurers may have included patent infringement as an enumerated offense within the advertising injury coverage section and thus a duty to defend might very well arise. This coverage language however is not typical. *Elan Pharmaceutical Research Corp. v. Employers Insurance of Wausau*, 144 F.3d 1372 (11<sup>th</sup> Cir. 1998)(construing policy under Georgia law).

Unlike trademark and patent claims, copyright infringement was an enumerated offense starting with the older ISO forms from the mid-80's and so the insured could easily assert that a duty to defend was owed under the language for infringement of "copyright, title or slogan".. One of the key arguments against coverage flows from the argument that the copyright infringement could only be covered if advertising was the source of infringement. *Doron Precisions Systems, Inc. v. USF&G Co.*, 963 P.2d 363 (Idaho 1998). Whether the infringement or injury is "caused" by advertising, "in" the advertising, or related to advertising has been and continues to be a thorny issue for insurers and their insureds.

### **Where's the Advertising in the Injury?**

Insurance companies, lawyers, clients and courts have for a long while wrestled with the issue of the required nexus between the injury or damage, the enumerated offense, and whether the offense or the injury had to flow or arise in some sense from the insured's advertising. This issue first arose because although styled as "advertising injury" this coverage provision and the included enumerated offenses did not have a definition for advertising. See the ISO form # CG 01 01 96. Therefore, the definition of advertising and its relationship to the injury was left to the courts. *Adolpho House Distributing Corp v. Travelers Property and Casualty Ins. Co.*, 2001 U.S. Dist. LEXIS 14489 (S.D. Fla. 2001)(recognizing that Florida Supreme Court had not yet construed the insurance terms "advertising injury" and that trademark and traddress infringement meet the definition of advertising injury in the CGL policy). Direct solicitation to one customer was held to be an advertisement. See *Tri-State Ins. Co. v. B&L Products, Inc.*, 964 S.W.2d 402 (Ark. Ct. App. 1998); *John Deere Ins. Co. v. Shamrock Industries*, 696 F. Supp. 434 (D. Minn. 1988) aff'd 929 F.2d 423 (8<sup>th</sup> Cir. 1991). Misappropriation of customer lists and marketing techniques might be a form of advertising. *Sentex Systems, Inc. v Hartford Acc. Indemnity Co.*, 882 F.Supp. 930 (C.D. Cal. 1995). Catalog sales are advertisement and trade dress infringement could trigger a duty to defend. *El-Com Hardware v. Fireman's Fund Ins. Co.*, 1 C.D.O.S. 7966, Cal.Ct.1<sup>st</sup> Dist. 2001(case no. A092998). Any oral, written or graphic statement made by the seller in a manner intended to solicit business could constitute advertising. *Ross v. Briggs & Morgan*, 520 N.W.2d 432 (Minn. App. 1994) *rev. den.* 540 N.W.2d 843 (Minn. 1995).

Some courts provided a more narrow definition of advertising which as shown below ultimately helped craft the definition used in more recent policies. Some early decisions did not resolve in favor of the insured. *Playboy Enterprises, Inc v. St. Paul Fire & Marine Ins. o.*, 769 F.2d 425, 429 (7<sup>th</sup> Cir. 1985)(holding that advertising involves widespread distribution to the public at large and not mere letter-writing) *Smartfoods, Inc. v Northbrook Property & Casualty Co.*, 618 N.E.2d 1365 (1993)(Massachusetts law)(advertising means a public announcement to proclaim the qualities or virtues of a product or point of view); *First Bank & Trust Co. v. New Hampshire Ins. Group*, 469 A.2d 1367 (1983)(New Hampshire law)(person to person solicitation not advertising).

### **III. The 1998 and 2001 ISO Revisions - The Insurance Industry's Response to IP Claim Costs**

Beginning in 1998 an effort was made to better define "advertising" in an effort to reign in the otherwise ill-defined coverage problems and duty to defend issues that arose. Under ISO CG 01 07 98 the insuring agreement is the same as 1996 except that under Coverage B (1)(b)

*this insurance applies to "personal and advertising injury" caused by an offense arising out of your business but only if the offense was committed in the "coverage territory" during the policy period.*

The combined "Personal and Advertising Injury" definition means injury including consequential "bodily injury" arising out of one or more of the following offenses:

false arrest, detention or imprisonment

malicious prosecution

wrongful eviction from or entry into room, dwelling or premises that a person occupies, committed by its owner, landlord, lessor

libel or slander of person or organization and their goods, products, services

oral or written publication of material that violates a person's right of privacy (*notice this does not mention organizational privacy*)

the use of another's advertising idea in your "advertisement" or

infringing upon another's copyright, trade dress or slogan in your "advertisement"

In 1998 ISO defined “advertisement” as a NOTICE that is . . .

- i. broadcast or published to the general public or specific market segments
- ii. about your goods, products or services for the purpose of attracting customers or supporters

One could still attempt to create an ambiguity by focusing on the meaning of the word “NOTICE”. What is a notice? Dictionary definitions include “warning or intimation of something,” “announcement, “ ”the condition of being warned or notified,” information; intelligence; attention; heed; written or printed announcement, a short critical account.” Does NOTICE include verbal or unwritten notice? Is a business card a notice? Does NOTICE mean that it went to more than one person at or near the same time? Does PUBLISHED include verbal statements? Under the common law slander and libel both involve “published” statements. Have we eliminated the question of whether a person to person solicitation constitutes advertising OR is an advertisement?

## Is it Goodbye to the IP Exposure in GL policies?

No doubt tired of defending expensive patent, trademark and copyright litigation in federal courts, the carriers have sought some safe harbor from the duty to defend. In a soft market like that which ran for most of the 1990's and up until the tech stock crash, GL premiums were low and the insurers were not collecting enough premium to counter the occasional IP exposure under GL policies. Some carriers drafted their own IP exclusions rather than wait for ISO. Some with mixed results. In one case litigated the author, an insurer attempted to exclude certain IP claims by altering the definition of advertising injury but was alleged to have failed to obtain Department of Insurance approval of the form endorsement attached to the policy. *Body Systems Technology, Inc. v. Allstate Ins. Co.*, 01-CA-1698-15-K (8th Cir. Ct. Fla.). Whether representing a plaintiff or defendant any litigator faced with a non-standard non-ISO exclusion purporting to exclude liability for intellectual property claims is well-advised to ensure that the manuscript or “company drafted” form has in fact been approved for use in the state where the insured is domiciled and where the policy was issued.

The latest ISO GL form evidences a clear intent to avoid IP claim exposure except in a narrowly defined exposure for true advertising related offenses. The **2000-1 ISO** changes to the GL include changes in the definition of advertisement. The insuring language for “Personal and Advertising Injury” is unchanged from 1996 but note the change in the definition of advertisement:

“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.

- a. notices that are published include material placed on internet or on similar electronic means of communication;
- b. regarding websites, only that part of website *that is about* your goods, products or services for purposes of attracting customers is considered an advertisement.

What does “that is about” mean? Isn’t the whole website “about” your effort to sell goods, products or services? What is actually on a website? Do they really mean WEBPAGE?

To counter the “ambiguity” in many definitions of advertising injury carriers have:

1. Added “intellectual property” exclusions for trademark, traddress or Lanham act violations

2. Required that the offense be committed in the insureds “advertising” or
3. Required that the injury be caused by the insured’s advertising
4. Refused to insure certain companies and risks not squarely within the ambit of one of the Coverage Part B exclusions

The underwriting intent to avoid IP exposure is made apparent when comparing the exclusions in the 1998 and 2001 versions of the ISO general liability form:

Exclusions a-h are carried over from the 1998 and just given new or different descriptive headings. There is a new exclusion for **Insureds in Media and Internet Type Businesses** with a saving provision affording them some coverage for the long-standing enumerated offenses including false arrest, malicious prosecution and wrongful eviction or entry into premises. Significantly there is no libel or slander protection for these kind of companies. Placing ads, frames, borders. or links does not make you in the “business” of advertising, media, internet design, etc.

There are Advertising and Personal Injury exclusions for:

**Electronic Chatrooms or Bulletin Boards**

**Unauthorized Use of Another’s Name or Product**

**Breach of contract**, except implied agreement to use another’s advertising idea in your “advertisement”

**Quality and Performance of Goods**

This exclusion is primarily intended to eliminate coverage for breach of express or implied warranty. The language of the exclusion echoes the description of express and implied warranty in the Uniform Commercial Code

Exclusion G in Coverage B is analogous to Exclusions J, K, L and M in Coverage part A - costs for repairing or fixing your incorrectly performed work, or due to some defect, deficiency or dangerous condition in your work or product in property that has not been physically injured.

**Wrong description of prices**

**Infringement of copyright, patent, trademark or trade secret**

“Personal and advertising injury” arising out of the infringement of copyright, patent, tradeseoret or other intellectual property rights is excluded on current forms. However the exclusion “does not apply to infringement in your advertisement of copyright, trade dress or slogan”

Why does the saving provision in IP exclusion (exclusion I) use the word “trade dress” rather than trademark - is there a difference and did the drafters intend to exclude “trademark claims” which do not involve “trade dress”? Most courts conclude that trade dress is a form of trademark. Exclusion I (the IP exclusion) is confusing and it is not clear why ISO used the word trademark in the exclusion but “tradedress” in the give-back provision.

### **New indemnitee coverage since 1998**

Since the 1998 form ISO has included new language providing coverage for indemnitees to whom the insured owes a duty of indemnity pursuant to a written agreement. The policy provides the carrier will defend third party to whom insured owes indemnity so long as there is no conflict and the same attorney can defend both, if the insured has assumed liability in a contract, cooperates, sends timely notices and papers. Defense costs are over and above limit. This is potentially useful in trademark cases, for example, where a manufacturer, wholesaler or distributor may have an obligation to indemnify a retailer for infringement claims.

## **IV. APPORTIONING SETTLEMENTS INVOLVING SALE OF IP ASSETS**

One of the thorniest issues arising in infringement claims involves the sale or transfer of a trademark or patent in connection with the settlement. Suppose for example that as a condition of settling the suit for trademark infringement, the Plaintiff insists and insured/defendant wants the transfer of the mark and intends to buy Plaintiff’s rights in its trademark. If the Plaintiff’s mark has significant value, is the insurer obligated to pay for entire settlement? What if the settlement includes payment for “infringement damages” and sale of the mark? How can they be apportioned? This was the issue raised in *Platinum Technology Inc. v Federal Insurance Co.*, 62 U.S.P.Q2d 1139 (2<sup>nd</sup> Cir. 2002).(federal district court erred in finding that insurer was responsible for indemnifying insured for \$4 million that insured paid to plaintiff in trademark infringement action since purported settlement payment was actually for transfer of trademark assets).

### **Determining the market value of the asset transferred**

If there is the potential that others might buy the asset, evidence of good faith offers to purchase the mark could be used as a barometer of value for insurer and insured. The problem is none too easy, for if the mark is in litigation, surely the price a willing purchaser would pay is deflated. The date of the offer is important too. Old offers under different market conditions are suspect. Moreover, in most cases the prospect of obtaining good faith offers to measure market value is slight. Smaller or regional companies are not likely to have marks with significant value to third parties sufficient to generate interest. Usually apart from the litigants, there may be little interest in a regional, niche or local marks. Nationally recognized marks might be more easy to value in one sense, but the time and expense of determining value becomes monstrously important - assuming the price is seven figures or higher - the valuation method becomes critical.

There is also a risk of collusion between plaintiff and insured in attempting to characterize the damages as flowing from infringement and advertising injury rather than as compensation for sale of the asset. Settlement offers made during litigation are also suspect since the offer to buy the mark may be a ruse to test the opponent's interest in enforcing it.

There are a variety of IP valuation companies that hold themselves out as capable of providing some expert testimony on the commercial value of the IP assets. While this has the benefit of some theoretical objectivity, there are some problems with this approach as when using any forensic experts. The value of the IP asset to be transferred in connection with settlement may not warrant the investment needed for an asset evaluation. Second, if the eleventh hour settlement hinges on being able to value the IP asset transferred, time may be short. Locating a single "shared" expert or a panel of experts is time-consuming. The kind of report that might be generated during litigation for trial purposes, cannot be created on the courthouse steps or during a short mediation recess. Moreover, if the expert or his or her valuation method is suspect or if for any reason one party has little confidence in the expert or method, then the matter devolves into a lawsuit within a lawsuit and potentially a battle of experts with all of the attendant legal expenses.

### **Settlement loan agreements**

Another option would be to agree that the insurer will front the entire or some percentage of the settlement under what is deemed a "loan agreement" between insurer and insured. Under this scenario, the insurer and insured contribute an agreed upon percentages and some portion of the settlement payment is deemed "an insurable damage payment" for which the insurer cannot seek restitution, while the remainder represents payment by the defendant/insured for purchase of the mark. After the underlying case is resolved, the ultimate allocation might be resolved by a second mediation, arbitration or perhaps mini-trial limited to an apportionment of the IP asset within the context of the overall settlement. This has the benefit of eliminating the underlying claim and providing fixed endpoints within which the insurer and insured will battle.

This may be the only viable option if the insured is cash poor at the time of settlement and if both insurer and insured recognize the need to settle the underlying dispute.

Unless the trademark or asset has significant value, the cost of arbitrating or trying to a judge or jury the value of the asset may be disproportionate to the amount in suit. That was not the case in *Platinum Technology v. Federal Insurance, ante*, where several millions of dollars were paid in connection with settlement of the infringement claim and transfer of the trademark asset. The court trial court and appellate court reached opposite views on whether the settlement was a covered payment under the policy. The court's discussion of the valuation issue well highlights the difficulty of obtaining credible evidence of the asset value in connection with the entire settlement. The court noted that the parties "own agreement" indicated that the trademark was worth \$4 million, but this analysis by the court appears rather cryptic and the language in the "agreement" reference was not quoted. The appellate court showed little interest in remanding for a re-evaluation of the trademark assets. The court held that the trial court erred in holding that none of settlement payment was for the transfer of the mark, yet the appellate court's resolution of the issue wholly in favor of the insurer may be equally draconian. The *Platinum Technology* court cited to the earlier decision in *Zurich v. Killer Music, Inc.*, 998 F.2d 674 (9<sup>th</sup> Cir. 1992) which involved a settlement including the sale of copyrighted works. In that case, the burden was apparently placed on the insurer to demonstrate the value of the songs transferred in the settlement. There is little law in this area, and thus opportunity for creative solutions. The best course is to advise the client as soon as possible of the potential liability and obligation to pay for any IP assets transferred as part of the settlement of the overall dispute.

### **The duty to "defend" affirmative claims for relief**

Counterclaims are not uncommon in IP cases. Does the insurance company have an obligation to defend, that is, pay for the legal fees incurred by the insured when it files a compulsory counterclaim against the Plaintiff? At first blush the answer would appear to be "no," as the duty to defend relates only to covered claims in the insuring agreement. However, some cases have begun to recognize that the insurer may be duty bound to pay for legal fees incurred in prosecuting affirmative claims that are "inextricably intertwined" with the claim being defended. *TIG Insurance Co. v. Nobel Learning Communities, Inc.*, 2002 U.S. Dist. LEXIS 10870 (E.D. Pa. June 18, 2002). This is obviously a problematic holding because the rationale could be extended beyond IP claims to a variety of commercial torts.

Normally the insured and insurer reach some equitable apportionment of the fees. The issue is problematic for the attorney depending upon whether his or her relationship commenced with the insured or by assignment from the insurer. Splitting the time between "defense" activities and "prosecution" is difficult and logically suspect. Some rough assessment of the number of hours to be incurred or the relative "weight" or burden of the claim and counterclaim

suffers from simplicity but importantly eliminates the conflict. Moreover, nothing should prevent the parties from reassessing the pro rata responsibility for defense costs if the initial assessment proves inequitable. It is incumbent on the attorney to resolve this issue quickly so that neither insured nor insurer are left with a misunderstanding as to their financial stake in the lawsuit. Some percentage based split saves time with administration and avoids the day to day chore of deciding whether the work relates to the claim, the defense, or both. The lawyer should not cavalierly assume that the insurance carrier will readily assume the obligation to pay for affirmative claims - the holding in *TIG Insurance, infra*, notwithstanding. Few carriers will accept that holding as controlling and there are bound to be factual distinctions. *TIG Insurance* maybe be more of a curiosity than a force for change in the area of cost allocation. The key is to strike a deal with adjustment provisions.

## **V. NON-ECONOMIC REMEDIES IN TRADEMARK AND UNFAIR COMPETITION CASES**

The defense attorney must understand that the plaintiff's primary litigation objective may not be simply to obtain a large judgment. The damage claim may be of only limited value. The true goal may be to obtain an order canceling the registration of the mark. The objective may be injunctive relief, and disruption or chilling of sales or distribution channels so as to effectively cripple or limit the market share of the opponent. Intellectual property cases require the lawyer to be mindful of the client's best objective and the opponents market position . Sometimes even sophisticated clients are frustrated by the opponents illegal and unethical business conduct, but are not sure of the right remedy. They may direct the attorneys to pursue remedies that are costly and have little practical benefit. The value of experience is in knowing when the client needs guidance or when the client's goals are not really in their best interests. The litigation plan must take into account the reality, timing, pressure and competition in the marketplace, the insurers needs (if there is a duty to defend) and any exposure via counterclaim. Knowledge of the insured's position, marketshare, geographic limitations and long term business plan is key.

### **Cancellation of registration**

15 U.S.C. § 1119 gives the district court the power to order cancellation of registrations in actions involving registered marks. 15 U.S.C. §1064 provides in part that cancellation may be sought at any time f the registered mark become the common descriptive name of an article or substance, or has ben abandoned or its registration was obtained fraudulently. Commentators note that cancellation of the mark cannot be the sole basis for suit, there must be some other issue relating to the ownership or use of a federally registered mark. *McCarthy on Trademarks and Unfair Competition* §30.110. Thus, cancellation may be the basis for a counterclaim in a suit for infringement. If abandonment is the basis for cancellation, courts normally require intent to abandon the mark and mere non-use standing alone may be insufficient unless grounds supporting laches is demonstrated. See e.g., *Vance & Associates v. The Baronet Corp.*, 487 F.

Supp. 790 (N.D. Ga. 1979). The power of the federal courts to cancel registrations under §37 of the Lanham Act is limited according to some authority by the provisions of §14 of the Lanham Act and the criteria set forth therein. *Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 105 S.Ct. 658 (1985); *Shakespeare Co. v. Silstar Corp. of Am.*, 9 F.3d 1091, 28 U.S.P.Q. 2d 1765 (4<sup>th</sup> Cir. 1993) *cert. den.* 511 U.S. 1127, 114 S.Ct. 2134 (1994). Cancellation of an offending mark could prove critical to plaintiff or defendant and may provide for additional settlement leverage.

### **Consent judgment with injunctive relief**

Many times the plaintiff may be able to negotiate a settlement which contains prohibitions against certain conduct in lieu of economic relief or if given in exchange for a modest monetary payment. The settlement terms can then be incorporated into an order of the court and judgment subject to enforcement by the court. Violations of the settlement thus become a species of contempt which can be remedied by a motion for contempt rather than a separate suit for breach. Care must be taken in this area.

This method of settlement predicated upon an order and final judgment with injunctive relief arguably obviates the necessity of filing a new lawsuit as any breach of the settlement agreement is simply a violation of the final judgment and order. This can be critical because as a species of contempt hearing time is much more readily had, and the aggrieved party is likely to be heard much sooner. A new lawsuit entails service of the summons, preparation of a Rule 16 case management report and case tracking designation issues.

The issue of continuing jurisdiction to resolve settlements is muddled as there tends to be a judicial preference to decline jurisdiction over a dispute which involves a mere breach of the settlement agreement. Thus, an order of the court with express mandates directed to the defendant is necessary if the plaintiff seeks the benefit of continuing jurisdiction to enforce a breach of the injunctive terms of the settlement. The case law in any particular jurisdiction is likely to be mixed. See *Kokkonen v. Guardian Life Ins. Co. of Am.*, 511 U.S. 375 (1994). Where the settlement agreement filed as an exhibit expressly provides and contemplates that an order and injunctive relief is material to the settlement and where the court expressly reserved jurisdiction in the Final Judgment to enforce the injunction entered pursuant to the parties stipulation and “agreements,” jurisdiction should be found.. See *Nat’l Coalition for Students v. Bush*, 173 F. Supp. 2d 1272 (N.D. Fla. 2001)(“the order and judgment in effect incorporated the terms of the very Settlement Agreement by reference, with the very same force and effect as if the terms of the Settlement agreement had been retyped”). The last page of the *Kokkonen* decision even contemplates the exercise of ancillary jurisdiction where there is authority to enforce settlement terms. See *Kokkonen*, 511 U.S. at 380-381; 114 S.Ct. at 1676-1677; *Resnick v. Uccello Immobilien GMBH*, 227 F.3d 1347 (11<sup>th</sup> Cir. 2000).

The 11<sup>th</sup> Circuit has reversed a trial court decision requiring a party to file a new lawsuit entered into after a consent judgment even after the case has been closed noting that requiring a new lawsuit to enforce a consent decree would undermine the goal of avoiding protracted litigation and would create disincentives for plaintiffs entering into such decrees. See *Fla. Assoc. of Retarded Citizens, Inc. v. Bush*, 246 F.3d 1296 (11<sup>th</sup> Cir. 2001) citing *U.S. v. City of Northlake, Illinois*, 942 F.2d 1164, 1168 (7<sup>th</sup> Cir. 1991). The case law may well vary by circuit. A thorough discussion of this issue is beyond the scope of this paper. The recent decision in *Reece Price v. Code-Alarm, Inc.*, 2002 U.S. Dist. LEXIS 14874 (N.D. Ill. 2002) is helpful and holds that the court has ancillary jurisdiction to enforce a settlement agreement if the court retained jurisdiction over the settlement agreement or entered a judgment explicitly incorporating the terms of the settlement.

As an example of the kinds of orders and judgments which might be filed by agreement after settlement, see the exemplar material relating to *XYZ HOT RODS, INC v. ABC ELECTRONICS, INC.* in the attached material, Appendix B.

## **VI. KEY CONSIDERATIONS FOR INSURANCE AGENTS**

Errors and omissions claims against agents arising out of IP issues is possible whether writing technology risks or even run of the mill clients. Agents may knowingly or negligently sell GL policies with non-standard IP exclusions or that offer coverage narrower than that which other carriers offer at a similar price. These agents are potentially at risk for an errors and omissions claim in negligence, breach of fiduciary duty, or under a theory of express or implied contract. These theories are well-established in the area of errors and omissions law. See generally 14 COA 881 “Cause of Action Against Insurance Agent or Broker for Failure to Procure Insurance.”; “Liability of Insurance Agent or Broker on Ground of Inadequacy of Liability Coverage Provided,” 72 ALR3d 704; 64 ALR3d 398; Hartnett, *Responsibilities of Insurance Agents and Brokers* (Matthew Bender 1974 and supp.) If the insured could prove that better coverage was available or that the policy when renewed, was renewed on materially different terms, the agent could face a claim for failing to procure proper and adequate coverage. Although insurance agent errors and omissions law is not frequently discussed, one need be mindful of this concern in area where products are being modified. Intellectual property lawyers are probably not familiar with this body of law and thus potential coverage or tort claims could be ignored.

As a prudential matter agents and underwriters must identify those insureds at greater risk for trademark infringement. These insureds are not so limited as one might at first blush assume. Identify potential exposures is the most difficult task an agent faces because many agents are wholly unfamiliar with copyright, trademark and patent law fundamentals and this is not surprising. As a result IP exposure is essentially ignored by the overwhelming majority of agents and brokers offering liability coverage.

Some insureds are at greater risk for IP related claims. These include sellers of discounted consumer goods, flea market owners, operators, and lessees, non-franchised jewelers, consignors and substandard retailers. These kinds of business are at risk for trademark and tradedress infringement when selling “knock-offs” like Nike jewelry or ladies handbags which have been the source of litigation and “sweeps.”

Personal health and fitness product manufacturers, distributors and retailers that sell variations on popular and similarly sounding items like “AB TRAINER,” “AB ROLLER,” “AB SHAPER” are at risk. Infomercial sellers, health and nutritional supplement manufacturers and sellers are at risk. Printers and publishers of books, newsletters or other materials, website developers and webpage artists, broadcast mediums, advertising consultants and designers, clients with chat rooms or bulletin boards present a greater hazard Clients with names similar to existing companies and their products or services are all at risk for IP claims. For this reason, many of these kinds of businesses are excluded from the benefit of the advertising injury coverage in the 2001 ISO general liability form.

Agents must be aware of vague “intellectual property” exclusions because of conflicting opinions, differences in state and federal law, and ad hoc interpretation by claims personnel. Agents should ask if there is coverage for non-intentional, i.e., non-willful trademark and copyright infringement or is it all excluded? Too often claims personnel called upon to construe GL policies are not privy to the subtleties underlying substantive law and recent coverage opinions in what is a treacherous insurance coverage environment.

## **ALTERNATIVE MARKETS FOR IP RISKS**

There are a handful of insurance companies offering stand alone IP coverage for patents, and trademarks or trademark and copyright coverage as part of a specialty liability form.

Common coverage provisions in the stand alone “infringement policies” include the following:

- i. Defensive coverage - coverage pays legal expenses associated with defending claim of patent, trademark or copyright infringement
- ii. Offensive coverage - Covers litigation expenses incurred in enforcing IP rights against infringers
- iii. Must be identified patent or trademark supported by legal opinion
- iv. No known or suspected infringement (although sometimes underwriting exclusion or indemnity may be negotiated)

- v. Insurer may have claim to any recovery over amount paid in fees

As a result of the hard market, few are offering offensive coverage. Most of the carriers have retrenched to defensive infringement coverage only, or have suspended underwriting entirely. Due to the vagaries of this market, and the changes which may occur from the date of this manuscript to publication, the author has elected to delete reference to particular companies which may be offering coverage. A few stand alone products are still available, but the coverage is more likely to be found as part of a modified GL package for technology risks. The reader is encouraged to contact the author directly for available information on specific companies or agencies offering stand alone IP infringement coverage.