How to Obtain IP insurance or How to Watch Your Client's Back

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Picture your client telling you that his or her company received a cease and desist letter and was then served with a lawsuit for infringement. As a conscientious attorney, the first thing you do is to check the IP insurance policy but you discover that your client decided to save money by not purchasing it at all. In that unfortunate situation, you would need to tell the client to settle, for it will very likely cost the client in excess of $120,000/month to defend. This article explores some of the major issues and ins-and-outs of obtaining IP coverage in order to avoid such a scenario. It suggests how to work through issues to the client's best advantage. It also presents the question of whether, when and how to obtain the coverage available and some basic practice tips and broad advice about the different types of IP insurance policies and riders, barriers to obtaining insurance, important exclusions, and negotiation techniques to obtain the best coverage possible.

TYPES OF IP INSURANCE

There are three basic forms of IP policy, the Defense Policy that pays for covered defense from a threat or claim of litigation or action,[1] the IP Abatement Policy that covers plaintiff protective actions to protect the insured's IP,[2] and the Trade Secret Defense Policy. Along with the three basic forms of coverage, there are some important riders and other types of coverage to consider some of which are discussed below. The IP policy world has many creative solutions for the IP business, so do not hesitate to ask your broker for assistance. If your broker does not appear to understand the policy or the issues, it is best to retain a new broker.

The Defense Policy

IP litigation tends to be a war of attrition, where one side will outspend the other to make it as difficult as possible for the other to win and "stay alive." One glaring example of this has been in the field of discovery and especially e-discovery. This phase of the case alone can cost significant amounts of money. For example, a survey of consumer confusion over a trademark can easily cost over $100,000. In particular, "e-discovery" can be very expensive and time consuming, and expose a litigant's entire business for the world to see.[3] Of course, one can obtain a protective order that allows only attorneys[4] to see the discovery or a motion to seal with dual paper filing and e-filing of redacted versions,[5] but these options are expensive and time-consuming. Prevention is a better course of action and a best practice is to make sure your IP-laden client is aware that potential litigants may be monitoring the client's website and other activities for infringement. It is not unusual for a potential plaintiff to purchase a potential defendant's goods to examine them for possible patent infringement. An analysis of whose "radar" your client may be on helps shape what IP coverage is needed. Paralegals are often assigned to watch certain trademarks, patent usages, copyrights, and online uses and report this to the potential litigant's counsel who may then issue a cease and desist letter to your client. If your clients does not have an IP Defense Policy in place before that notice, your client will be trapped into an expensive and likely unsettleable claim.[6] As we, all know, as soon as a party gets to some critical point in any litigation, it becomes "invested" in it, and it may never settle.

The Abatement Policy

Abatement insurance is a plaintiff's policy, which provides for reimbursement of litigation expenses to enforce intellectual property rights against alleged infringers. Generally, worldwide coverage is available for issued patents, patent applications, provisional patent applications, registered trademarks, trademark applications, common law trademarks, copyrights and trade secrets. This type of policy is handy for those clients that are rights owners and who "police" the world for infringements of their famous works, marks, and inventions.

The Trade Secrets Defense Policy

Have you ever had that burning feeling that a prior and disgruntled employee might spill some corporate secrets in the new employer's lunchroom (or worse)? This type of policy or rider covers unauthorized disclosure of confidential information. Policies with unauthorized disclosure insurance coverage are designed to reimburse litigation expenses to defend against charges of the unauthorized or unintentional disclosure of a third party's entrusted confidential information by a new hire.

Additionally, most of these policies include some form of Multi-Peril Rider Coverage for costs of, for example, having to engineer around a patent in a settlement or after a judgment.

Package and Comprehensive General Insurance ("CGI") Policies Are Not Sufficient

"Package policies" cover some losses such as personal injury, loss of goods due to theft, fire, or flooding that destroys property such as books, games, CDs and film, and the like. That is because those claims are easy to actualize. These policies also cover claims for general liability such as a warehouse fire, a flood, an electrical failure, although these claims are usually somewhat limited to a predictable monetary amount. These policies fail to cover the "expensive stuff" such as straight our trademark, copyright and patent infringement; they cover bits of this by peripherally covering some aspects of the insured's advertising, or they may not cover this at all. By contrast, in a copyright infringement claim, statutory damages can be up to $150,000 per infringement for willful infringement, even though no money may have been made or lost by any party.[7] Once established by a trier of fact, damages can multiply enormously even without damages of the actual kind such as a provable loss of sales, direct competition from a copyright infringer, or a measurable dilution of business reputation. On top of it, your client may not have made a dime off the work yet! Patent and trademark claims can cost millions. The last thing you want is for your client to ask why you did not mention insurance.[8]

Package policies are generally a less expense policy that may not address all the IP insurance needs of your client. However, many clients want to or need to save money and do not necessarily understand the consequences of buying such limited coverage. Here is an example of what can go wrong:

> Your client, a book publisher, is sued for copyright infringement. On inspection of your client's "*Book Publishers Package Policy*," you discover the policy excludes copyright infringement coverage (note that this is not the best time to review an insurance policy for a client). The policy, specially prepared for the book publishing industry, has very clear exclusion language that expressly excludes anything to do with copyright infringement leaving your client with no insurance coverage for defense. How will your client budget costs to defend this case? Moreover, the California doctrine of Duty to Defend may not be triggered if there is clearly no coverage.[9]

Before taking on a new IP business client, this author recommends, as a best practice, that you ask to see all of the existing insurance policies and review the client's IP in order to analyze what IP properties and dangers exist. Is there a black mouse with big ears called Mickey? Is there a "film star" named "*Lexus*" starring in XXX films? Does the new client web site feature a "*1-Click checkout*" system? This is part of the overall IP audit for new clients and is especially important since 9/11 when polices became very protective of the carrier.

CGI policies are one of the most widely used business insurance products. These policies cover basic business liabilities to other parties for bodily injury or property damage caused by the insured and are based on an old Broad Form Endorsement form, the International Standards Organization ("ISO") 1973 policy form.[10] They contain mostly standard language that must be read by someone at some *time before a claim is raised*. Clients simply do not read policies; they apply for them and pay for them, but only read as far as the amounts of coverage, deductibles, and other purely financial aspects. However, why should your client pay for something when he or she does not fully understand what it is?

"Advertising Injury" Coverage

This coverage is standard in many CGI and business package policies and insures for libel, slander, invasion of privacy, copyright infringement, and misappropriation of advertising ideas in connection with the insured's advertising of its goods or services. The language for this coverage has changed over time and, as a result, old policies now still in effect may be better than newer policies. Importantly, this coverage does not cover patents, nor any IP outside of purely advertising content. Sometimes it has been interpreted to cover trademark infringement claims. The ISO's current definition states:

> Not covered [are] 'Personal and advertising injury' arising out of the *infringement of copyright, patent, trademark, trade secret or other intellectual property rights*. Under this exclusion, such other intellectual property rights do not include the use of another's advertising idea in your 'advertisement.' However, this exclusion *does not apply to infringement, in your 'advertisement,' of copyright, trade dress or slogan* [emphasis added].[11]

Therefore, the coverage is very limited but the typical client that pays a premium for this, and who reading the title "advertising injury coverage" may think he or she is covered for infringement. The ISO's 2013 revisions do not make any material changes to the definition of "advertising injury" coverage. Most policies these days very carefully exclude from this any type of trademark infringements. Coverage that is excluded can usually be "*bought back*" for a heavier premium from the carrier and one need only ask.

Other Coverage—Multi-Peril Rider Coverage

This rider is normally included in the full IP policies if you are a good customer. It typically covers such perils as having to re-engineer a product to avoid patent infringement or having to hire more employees to reprogram an infringing algorithm.

Other Coverage—Data Breach Coverage

This form of coverage is designed to cover personally identifying information issues arising from data breaches such as the Target Stores break-in, the duty to notify customers of data breaches, and costs associated with the keeping and security of data.

Other Coverage—Breach of Contract Coverage

Though coverage for breach of contract is not strictly IP coverage, it is handy to include this coverage if possible; this may be in included in a policy automatically or you may need to ask for it. Much IP litigation in the author's experience starts with a breach of license such as when the defendant fails to pay royalties, fails to stop use when the license expires, or sublicenses to another against the license. These claims can be brought both as breach of contract actions and infringement torts, such as where the license conditions are breached, so that the license arguably might become invalid. This is typically in a situation where the defendant misuses or goes beyond the scope of a license, most typical in copyright and trademark licensing. Policy language for this generally states:

> SECTION B: BREACH OF CONTRACT We agree to pay on your behalf all sums which you become legally obliged to pay (including liability for claimants' costs and expenses) as a result of *any claim by a CLIENT first made against* the company named as the Insured in the Declarations or any subsidiary and notified to us during the period of the policy *arising out of any breach of client contract*. We will also pay costs and expenses on your behalf [emphasis added].[12]

At first read, the language is very nice and appears to be broad. However, you must read the sections on Definitions and Exclusions in order to understand the limitations of this coverage. If you have questions or concerns about what may be excluded, this author recommends discussing the specifics with your broker.

You must carefully read the whole policy[13] and check the Definitions. "Client" means any "third party with whom you *have a written or implied contract* in place for the supply of your business activities in *return for a fee*. The fight your client finds itself in can be over the click-wrap terms in an online agreement. If the policy defines "client" as one with which the company had a written or implied agreement, will the click-wrap agreement be considered as a written or implied agreement so that coverage is not questioned? This will be an issue not only in the litigation but also for coverage. It also might be interpreted to exclude "royalty-free" licenses, which are frequently granted to some end users and long-term licensees, Software As A Service ("SAAS"), or high-end platform agreements. These agreements are also likely to be breached. Yet the policy defines that the "client" as one doing business with the company "in *return for a fee*," but is there a fee in a *royalty-free* license? Is there a fee for an affiliate service where there is a payment in the agreement called "revenue share" calculated by the amount of use and for certain uses such as "pay per click")? Questions like these need to be addressed with your client.

IP POLICIES CAN BE TRICKY

CGI, business package and even IP policies that cover copyright and trademark infringement are still not enough to cover patents. Lloyds has a great business policy that covers copyright and trademark infringement in addition to the general coverage. To add patents, and to include some copyright and trademark claims in such a policy, a complex analysis must take place as is discussed below.

The carrier's basic analysis in IP coverage is not much different from the analysis for construction company coverage. A major factor considered is who the likely plaintiffs would be. By way of example, likely plaintiffs may be those that have similar trademarks, web site, goods, processes, methods, and services similar to those of your client. Once identified, the carrier will likely 1) request that these potential plaintiffs be fully excluded from the coverage or 2) limit the carrier's exposure (also known as partial exclusion or Self-Insured Retention or "SIR"). For example, the client may not be able to fully recover from the policy in litigation against Jack Daniels or Disney because the client sells whiskey called "Buck Faneuil's" or makes animated films about "Molly Pippins." The carrier will analyze the applicant's business IP uses, and usually, thoroughly review its web site and core business.

Policy language seems to make the coverage clear, or does it? Language typically includes:

> SECTION C: INTELLECTUAL PROPERTY RIGHTS INFRINGEMENT We agree to pay on your behalf all sums which you become legally obliged to pay (including liability for claimants' costs and expenses) as a result of any claim first made against the company named as the Insured in the Declarations or any subsidiary and notified to us during the period of the policy arising out of your *infringement of any intellectual property right in the course of your business activities*. We will also pay costs and expenses on your behalf.[14]

Note that this is virtually the same language as in breach of contract coverage, but with a different heading. Check the definitions, because "intellectual property right" may mean any intellectual property right including but not limited to trademarks, broadcasting rights, domain names, metatags and copyrights *but may exclude patents*. This means that the IP coverage excludes patents, and "client" excludes any third party with whom there is no written or implied contract. The phrase "course of your business" is well known to be subject to many potential interpretations. Note that the applicant retains some control of this, by carefully defining the business in the Products Schedule (see below under *Negotiation*).

Check the Definitions

Policies are divided into sections, and typically include sections on I. Coverage, II. Exclusions, and III. Definitions. All of these sections cross-refer to the others, must be read in a coordinated way, and need the type of analysis that an attorney can give it. This must be repeated each year as policies can change from year to year. For example, the 2012 form (based on Policy2009) of IP Policy issued by Lloyds through IPISC,[15] a wholesaler of IP insurance in the USA, has now new and significant changes for the 2014 version.[16] Now Policy2014_020ll4 covers "initiating reexamination proceedings to include the costs of initiating and prosecuting Post-Grant Proceeding(s) which are a direct consequence of Covered Litigation."[17] This is in result to the America Invents Act changes.

A good example of why one must read the entire policy is contained in the Definitions section.

> DEFENSE EXPENSES" in a full IP policy means "sums of money which the Named Insured shall have paid as reasonable and customary attorney's fees, costs, and disbursements, including, but not limited to, court costs, costs of depositions, transcripts, fees and expenses of expert witnesses, appeals authorized under this Policy, but only to the extent that those sums arise out of COVERED LITIGATION. "DEFENSE EXPENSES" includes the actual costs and expenses incurred in asserting any INVALIDITY COUNTERCLAIM or initiating any RE-EXAMINATION PROCEEDING which is the direct consequence of COVERED LITIGATION.

However, "DEFENSE EXPENSES" excludes key items, "neither this provision nor any other in this [what is supposed to be a Defense] Policy shall be construed as requiring the Company to defend any Named Insured, commence, or prosecute any appeal or to apply for or furnish any bonds." Therefore, posting a bond for a temporary restraining order or injunction would not be not covered under this language. That is difficult because such bonds are usually required for an injunction of the use of IP that is not part of a "slam dunk" case. Many courts, including the federal district court for the Northern District of California, are no longer allowing a presumption of irreparable injury without proof thereof in trademark cases.[18] Previously, if the client's registered mark were infringed a temporary restraining order could issue based on a presumption of the "irreparable injury" element. Now, the trend appears that, where the mark registrant is seeking to enjoin an infringing trademark user, the registrant must prove "irreparable injury," an expensive up-front item to prove that requires expert testimony. This makes coverage for an IP case all the more important. Before this, harm was presumed from a showing of likelihood of success on the merits of a trademark infringement claim under the Lanham Act. However, now a plaintiff must demonstrate irreparable harm to obtain a preliminary injunction. Moreover this motion for injunction must be made quickly in order to avoid a laches type of defense.

Query if this definition of defense expenses is a potential out for the carrier. The carrier may posit there is no coverage at all, the claim was not made during the policy period, or the claim was the result of a willful infringement or another excuse for non-coverage. One must be careful here.

IP Policies are Expensive

While the discussion thus far shows the necessity of an IP policy for clients at risk, the premiums and other costs of IP policies can make the wealthiest of clients have second thoughts. A budget needs to be prepared with scenarios played out in numbers. The experiment may say that the cost is not worth it. The risk may be low. Nevertheless, the risk is constantly shifting.

Consider this hypothetical. Back in 1996, when there were few, if any, IP policies for Internet-based companies,[19] the annual premium for a web site company that sold and delivered streaming video of full movies was about $500,000. Despite your recommendation, your client declined to buy the policy. It was out of the budget. Years later a "patent troll" that believed it owned Internet streaming sued that client for patent infringement due to the client's video streaming![20] The client had to retain patent defense counsel, and proceed to defend its use of technology claimed by what appeared to be a valid patent. What it did was to band together with the other competitive defendants and formed an alliance to defend. This alliance hired Major & Patent,[21] a famous patent firm which was not cheap. Several federal judges and a few years later, they won on a non-infringement defense because this patent was for a hotel-only video system, but it cost over $15,000,000 to win. Would an IP policy be worth the premium?

The answer lies in the financial analysis of the premium payment over the years vs. the possible cost of defense. The analysis may be close. If the possible cost of the defense is more than the premium, then consider obtaining the policy. If not, then analyze the worst case scenarios. At least, if the client does not purchase the policy, the client has been informed, has gone through the analysis, and will be more prepared for the outcome. Clients will balk at these types or premiums, and only well-heeled clients can really afford it. At least raise the possibility of purchasing insurance early on and go through a budget analysis and conduct negotiations with the carrier.

IP Policies are Difficult to Obtain

This is a negotiation process. As part of the application process, the client, using due diligence, will need to provide the carrier with the applicant's financial assets, income (gross, net and net-net), a list and description of its operations, and a list of its goods, services and products.[22] The applicant, in order to obtain full coverage should include its "hot spots" or potential risk areas of litigation and/or controversy. Specifically, the application needs to include the client's IP and how it is used. IP includes:

- **Copyrights:** Those that the insured uses, licenses or produces. This may include its product if it is subject to copyright and also its website and its text, photos, and other elements.
- **Trademarks:** List all logos, labels, URLs, word and phrase marks, characters, images, trade dress, designs of all types used and unused for marketing and branding and all platforms, social media and the like that the applicant uses.
- **Patents:** This includes all patents applied for, and their timelines (it can take three or more years for a patent to issue), provisional or non-provisional status, patentable business methods not applied for but used, and all online systems and features. TIMING is very important in these processes! IP that a client is not using yet but is in the planning stages should also be included. "He or she who leaves out IP disclosures limits his or her own coverage."[23]
- **Other:** If breach of contract, trade secrets or data breach coverage is sought, the carrier will ask about firewalls and encryption, and may want to see all contracts that might be breached and other such intrusive but necessary materials.

After the applicant supplies this data to the carrier, the carrier will use attorneys, patent agents, and various services to research the IP in the lists. The carrier's agents will recommend to the carrier that some of the IP may be "dangerous," *i.e.,* it may already be infringing or seems that it could be infringing. This then becomes a Carrier's Exclusion List that includes the owners/publishers/patentees/licensors of likely and potential IP Plaintiffs. Those owners will become split into a few categories. For example, IBM owns a patent for telling a person when a restaurant table is available by use of an LED lighted buzzing handheld unit. Your client has an online service providing a reminder when a restaurant table is available in the area. IBM then may become a potential plaintiff that, in the opinion of the carrier, might sue your client. The carrier then may quote a policy that excludes IBM from coverage entirely or limits the coverage via an SIR. As such, the SIR and the Excluded categories are important ones to review.

The SIR, Excluded Plaintiffs, and Additional Deductibles

The SIR is similar to a deductible. However, the SIR is usually paid up front although it may also be paid by the insured when a claim is settled. The SIR is a dollar amount of litigation cost that must be paid by the insured for certain claims, before the carrier begins its part. That is almost the common definition of a "deductible" but since the SIR is normally paid first by the insured, it is not a true deductible. The SIR is in addition to the other disclosed deductibles in the usual short format policy disclosures.[24] The SIR might be $120–140,000 for a $5 million coverage IP policy, or it could be $250,000. SIRs are determined by the carrier's analysis of the applicant's IP Product Schedule. For example, if the Product Schedule shows a patented device for sale that the carrier finds might infringe an existing patent, the owner (usually an assignee) of the patent will be listed as an SIR company or entirely excluded from coverage. The result is that if a claim is made against the insured during the policy term, in the policy territory, and is from an SIR Exclusion plaintiff, the insured must pay the first SIR amount for that claim before the carrier will provide any coverage. However, after spending $1 to 3 million on the litigation as in one case, the client might be glad to "stop the bleeding" and hand the cost over to a carrier after the first $120,000.

The SIR is not readily apparent when reading the policy and is typically entitled, "Self-Insured Retention Per Claim in Regards to All Claims Related to the Self-Insured Retention Endorsement for Selected IP Endorsement (IPI D1x18e)."

The Copayment

Typically, IP policies contain language such as:

> Copayment, & Self Insured Retention: $5,000,000 Litigation Expense/Damages (If Applicable) Per Claim $5,000,000 Litigation Expense/Damages (If Applicable) Policy Aggregate Copayment Percentage: 10%; $100,000 Self Insured Retention Per Claim; $250,000 Self Insured Retention Per Claim in Regards to All Claims Related to the Self-Insured Retention Endorsement for Selected IP Endorsement (IPI Dxx8e).

The co-payment percentage (typically 10%) is a simultaneously billed amount based on what the litigator hired to conduct the defense charged that month. For example, if the law firm charged $10,000 for a month, then the co-pay is billed to the insured for $1,000.

THE EXCLUSIONS

One of the most important items in the policy is the language regarding Exclusions. Exclusions are Forms and are also used to list SIRs. While called "Exclusions," the carrier can use this form to totally exclude a certain potential plaintiff, and the Exclusion can be used to explain the SIR listed with an additional "deductible" amount. While not hidden, the language is near the end of a long policy, when the eyes are tired and the mind full. If a current owner of a patent, for example as in the IBM hypothetical above, is listed as a SIR (meaning that the insured will pay additional deductible amounts if it is litigated by IBM on this patent), that might not be included in an SIR but might be excluded from coverage completely. To be clear then, on an Exclusion form the Carrier can list SIRs and/or outright exclusions. Don't put up with exclusions.

Companies listed on the Exclusions are either fully or partially excluded from coverage. Full exclusion means that a claim made by that entity is not covered. For example, your client sells small screen widgets that are also made by Samsung. Samsung will not be a defendant because, in this hypothetical, Samsung is an excluded plaintiff unless this can become an SIR (not excluded but still higher deductible) or be negotiated down to partially excluded. Partial exclusion is possible using a deductible, as in if the insured pays some extra hundreds of thousands for the claim from the listed plaintiff company first, and perhaps depending on how it is going, the carrier may cover from that cost forward.

Declaratory Actions

There is generally no coverage in defense policies for declaratory actions. Typical language states that "III. Exclusions… [a]ny loss, costs or expenses arising from any declaratory actions of any nature whether Named Insured is plaintiff or defendant."25 Either a plaintiff or defendant may file a declaratory relief action if and when the cease and desist letter escalates into an impending litigation; one of the advantages is that it allows the potential litigant to choose to file in his or her own venue and district. Additionally, the defendant, while still in the midst of a "case or controversy" regains some control by filing first. Ask the broker about buying this coverage back and what the additional premium will be; it may be worth it to gain the additional coverage.

Officer Liability—Failure to Disclose Products

As a standard, there is no coverage for officers, directors, or employees who had knowledge of a pending use of IP that should have been but was not disclosed in the Product Schedule. If a person in the applicant's organization has knowledge of some use of IP that could be infringing, he or she should make sure it is added to the Product Schedule. As a safeguard, when preparing the Product Schedule, be sure to poll the creative teams to uncover all potential IP issues.

The key coverage language includes:

> [A]ny losses, costs and expenses arising from a CIVIL PROCEEDING(S) alleging INFRINGEMENT where the/a Named Insured…had knowledge prior to the Effective Date of this Policy of any patents, trademarks…, copyrights, or applications for patents or trademarks or copyrights, which are or could be the basis for the allegation of INFRINGEMENT other than those disclosed to the Company and discussed or noted in a FAVORABLE INFRINGEMENT OPINION or similar substantive written analysis, or where the/a Named Insured or a Commercially Related Party knew or reasonably should have known that the manufacture, use, sale, offer for sale, application or reproduction of a MANUFACTURED PRODUCT(S) would result in the Named Insured being charged with INFRINGEMENT….[26]

Unfair Competition Claims

An unfair competition claim is any loss, costs or expenses incurred in or arising out of the defense of any allegations of anti-trust or anti-competitive conduct or unfair trade practices and is usually excluded from coverage. Unfair competition is the overall legal category that trademark infringement falls within and this is normally a significant issue, since typically, complaints based on IP infringement include specific allegations of unfair competition. This exclusion can be limited by arguing that the additional claims for unfair competition stem from the trademark infringement, and are pro forma rather than substantive. Sometimes this will at least cause the carrier to defend against the claim and the carrier may even pay damages later based on this argument.

Similarly, policies always exclude *claims for willful infringement* with language such as "[a]ny loss, costs or expenses arising from WILLFUL INFRINGEMENT."[27] This is severe since most claims of copyright infringement typically assert claims for willful infringement to trigger the statutory damages found in federal law.[28] Willful infringement can include the situation where an engineer has intentionally attempted to design "around a patent" even if this is unbeknownst to the defendant.

The Definition in the Policy of Willful Infringement is telling, and is the reason that a favorable Infringement Opinion is very important:

> WILLFUL INFRINGEMENT as used in this Policy shall mean: A specific determination by the Federal District court(s) and/or other court or administrative tribunal(s) in which the CIVIL PROCEEDING(S) was/were heard finding that the Named Insured's INFRINGEMENT of the patent, copyright or trademark in question was "willful" or that the Named Insured proceeded in a deliberate fashion in disregard of the intellectual property of others. Notwithstanding the determination of such court(s) or tribunal(s), such INFRINGEMENT will not be considered WILLFUL INFRINGEMENT under this Policy where the Named Insured has first obtained a FAVORABLE INFRINGEMENT OPINION with respect to the insured MANUFACTURED PRODUCT(S) which actually discusses the patent, copyright or trademark under which infringement was found.[29]

Litigation During The Exclusion Period

Generally, any threats of infringement brought during the initial ninety (90) days of the policy period are excluded from coverage under the policy. The ninety (90) days of coverage are not lost, however, and are added onto the end of the last policy held by the named insured. Typical limits available are up to $10 million per claim/aggregate, 2% self-insured retention (SIR) and a 10% co-pay.

Foreign Coverage

If the insured imports from its own sourcing company located in a foreign country, has an exclusive USA license to sell or has imports and sells goods from particular countries in the U.S., consideration must be given to adding those countries as territories to the policy. If this is important, buy it back if possible. If the client has overseas operations in Asia or the EU, Mexico or Canada, you need to be sure the policy covers your client for incidents that deal with claims that come from those operations.

A NEGOTIATION PROCESS

The full IP policy purchase is a negotiation process. Precision is important and there are many issues to consider with your client and to negotiate with the carrier including the expense of the policy premium and copay, the development of a Product Schedule, and the drafting of a non-infringement opinion.

The due diligence disclosures mentioned above are included in a policy through a form called a Schedule of Insured Manufactured Products Endorsement ("Product Schedule"). If a product, method, system, or object is not mentioned on this form, it will not be covered. Everything the insured makes, sells, and advertises, and its websites and mechanisms on those websites that might include patentable (for patent coverage policies) items must be included on the form in order to be examined for possible coverage. Be sure to set aside a few months to write the application.

Renewal, another negotiation process, is much easier if there are no major changes. Some client changes however can be beneficial, such as the acquisition of new patents or not using IP, both of which can reduce the premium. Changes out of the client's control such as excessive litigation in the IP areas your client works in may increase the premium for the renewal terms. All these factors must be pointed out to the carrier.

Example: Your client owns a mechanism that allows a customer to check out of its online shopping cart with one click. The client may be aware that Amazon owns a patent for its 1-Click check out process. If you disclose the mechanism to the carrier, you will likely have a letter from the carrier excluding Amazon as a covered potential plaintiff for a lawsuit based on infringement of that process. Yet, if you do not disclose this process, the carrier may refuse to cover your client if it is sued for infringing the 1-click process, because the carrier asks for disclosure of any processes. This is designed to ferret out hidden dangerous IP assets. The carrier needs to know that there are no willful acts of the Named Insured that might give rise to Infringement. However, if the client had previously invented a quick checkout system and had its own patent for this, the Amazon claims are less certain to win, but the struggle will go on; who pays for it is the issue.

The Product Schedule

This is the list of due diligence IP items mentioned above that the carrier needs to know about. It is a bit like admitting that you have gasoline cans stored in the warehouse you want to insure against fire. The carrier will analyze these items and do IP searches to see if any of them are risky: do your client's products show a third party's trademark? Do they demonstrate use of a third party patent? Do they show other's copyrightable text, music, video, games, etc.? If so, the carrier will ask the applicant to demonstrate how these items do not infringe the carrier-cited IP item or how they are licensed.

Be sure to include any website by its URL even if the rest of the products' description mentions that the insured is in internet business. For example, in the Product Schedule, make sure to list the internet address as if it were a product! This makes the URL and its resultant web site a service conducted by the insured and thus included in the covered items in the Product Schedule.

The Favorable Infringement Opinion ("Opinion")

The negotiation process includes the analysis to the Carrier and response regarding the Application from the Carrier with comments of how the carrier believes certain of Applicant's IP items in the Product Schedule might infringe. It may not actually infringe, but you will need to have or obtain a strong legal opinion on whether or not it does to avoid unnecessary SIRs and Exclusions. The policy will contain language like this:

> FAVORABLE INFRINGEMENT OPINION means "an opinion by an independent intellectual property attorney who is selected by the Named Insured, approved by the Company and compensated by the Named Insured, or, who is selected and compensated by the Company under Article IV, Section ---- of this Policy, who opines that more likely than not a properly advised trier of fact or law or both would conclude that there is NO INFRINGEMENT of any unexpired U.S. patent, trademark or copyright vis-à-vis a MANUFACTURED PRODUCT(S) either literally or based upon a search of the records and prior art compiled in the United States Patent & Trademark Office or Copyright Office, and/or other equivalent foreign office or repository as the case may be, which opinion concludes the intellectual property in question is invalid and which opinion has been accepted by the Company applying reasonable standards.[30]

In drafting the Opinion on non-infringement, there is a choice. You *can* draft it yourself or your client can use the carrier's counsel (for a fee). This author recommends using the carrier's attorney to write the first draft. The carrier's attorney will list items based on the IP listed in the Product Schedule, web site, signs, and other IP scheduled or other things that are visible to the carrier examining the client's product or online business model, with (don't forget) the protection of the carrier in mind. This results in a comprehensive list that allows you, as the attorney, to respond to in an organized fashion rather than trying to second-guess what IP the carrier may think it important. Once you receive the draft Opinion, you can rebut with your own analysis as to how your client's IP does not infringe on the items listed by the carrier's attorney. This is difficult, and at least as complex as a Motion for Summary Judgment analysis. It is highly recommended that the applicant use one of its own engineers, or hire an expert to help craft the Opinion. The Opinion needs to address:

- how the carrier-cited patents are not being infringed by the applicant now and are not likely to be in the future;
- how the carrier-cited patents are not potentially infringing for carefully analyzed reasons;

- how the applicant's trademarks are not likely to cause public confusion with other trademarks (since the standard of trademark infringement is "the likelihood of public confusion");
- whether there is demonstrable prior art;
- how the applicant's copyrights and any carrier- cited web sites are not copies of each other or even similar, and
- whether there are limited patent claims so that the applicant's methods do not actually do the same thing in the same way.

In addition to this list, you can show that the evidence on record at the PTO or foreign IP Office is invalid because of such things as:

- the existence of previously overlooked prior art (for patents),
- the copyrights at issue are not registered (so they cannot therefore be litigated),
- the trademark is not valid or does not apply to the goods/services your client sells, or
- the client has a defense such as a license.

For patents, one will typically create a claims chart that shows all the independent (litigable) claims of a carrier-cited patent, and how your client's methods differ from each claim and therefore do not infringe. For trademarks, one needs to demonstrate how they are not potentially or likely to confuse the public. For copyrights, one needs to demonstrate how your client's items are not copies or even similar, or that there has been no access to the cited work.

Note that the Opinion comes into play again if there is a claim, since

> As a condition precedent to the Company's consideration of the Named Insured's CLAIM(S), the…Named Insured shall…supply to the Company, no later than sixty (60) days from the date of the initial request for authorization, or any extension of time granted by the Company, the following…. A current FAVORABLE INFRINGEMENT OPINION letter written to the standards of the profession which sets forth the relevant claim, claims or protected rights of the patent, trademark, or copyright alleged to be INFRINGED and rendering an opinion of non- infringement favorable to the Named Insured.[31]

So not only is a Favorable Opinion needed to obtain the policy, it is also needed to even consider a claim.

CONCLUSION AND BEST PRACTICES

Familiarize yourself with IP Insurance by reading the entire policy. Coverage can save some clients a bundle, but a high premium over a long time with no claims may be economically infeasible. Recommend exploring an IP policy to your clients. They do not have to be IP clients either; any business can get hit with an IP claim if it sells goods or provides services, whether online or not.

Conduct IP audits including insurance review for new clients and recommend an IP review to current clients. Do not wait until there is a claim. When you acquire a new IP client, inspect its coverage. When your client receives a cease and desist letter, if you never mentioned IP Coverage, the client may not stop blaming you. If you did mention it and worked with clients to see whether they should obtain IP Coverage, they should lavish praise on you. If you then helped them get such coverage, or decide not to because of the expense, at least you tried and the client will appreciate your efforts. Remember, what the client does not know can hurt them.

The views expressed in this article are personal to the author and do not necessarily reflect the views of the author's firm, the State Bar of California, or any colleagues, organization, or client.

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Endnotes

1. This covers claims made against the client during the policy period in the claims territory.
2. Usually this covers actions made by the client as a plaintiff suing another for infringement although declaratory relief actions can also be included.
3. *See* United States District Court, Northern District of California, Guidelines for The Discovery of Electronically Stored Information, http://cand.uscourts.gov/eDiscoveryGuidelines (last visited April 2014).
4. These orders are also known as "Attorneys Eyes Only Protective Orders" and make one wonder whether those attorneys are sharing the information with their clients.
5. *See*, for example, Local Rule 79-5. Filing Documents Under Seal in Civil Cases, USDC NDCAL.
6. The author is a mediator and does not believe in an unsettleable case. There are those carriers and their clients however, that appear as if they were lead lined brick walls, quite like the Aristotelian Immovable Mover.
7. 17 U.S.C. § 504(c).
8. This author is an insurance industry attorney, not an insurance broker and recommends insurance as a safeguard for the client and his or her attorney; it aids in "capitalization" of the business as well to prevent piercing the corporate veil in litigation, can retain key personnel, and has other functions.

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