PROFESSIONAL LIABILITY FUND

# IN BRIEF

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## INSURANCE COVERAGE AND INTELLECTUAL PROPERTY CLAIMS

It is well known that automobile liability insurance is required in Oregon and its neighboring states. It is also well known that most businesses have some form of liability insurance. Yet the extent of insurance available for most businesses is often misunderstood.

Most business lawyers realize that their business clients have general business liability policies covering such things as personal injury on business premises, negligent acts by employees causing injuries, and the like. It is, therefore, common practice to tender these types of claims to the insurance company when a business client is sued. In addition to these claims, lawyers should be aware that a variety of intellectual property claims may be covered under a client's general business liability policy. When advising a business client, a business attorney should determine whether a business client's insurance carrier will accept the defense of all intellectual property claims or whether additional riders are needed. This will allow the client to purchase proper coverage, if desired.

When defending a client on allegations of patent, trade dress, copyright, trade secret, or trademark infringement, be certain to ask about the client's business liability insurance coverage. Claims against the client should be tendered to the insurance carrier at the earliest time possible. In *Northbrook Property & Casualty Insurance Co. v. Applied Systems, Inc.*, No. 1-98-1170 (Ill.App.Ct., May 17, 2000) (action for misappropriation of trade secrets), an Illinois appellate court found that an insured's notification to the insurance company, 17 months after the filing of the underlying complaint, was "unreasonable delay." The insurance company was, therefore, not required to indemnify or defend the defendant.

There is a split of authority as to whether the advertising injury section of the typical general liability policy covers infringement claims for all forms of intellectual property. Some courts have held that coverage extends to patents, trademarks and copyrights, while others have denied coverage for some or all of these forms of intellectual property. Indeed, there appears to be confusion within jurisdictions, even in the interpretation of identical language. Thus, in one federal case, it was held that the advertising injury clause of the general liability policy covered defense of a claim for patent infringement, while the state court in that same jurisdiction held to the contrary.

*MaxConn, Inc. v. Truck Insurance Exchange*, 88 Cal. Rptr. 2d 750, 75 Cal.App. 4th, 1037A (Cal.Ct.App. 1999), held that patent infringement is not covered by an advertising injury clause which states that it covers defense of claims of "infringement of copyright, title or slogan." MaxConn had argued that "title" included legal ownership of property, such as a patent, but the court held that, in the context, "title" meant a distinctive name. The federal court in the same jurisdiction, while interpreting virtually the same policy language, held that "infringement of the title" is ambiguous and resolved the ambiguity in favor of the insured to cover patent ownership of rights. *Homedics, Inc. v. Valley Forge Insurance Co.*, 1999 U.S. Dist. Lexis 17317 (C.D.Cal. 1999), reversed on reconsideration, No. SA CV 99-1352, SA CV 99-928 (C.D.Cal. 2000). On reconsideration, however, the court determined that coverage was not available, citing California state cases holding to the contrary. Still another

federal court in California, in *Everett Associates, Inc. v. Transcontinental Insurance Co.*, 57 F.Supp. 2d 874 (N.D.Cal. 1999), found a duty to defend the insureds in a patent infringement case. There is similar confusion with respect to trademark and copyright claims.

Because of the uncertainty in this area, an attorney is well advised to promptly tender any intellectual property defense which could potentially be covered and to research the latest cases in the applicable jurisdiction.

Under Oregon law, if an insured party is successful in establishing that an insurance carrier is not fulfilling its contractual obligation, the insured is entitled to recover the attorney's fees incurred in proving its case. If the carrier is successful, no attorney's fees will be awarded.

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