

## LICENSING JOURNAL ARTICLE

### INSURERS MAY OWE AN OBLIGATION TO DEFEND INTELLECTUAL PROPERTY LAWSUITS ALLEGING WRONGFUL CONDUCT THAT IS ONGOING AS OF THE DATE OF POLICY INCEPTION

#### I. INTRODUCTION

Some policyholders, if queried, might presume that a lawsuit which incepts before they have a policy in force could not trigger coverage under that later-issued policy of insurance. Insurers would argue that no insurer would issue a policy that had a defense obligation as of the date of its inception so that a notice provided contemporaneously with the policy's issuance would trigger any rights thereunder. Generally accepted insurance coverage principles, as applied to standardized commercial general liability policies, do not preclude coverage for claims/lawsuits alleging continuous tortious conduct which incept prior to issuance of "occurrence" based insurance. This article will explore circumstances where post-claim/lawsuit coverage may be available to policyholders.

The insurance law principles that address these issues are the "loss in progress"/"known loss" doctrine – the requirement that an "offense" charged occur within the policy period to trigger a defense duty; the "common law fraud" doctrine, which includes the policyholder's obligation to not withhold information at the time of application for a policy and to accurately respond to all questions asked by an insurer; the "first publication" exclusion; and the insurance underwriter's duty to clarify any limitations on coverage which it seeks to impose on a policyholder.

Three distinct cases will be examined. **First**, where a commercial general liability policy is procured after a lawsuit incepts and ongoing tortious conduct similar to that alleged continues during the policy period. **Second**, where there was ongoing alleged wrongful conduct after the policy incepts which the insured does not abandon, believing it has a legal right to engage in the activities challenged. **Third**, where there was an amendment to the pleadings made after inception of the policy that alleges conduct that was ongoing as of the inception of the policy but

was not charged then to be wrongful in character or was not attacked as creating liability under a particular legal theory in the initial complaint.

The competing principles that inform these doctrines do not offer an insurmountable legal impediment, in a majority of jurisdictions, to procuring coverage under a policy that incepts as of the date litigation arises for conduct that continues during the life of the policy.

## **II. COMMERCIAL LIABILITY POLICY UNDERWRITERS TYPICALLY DO NOT DIRECTLY INQUIRE INTO WHETHER LAWSUITS HAVE BEEN ASSERTED AGAINST THE POLICYHOLDER THAT PRECLUDE A DEFENSE FROM THE DATE OF INCEPTION FOR ONGOING CLAIMS**

### **A. Underwriters Who Fail to Ask Questions That They Later Contend Are Critical Cannot Avoid a Defense**

A typical policy application for a commercial general liability insurance policy asks for operational data about the company, the number of its employees, facilities, revenue, and, on occasion, losses suffered by the company in litigation, as well as a sense of what activities the company is presently engaged in and whether it has immediate plans for expansion, and similar inquiries.

It is atypical for a commercial general liability policy application to ask any of the following questions:

(1) Are you aware of any conduct you presently engage in that will soon be the subject of a lawsuit against your company due to prior communications from an injured potential claimant such as a demand to license, cease and desist letter, or other communication threatening legal action against the company that you believe will potentially fall within the scope of coverage of the policy to be issued?

(2) If you have received such a communication, have you continued to engage in the conduct which is alleged to be wrongful, and do you intend to do so in the future as part of the company's ongoing operations?

(3) If the company is engaged in operations which it believes may lead it to seek potential coverage under the policy to be issued, or has already received the lawsuit, which it has not yet provided notice for, to its prior insurer or the carrier who will be on risk after the new

policy incepts, do you plan to provide prompt notice to the new carrier excepting the quest for pre-tender fees?

(4) Are you engaged in conduct which you believe will trigger litigation based on the economic environment in which you operate, and actions suffered by other similarly circumstanced companies who have been the recipient of lawsuits like that you anticipate against your company for equivalent operations?

(5) Do you anticipate U.S. litigation based on litigation that you are presently a party to outside the United States based on conduct allegedly violative of intellectual property or antitrust laws of such other jurisdictions?

**B. Contract Principles Do Not Allow Underwriters to Claim That a Pending, Potentially Covered Lawsuit Is Not Covered Due to a Material Omission Where No Question in the Policy Application Required Its Disclosure**

Insurers may argue that positive answers to any of these questions would suggest that an insured has a good faith obligation to advise the insurer, in advance of its procuring a policy, of these pertinent facts. Nevertheless, well-settled contract law provides that where a policy application does not request this information, and no policy question would require it to be volunteered, the insurer cannot seek to curtail its policy benefits because, had it thought to ask questions of the above character, and received answers that it did not find satisfactory, it would not have underwritten the policy.

In *GRG Transport, Inc. v. Certain Underwriters at Lloyd's, London*, 896 So. 2d 922, 925 (Fla. Dist. Ct. App. 2005), a Florida appellate court limited the challenge to the accuracy of a policy's application to the applicant's knowledge regarding the actual statements made rather than extending the insured's duty to cover innocent misrepresentations. Implicit in this case is the recognition that the policyholder has no obligation to volunteer information to an underwriter that it did not request so long as the information supplied that was requested was accurate. Underwriting by hindsight is not consistent with the enforcement of contract rights of either party.

**III. INSURERS CAN READILY ADDRESS THE PROBLEM BY DRAFTING LANGUAGE WHICH PLACES THE DUTY OF INQUIRY AND DISCLOSURE UPON POLICYHOLDERS REGARDING CLAIMS FOR COVERAGE AS TO ONGOING POLICIES**

**A. National Union's Unannounced Changes to the Scope of Its Insuring Agreement**

American International Company's policy form issued through National Union Fire Insurance Company of Pittsburgh, PA ("National Union"), for example, copyright 2001, policy form 80517 (9/03) AH0877, added two distinct sections to its insuring agreement which address the issue referenced herein under its umbrella prime policy form. They state, in pertinent part:

- C. This policy applies to **Bodily Injury, Property Damage, and Personal Injury and Advertising Injury** only if prior to the **Policy Period**, no **Insured** shown in Paragraph M2 of Section VII, no officer, no manager in your risk management, insurance or legal department and no employee who was authorized by you to give or receive notice of an **Occurrence**, claim or **Suit**, knew that the **Bodily Injury or Property Damage** had occurred, in whole or in part, or that an **Occurrence** had been committed that caused **Personal Injury and Advertising Injury**. If such an **Insured**, manager or authorized employee knew, prior to the **Policy Period**, that the **Bodily Injury or Property Damage** had occurred or that an **Occurrence** had been committed that caused **Personal Injury and Advertising Injury**, then any continuation, change or resumption of such **Bodily Injury, Property Damage or Personal Injury and Advertising Injury** during or after the **Policy Period** will be deemed to have been known prior to the **Policy Period**.
- D. **Bodily Injury, Property Damage or Personal Injury and Advertising Injury** will be deemed to have been known to have occurred at the earliest time when any **Insured** shown under Paragraph M2 of Section VII, any manager in your risk management, insurance or legal department or any employee who was authorized by you to give or receive notice of an **Occurrence**, claim or **Suit**:
1. reports all, or any part, of the **Bodily Injury, Property Damage or Personal Injury and Advertising Injury** to us or any other insurer;
  2. receives a written or verbal demand or claim for damages because of the **Bodily Injury, Property Damage or Personal Injury and Advertising Injury**; or

3. becomes aware by any other means that **Bodily Injury** or **Property Damage** has occurred or has begun to occur or an **Occurrence** has been committed that has caused or may cause **Personal Injury and Advertising Injury**.

This policy form addresses the issue referenced herein and would preclude a policyholder from obtaining either a defense, where it has received a cease-and-desist letter, demand for license, from a party that thereafter sues it following policy inception, or has reason to suspect, based on other information, that such a suit is likely to occur.

The National Union policy does not address, however, the circumstance where a policyholder continues to engage in conduct which is alleged to be wrongful where the first notice of such a claim occurred in a lawsuit filed after the inception of the policy. Nor does it address an amended pleading that arose in a lawsuit that was filed prior to policy inception but then asserted distinct grounds for liability that was other than that previously asserted and was not communicated to the policyholder prior to the policy's inception.

**B. National Union's Insuring Agreement Modifications Evidence Why, Absent This Policy Language, There Is No Contractual Limitation on Coverage for Pending Lawsuits**

One appropriate consideration in determining whether a proposed meaning for a policy is reasonable is whether there have been modifications from the disputed policy language in other policy forms issued by that insurer or other insurers. This clarifies the range of policy language choices available to the insurer and what deliberate choices the insurer made in selecting policy language – both of which should be considered by construing a provision. As the California Supreme Court explained in *Safeco Ins. Co. v. Robert S.*, 26 Cal. 4th 758, 763 (2001), “The policy before us . . . contains not a *criminal act* exclusion but an *illegal act* exclusion. Had Safeco wanted to exclude criminal acts from coverage, it could have easily done so. Insurers commonly insert an exclusion for criminal acts in their liability policies. (Croskey & Kaufman, Cal. Practice Guide: Insurance Litigation (The Rutter Group 2000) ¶¶ 7:331.5, 7:2256, pp. 7A-86, 7I-23 (rev. #1, 2000).)”

National Union's change in policy form, referenced above, also clarifies that, absent such specific language, National Union, and other insurers who could have chosen to use similar limiting language, cannot complain about a policyholder's quest for coverage where a lawsuit may have been filed against the policyholder which the carrier learned of after the inception of its policy. Indeed, National Union, as well as a host of other insurers, may have no legal grounds for avoiding a defense duty in those circumstances. *See Fireman's Fund Ins. Cos. v. Atlantic Richfield Co.*, 94 Cal. App. 4th 842, 852 (2001) (“[A]n insurance company's failure to use available language to exclude certain types of liability gives rise to the inference that the parties intended not to so limit coverage.”).

**C. Insurers That Seek to Limit Coverage by Vague Language Which Shifts the Burden to the Policyholder to Disclose Material Information Abdicate the Proper Inquiry to Establish the Risk Worthiness of a Prospective Policyholder**

A leading pro-insurer treatise writer concedes that there are circumstances where an insurer may have a duty to defend a lawsuit (filed before issuance of a policy) where the conduct at issue, during the policy period, is similar to that which precipitated that lawsuit. *See* ALAN D. WINDT, INSURANCE CLAIMS AND DISPUTES § 6:46, pp. 857-58, *Loss in Progress/Known Risk Rule* (4th ed. 2001):

Most courts . . . have, justifiably, held that it is not enough to forfeit the insured's liability coverage simply because the insured had reason to know that a claim might be made against it . . . . [T]he insured must have known that there was a substantial probability that a liability claim would be made against it. . . . [T]here is no loss of coverage unless the legal liability of the insured has been a certainty.

WINDT, § 6:46A, *Policy Provisions Dealing with an Insured's Knowledge of a Problem Prior to the Inception of Coverage*:

Many insurance applications contain a question asking whether the insured is aware of facts that “could/might” give rise, or that will “probably” give rise to a claim. . . . Accordingly, it is not uncommon for an insurer to attempt to rescind a policy or attempt to deny coverage when a claim is made against an insured if, prior to the inception of the policy, or attempt to deny coverage when a claim is made against an insured if, prior to the inception of the policy, or prior to the date of the application for insurance, the

insured was aware of the facts that gave rise to the claim, but did not put the insurer on notice of those facts . . . .

Note, too, . . . a policy will not be interpreted to create illusory coverage. Applying that principle, it has been held that when an insurance policy purports to afford coverage for acts taking place prior to the inception of the policy, an insurer cannot deny coverage because the insured was aware of facts that “might” result in a claim.

Thus, a Texas court held, in *Westport Insurance Corp. v. Atchley, Russell, Waldrop & Hlavinka, LLP*, 267 F. Supp. 2d 601 (E.D. Tex. 2003), that the phrase “could have reasonably foreseen” in an exclusion could not be applied as written, since (a) if no coverage existed whenever a claim could reasonably have been foreseen, then (b) coverage could exist only if a claim was frivolous. Only frivolous claims would constitute claims that could not reasonably have been foreseen.

**D. An Insurer’s Failure to Advise of a Change in Coverage Means That None May Be Enforced**

This policy form is also problematic. Indeed, it may well limit coverage to policyholders under certain circumstances but does not call attention to this fact via any contemporaneous communication to the insured. Most jurisdictions provide that a specific reduction in coverage must be brought to the insured’s attention by the insurer when a change in coverage occurs. *Davis v. United Servs. Auto. Ass’n*, 273 Cal. Rptr. 224, 230 (1990) (The court found that “[a] general admonition to read the policy for changes is insufficient.” The inclusion of a notice entitled “Important Notice,” stating that three new exclusions were added to the policy, was held to be insufficient notice to the insured of a change in coverage where the exclusions were placed in a section labeled “Clarification of Coverage” rather than in the “Reduction” section.).

Other jurisdictions follow this rule. A sample list includes: Kansas – *American Casualty Co. v. Beranek*, 862 F. Supp. 322, 327 (D. Kan. 1994); Maryland – *Benner v. Nationwide Mut. Ins. Co.*, 93 F.3d 1228, 1233 (4th Cir. (Md.) 1996); Michigan – *Amway Distribs. Benefits Ass’n v. Northfield Ins. Co.*, 323 F.3d 386, 393 (6th Cir. (Mich.) 2003); Minnesota – *Duane Wolff Agency, Inc. v. Northshore Marine, Inc.*, 463 N.W.2d 562, 564 (Minn. Ct. App. 1990); Missouri – *National Fire & Marine Ins. Co. v. Hoene Springs Improvement Ass’n*, 889 F. Supp. 362 (E.D.

Mo. 1995); New Jersey – *Millbrook Tax Fund, Inc. v. P.L. Henry & Associates, Inc.*, 779 A.2d 1120, 1123 (N.J. Super. Ct. App. Div. 2001); and New York – *Ralph A. Janes v. New York Central Mutual Insurance*, 722 N.Y.S. 2d 669, 670 (2001).

Following a more rigorous application of this rule, the Illinois Supreme Court held in *Guillen v. Potomac Ins. Co.*, 203 Ill. 2d 141 (2003) that the insurer had failed to prove proper notification of the change in coverage in the manner explicitly required by 215 Ill. Comp. Stat. Ann. 5/143.17a (West 1992). Section 14317a required 60 days’ advance notice of any changes in policy coverage and proof of mailing regarding same. The insurer, having breached its duty to defend, was estopped to argue the claim was excluded and a policy exclusion for lead poisoning would not take effect.

#### **IV. A MAJORITY OF JURISDICTIONS DO NOT EXPANSIVELY READ THE “LOSS IN PROGRESS”/“KNOWN LOSS” DOCTRINES AS A “CLAIM IN PROGRESS” LIMITATION**

##### **A. The Majority Rule Requires an Actual Indemnifiable Loss To Be a “Loss in Progress”**

California adopted the majority rule regarding the impact of a “loss in progress” defense on the insurer’s duty to defend a continuing tort when it stated: “[T]he loss-in-progress rule will not defeat coverage for a claimed loss where it had yet to be established, at the time the insurer entered into the contract of insurance with the policyholder, that the insured had a legal obligation to pay damages to a third party in connection with a loss.” *Montrose Chem. Corp. v. Admiral Ins. Co.*, 10 Cal. 4th 645, 693 (1995).

Other courts throughout the country follow similar rules. *City of Sterling Heights v. United National Insurance Co.*, No. 03-72773, 2004 WL 252091, at \*10 (E.D. Mich. Feb. 11, 2004) (“These fortuity-based doctrines ‘must be judged using a *subjective standard* because requiring this knowledge element best serves the overall principle of insurance law. A subjective standard also protects against the misuse of hindsight to avoid indemnification coverage.’ *Id.* . . . Despite Plaintiffs’ arguments to the contrary, this Court continues to predict that the Michigan Supreme Court would adopt the known loss doctrine as described above.”).

*See Stonehenge Engineering Corp. v. Employers Ins. of Wausau*, 201 F.3d 296, 302-303 (4th Cir. (S.C.) 2000) (“When the record is viewed in the light most favorable to Wausau, the evidence establishes that Stonehenge’s receipt of both the Moore Report in September 1990 and the Owners Association’s April 16, 1992 letter threatening legal action against Stonehenge served to put Stonehenge on notice that the Owners Association intended to hold it legally liable for the alleged defects in the Phase III buildings. Nevertheless, such notice does not trigger applicability of the known loss doctrine, as it does not establish that Stonehenge actually knew that it was legally liable for the property damage claimed by the Owners Association at the time one or more of the Three Wausau Policies took effect or knew that such liability was substantially certain to occur.”).

*See also Owens-Corning Fiberglas Corp. v. American Centennial Ins. Co.*, 660 N.E.2d 770, 777 (Ohio Com. Pl. 1995) (Ohio courts have rejected adoption of the “known loss” doctrine that preclude a defense.); *City of Johnstown, N.Y. v. Bankers Standard Insurance Co.*, 877 F.2d 1146 (2d Cir. (N.Y.) 1989) (The “known loss” doctrine had not been applied in New York and was duplicative of other defenses asserted on the facts before it.); *United States Liability Insurance Co. v. Selman*, 70 F.3d 684 (1st Cir. (Mass.) 1995) (same). *Inland Waters Pollution Control, Inc. v. National Union Fire Insurance Co.*, 997 F.2d 172 (6th Cir. (Mich.) 1993) (same); *Heil Co. v. Hartford Accident & Indemnity Co.*, 937 F. Supp. 1355 (E.D. Wis. 1996) (same); *Pittston Co. Ultramar America Ltd. v. Allianz Insurance Co.*, 124 F.3d 508 (3d Cir. (N.J.) 1997).

**B. The Minority Rule Characterizes Knowledge That an Insurer Will Likely Incur Defense Expenses As a “Loss in Progress”**

Texas has taken a different view, however, finding that the potential exposure to pay defense costs was a “loss” that the insured would know about where it was the recipient of a cease-and-desist or license demand letter in advance of an intellectual property lawsuit. As such, it could not require the insurer to pay this sum since there was no fortuity to that expense, even

though its ultimate exposure for liability and damages in the underlying action remained unknown at the time of the commencement of the suit.

*RLI Ins. Co. v. Maxxon Southwest, Inc.*, 265 F. Supp. 2d 727, 730-31 (N.D. Tex. (Dallas Div.) 2003) (“A party . . . may not ‘voluntarily engag[e] in an activity that gives rise to an accusation of wrongdoing and potential legal liability, and then purchas[e] insurance so that it may shift financial responsibility for its conduct.’ *Franklin v. Fugro-McClelland (Southwest), Inc.*, 16 F.Supp.2d 732, 736 (S.D.Tex.1997). . . . The key factor in determining coverage under the fortuity doctrine is not, as defendants contend, whether the insureds had actual knowledge of the underlying loss and potential liability, . . . but rather if they knew at the inception of coverage ‘that they were engaging in activities for which they could possibly be found liable.’ *Franklin*, 16 F.Supp.2d at 737 (emphasis added).”); *but see Estate of Parker v. City of New Iberia*, 849 So. 2d 535, 543 (La. Ct. App. (3d Cir.) 2002), *writ denied*, 847 So. 2d 1270 (La. 2003) (court refused to recognize known loss doctrine).

Even under Texas law, litigation of a third-party complaint which makes inconsistent allegations, some of which would depend upon proof of a known prior loss and others not, will still trigger a defense duty. *Westchester Fire Ins. Co. v. Gulf Coast Rod, Reel & Gun Club*, 64 S.W.3d 609, 614 (Tex. App. – Houston [1st Dist.] 2001) (“In the present case, the allegations in the underlying petition are not consistent. On the one hand, the plaintiffs allege that all the defendants ‘have known for at least twenty years that they were causing this destabilization and massive erosion.’ On the other hand, the plaintiffs allege that the Club was negligent ‘in failing to ascertain the consequences of the action of dredging “The Cut.” ’ In light of these conflicting allegations, and giving the pleadings a liberal interpretation, we must resolve any doubts regarding coverage in the favor of the insured. *Nat’l Union Fire Ins.*, 939 S.W.2d at 141; *Heyden Newport Chem. Corp.*, 387 S.W.2d at 26. Thus, we cannot say that coverage is precluded by the ‘loss in progress’ or ‘known loss’ doctrine.”).

**C. The “Known Loss” Doctrine Is Distinct from Common Law Fraud and Does Not Eviscerate the Parties’ Freedom of Contract**

Judge Castille, in her dissent to the majority’s opinion in *Rohm and Haas Co. v. Continental Casualty Co.*, 566 Pa. 464, 484, 486, 781 A.2d 1172, 1183-84 (Pa. 2001), explained why “fraud” is not a viable doctrine to eliminate coverage where the policyholder seeks only to obtain the coverage promised without having misstated any facts in the policy application:

Appellants accurately argue that the formulation of the known loss doctrine embraced by the majority simply “bypasses” the fraud standard, permitting a forfeiture of coverage pursuant to a lesser standard of proof, and “without proof of a false statement or statement made in bad faith, an intent to deceive, or detrimental reliance.” . . . Appellants further accurately note that the majority’s new rule is contrary to the well-established law and policy in this Commonwealth, which disfavors rules of general application that result in the forfeiture of insurance coverage. *See, e.g., Brakeman v. Potomac Ins. Co.*, 472 Pa. 66, 371 A.2d 193, 196-97 (1977). Appellants also argue that this formulation is “unprecedented” in Pennsylvania (as it certainly is), and is far out of step with decisions of other courts nationwide (as it most certainly is). When such an unprecedented new doctrine resulting in a forfeiture of coverage is applied retroactively, as the majority does here, appellants rightly note that it “strike[s] at the heart of the settled expectations under many existing third-party liability insurance contracts in the Commonwealth.” . . . The majority does not address these legitimate concerns. . . .

...  
The risk of economic loss at issue in the context of third party insurance should remain insurable, under any intelligible version of the known loss doctrine, whenever “there is uncertainty about *the imposition of liability* and no ‘legal obligation to pay’ yet established.” *Kayser-Roth*, quoting *Montrose*, 42 Cal.Rptr.2d 324, 913 P.2d at 905-06 (emphasis in original). *See also Pittston*, 124 F.3d at 518 (certainty of legal liability for damage, rather than certainty of damage, is required to trigger application of known loss doctrine). Knowledge of a mere **risk** cannot and should not be enough to negate a policy of insurance. *See Aluminum Co. of America v. Aetna Cas. & Sur. Co.*, 140 Wash.2d 517, 998 P.2d 856 (2000) (although insured failed to advise insurers about known pollution damage to its property, policies were not void where pollution damage was not material factor in insurers’ decision to insure); *Montrose* (“known loss” will not defeat coverage as long as there remains uncertainty about damage that may occur during policy period).

**V. THERE IS A DISTINCTION BETWEEN ONGOING CONDUCT WHICH COULD CREATE LIABILITY UNDER A PERTINENT OFFENSE AND CONDUCT WHICH IS KNOWN TO BE THE BASIS FOR AN ASSERTED CLAIM THAT WOULD TRIGGER A DEFENSE OBLIGATION**

The Fourth Circuit, in *Superformance Int'l, Inc. v. Hartford Cas. Ins. Co.*, 332 F.3d 215, 219 (4th Cir. (Va.) 2003), found that an amended pleading could trigger a defense where the initial complaint preceded the policy's inception. A seventh count added to the complaint in the underlying Massachusetts litigation relating to Superformance's imports of counterfeit vehicles, brought by an intervening party, Ford, asserting trademark infringement, trademark dilution and unfair competition claims analogous to those in the initial suit triggered a defense where the suit preceded the purchase of the applicable policy by three months. The court reasoned:

Because we cannot, as a matter of law, foreclose the possibility that Count VII of the Shelby complaint and the entire Ford complaint allege some conduct occurring during the policy period, we agree that coverage for these counts cannot categorically be barred by invocation of the policy period – i.e., March 9, 2001, to March 9, 2002. Accordingly, with respect to those counts – Count VII of the Shelby complaint and the six counts of the Ford complaint – we turn to the language of the policy to determine whether it affords a defense to Superformance.

**VI. THE “FIRST PUBLICATION” EXCLUSION DOES NOT PRECLUDE POTENTIAL COVERAGE FOR INTELLECTUAL PROPERTY LAWSUITS (EVEN IF DEEMED APPLICABLE TO SUCH LAWSUIT) WHERE ADVERTISING CONDUCT, DISTINCT FROM THAT ALLEGED IN THE PRE-POLICY LAWSUIT, CREATES EXPOSURE AFTER A POLICY IS IN EFFECT**

The “first publication” exclusion is the pertinent exclusion which, insurers argue, would preclude coverage for wrongful conduct preceding policy inception, whether or not alleged in a lawsuit against the insured. It provides:

This insurance does not apply to:

(1) **advertising injury:**

(b) arising out of oral or written publication of **material if the first publication took place before the beginning of the policy** ; . . . [1986 ISO Policy (emphasis added)]

There are four perspectives about when this exclusion will bar a defense:

- (1) This exclusion applies only to libel, slander, and invasion of privacy torts because only these offenses are based upon “oral or written publication of material.” *Arnette Optic Illusions, Inc. v. ITT Hartford*, 43 F. Supp. 2d 1088, 1092 (C.D. Cal. 1998) (adopting *Irons Home Builders, Inc. v. Auto-Owners Ins. Co.*, 839 F. Supp. 1260 (E.D. Mich. 1993) analysis limiting application of exclusion to offenses for libel, slander, and invasion of privacy).
- (2) It applies where injurious publication of material precedes policy inception for libel, slander, and invasion of privacy torts. *Taco Bell Corp. v. Continental Ins. Co.*, 388 F.3d 1069 (7<sup>th</sup> Cir. (Ill.) 2004) (“First publication” exclusion would bar a defense where the wrongful act, copying a copyrighted article from a magazine without authorization, would be precisely the same content and implicitly the same injury where it infringed a copyright both before and after policy inception.); *Maddox v. St. Paul Fire and Marine Ins. Co.*, 179 F. Supp. 2d 527 (W.D. Pa. 2001), **citing DAVID A. GAUNTLETT, INSURANCE COVERAGE OF INTELLECTUAL PROPERTY ASSETS § 3.03 (Aspen Publishers, Inc. 2000)** (explaining *that exception should only apply to torts and not other types of advertising injury*) (The court found that the language of the first publication exclusion is ambiguous because it is reasonably susceptible to more than one interpretation.).
- (3) Liability that first attaches for intellectual property rights that do not come into existence until after policy inception fall outside the exclusion. *Bay Electric Supply, Inc. v. Travelers Lloyds Ins. Co.*, 61 F. Supp. 2d 611, 619 (S.D. Tex 1999) (The First Publication Exclusion did not apply because the Lanham Act § 32(1) specifically requires that suit be brought by the “registrant.” The trademarks at issue were registered in 1997, and the policy was acquired in 1995.).
- (4) Advertisements which differ from those issued during a preceding policy period are covered. *International Communication Materials, Inc. v. Employers Ins. Co.*,

No. 94-1789, 1996 WL 1044552, at \*4 (W.D. Pa. May 29, 1996) (“If Wausau had intended that the exclusion apply to advertising campaigns or material that is ‘similar to’ material published before the inception of the policies, it could have provided such language.”).

Under these principles, a defense would not be precluded for any intellectual property lawsuit if the first proposition is accepted or when the content of the advertisement differs under the fourth. The second and third points may also bar the exclusion’s application in some circumstances where coverage under a policy which postdates an ongoing litigation is sought.

## **VII. CONCLUSION**

Where a lawsuit is filed against a policyholder, insurance coverage may subsequently be procured that might provide a defense for the allegations therein; absent any misstatements in policy applications or misleading characterizations of a company’s activities, operations and legal history, a defense may be properly available. A mere “claim in progress” will not bar a defense in most jurisdictions.

The fact that a policyholder may know of claims or a lawsuit filed against it does not mean that its liability and exposure for same is also known. To the extent insurers wish a different result, they can readily amend their policies to provide, as did National Union, that no coverage would be permitted under such circumstances. Absent same, contract law favors an insured who procures coverage that may be responsive to the claims at issue.