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# THE POLICYHOLDER ADVOCATE/IP COUNSELOR

## NEWSLETTER

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### OPEN SOURCE INSURANCE CONTINUES TO BE AVAILABLE TO ADDRESS UNCERTAINTIES CAUSED BY CONTINUED USE OF OPEN SOURCE SOFTWARE

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Designed to deal with the unique but substantial business risks involved in mergers and acquisitions or other corporate transactions, the insurance provides up to \$10 million in coverage for:

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### EUROPEAN-BASED INSURERS PROVIDE BROAD GRANTS OF COVERAGE FOR MULTI-NATIONAL CORPORATIONS' WORLDWIDE OPERATIONS EXPRESSLY COVERING PATENT INFRINGEMENT DEFENSE EXPOSURE OVER A SIGNIFICANT SIR

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Gauntlett & Associates is presently assisting companies in procuring insurance for patent defense from European-based insurers that will expressly provide a defense for patent infringement lawsuits (over a significant self-insured retention). The market for this product is expanding, although the precise policy language varies with the particular corporation and its needs, as well as the insurer and broker who participate.

## RAKTL BUSINESS METHOD PATENT INFRINGEMENT LAWSUITS, COVERING A NUMBER OF USES OF 800 NUMBERS, WHICH HAVE RESULTED IN OVER A BILLION DOLLARS IN LICENSING REVENUE, ASSERT CLAIMS THAT MAY FALL WITHIN CORPORATIONS' COVERAGE UNDER SOME CGL POLICIES

A number of cases are litigating the issue of whether the RAKTL patents may trigger a defense obligation. One such suit, *Discover Financial Services LLC v. National Union Fire Ins. Co. of Pittsburgh, PA*, 527 F. Supp. 2d 806 (N.D. Ill. 2007), concluded that the pertinent RAKTL claims that were proceeding to suit would not implicate coverage under the "advertising injury" provisions of standard form CGL policies issued to Discover Card by National Union. The court, however, suggested a different result might attend on the broader scope of claims originally tendered to National Union before they were narrowed in the litigation. Thus, the court observed:

Discover asserts that certain claims in some of the patents in suit are relevant to National Union's duty to defend Discover under the Policy. Discover identifies the following as relevant language:

- Claim 219 of the `734 Patent states that the patent claims "[a] telephone interface system ... wherein said selective operating format involves advertising a product for sale."

....

- Claims 74 and 86 of the `863 Patent both state that the patent claims "[a] process ... wherein said participation numbers are associated with an automated promotion of said products."

....

Notably, the claims Discover has identified as relevant are not the focus of RAKTL's lawsuit.

*Id.* at 813, 814. In a subsequent order, issued on May 12, 2008, Judge Pallmeyer denied reconsideration. The court focused on the fact that the actual allegations did not refer to advertising in any way, nor make a reference to the use of automated telephone systems for advertising purposes, instead referring explicitly to patent infringement.

This focus is inconsistent with an earlier decision by the federal district court in *Washington in Amazon.com, Inc. v. Atlantic Mutual Ins. Co.*, No. C05-00719RSM, 2005 WL 1711966 (W.D. Wash. July 21, 2005) which, following a similar complaint allegations rule as applicable in Illinois, found it essential to look at the articulated grounds for liability in patent claims to understand what the assertions of infringement would factually mean in evaluating a duty to defend. As the court there noted:

In the instant case, the underlying patent infringement lawsuits involve different patents and technology, such as electronic catalog systems, customized electronic identification, and virtual shopping carts. Therefore the Court must analyze each underlying patent separately to determine whether they trigger a duty to defend.

*Id.* at \*6. This would appear to be the more appropriate understanding of the breadth of the potentiality standard implicated by the duty to defend because "[t]he insurer is relieved of its duty only if the alleged claim is *clearly* not covered within the policy's coverage. *Kirk v. Mt. Airy Ins. Co.*, 134 Wash.2d 558, 561, 951 P.2d 1124 (1998)." *Id.* at \*5.

A number of cases are now pending challenging potential coverage. The *Discover* case is on appeal to the Seventh Circuit.

## ACACIA RESEARCH CORP. v. NATIONAL UNION FIRE INS. CO. OF PITTSBURGH, PA, No. SACV 05-501 PSG (MLGx), 2008 WL 4179206 (C.D. Cal. Feb. 8, 2008)

The court issued findings of fact and conclusions of law as to the scope of a Directors & Officers policy's duty to cover reimbursement of defense fees and settlement costs in a patent infringement lawsuit. The court found for the insured.

It awarded plaintiff \$31,070,981.62 plus \$310,492.99, the present value of future royalty payments.

The D&O policy was issued from January 22, 1999 to January 22, 2002 on a claims-made basis with \$10M policy limits and a SIR of \$150,000. The insurer had delayed issuing a coverage opinion which concluded that there was no express exclusion for patent infringement or breach of contract cases. The court reasoned:

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The Court finds that *all* defense costs incurred by Combimatrix arose out of its indemnification of Montgomery for alleged wrongful acts committed by Montgomery. Specifically, the underlying Nanogen action centered on Nanogen's accusations that Montgomery stole Nanogen's technology and brought it to Combimatrix. Accordingly, Combimatrix and Montgomery presented a single and joint defense to the Nanogen suit.

*Id.* at \*10.

The court found that the actions alleged by Nanogen against Montgomery arose from Montgomery's actions as an officer of Combimatrix.

It was only when Montgomery was an employee at Combimatrix that he could have committed the alleged wrongful acts of revealing Nanogen confidential information or using Nanogen's confidential information inappropriately.

Contrary to Defendant's position, the Court finds that, in this case, the duty to advance defense costs is broad as the duty to defend. See *Hurley v. Columbia Cas. Co.*, 976 F.Supp. 268, 275 (D.Del.1997) . . . *Shapiro v. Am. Home Assurance Co.*, 616 F.Supp. 906, 913 (D.Mass.1985) (finding that an insurance contract's "statement of the duty to reimburse costs of defense ... is at least as broad as the duty to defend under traditional insurance provisions.").

*Id.* at \*11.

Notice was all that was required. No specific advice that a self-insured retention had been exhausted was necessary to trigger the insurer's immediate obligation to reimburse defense costs. "The explicit language of the Policy itself required Combimatrix to do no more than it did to notify Defendant of its claim."

*Id.* at \*13.

A settlement was concluded in a manner so as to render it involuntary and in response to defendant's breach of its duties where the insurer defendant refused to advise further on its insurance coverage position after initially denying a defense. *Jamestown Builders, Inc. v. General Star Indemnity Co.*, 77 Cal. App. 4th 341, 346, 91 Cal. Rptr. 514 (1999). *Id.* at \*13.

The insurer's conduct in asserting non-coverage of patent infringement claims absent a specific exclusion was a breach of the covenant of good faith and fair dealing.

At trial, Favilla [who handled the claim for NUFII] conceded that the Policy did not contain any exclusions related to breach of contract and patents. Favilla admitted that he gave the coverage opinions to the insured even though he lacked sufficient information to determine whether any exclusions applied.

....

On November 3, 2003, almost 3 years after receiving notice of the claim, Plunkett [who handled the claim for NUFII following Favilla] wrote a first and final coverage letter to Combimatrix. Plunkett approached the review in a manner that revealed a steadfast determination to deny coverage.

*Id.* at \*16.

Punitive damages were inappropriate, however, because there was no sufficient showing of malice, fraud or oppression.

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## UMG RECORDINGS, INC. v. AMERICAN HOME ASSUR. CO., No. 06-56076, 2008 WL 4107315 (9th Cir. (Cal.) Sept. 2, 2008)

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The Ninth Circuit affirmed the district court ruling by Judge Pregerson. It concluded that American did not have a duty to defend Island Def Jam Music Group, a division of UMG, from a suit filed against *Def Jam by TVT Records, Inc. and TVT Music, Inc.* in a contract dispute respecting the right to produce and market recording music performances by a rap group known as Cash Money Click (CMC).

Property damage was unavailable because there was no "occurrence" as the damage was the result of an intended or expected event. *Shell Oil Co. v. Winterthur Swiss Ins. Co.*, 15 Cal. Rptr. 2d 815, 838 (Ct. App. 1993).

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The allegations did not concern UMG's good as TVT maintained ownership rights to the CMC album. Thus, it was of no moment that the Irv Gotti CD "announces the upcoming release of the CMC Album in November 2002," making the album itself an "advertisement" so as to fall within the Policy's coverage for "infringement of copyright in your advertisement."

The court also found no personal injury coverage for disparagement:

Here, the statement that Def Jam mischaracterized something to the artists about TVT's efforts to protect its own rights does not concern TVT's goods or products. Neither does it state any inadequacy about TVT's services to the artists. The allegation is so vague it is hard to say exactly what it means, but at most it merely alleges that TVT will not stand on its own rights, which is not disparagement of TVT's services.

*Id.* at \*2.

The slander argument was waived as it was not raised in the trial court pursuant to *Monetary II Ltd. P'ship v. Commissioner*, 47 F.3d 342, 347 (9th Cir. 1995). *Id.* at \*3.

Judge Graber concurred and dissented in part, finding *Atlantic Mut. Ins. Co. v. J. Lamb, Inc.*, 123 Cal. Rptr. 2d 256, 269-72 (Ct. App. 2002) pertinent under disparagement coverage and requiring a defense thereunder:

False statements that may influence a third party not to use the plaintiff's services, to the financial detriment of the plaintiff, trigger the duty to defend a claim of disparagement of services.

*Id.* at \*3.

The dissent was willing to look at the contextual scenario where the allegations that TVT will not stand on its own rights could disparage TVT's services to third parties because TVT depends on the willingness of others to put themselves in its hands to release albums.

## PUBLICATIONS BY DAVID A. GAUNTLETT

David A. Gauntlett is the author of *Insurance Coverage of Intellectual Property Assets* published by Aspen Law & Business. The book and supplements are available for \$160.00 plus tax where applicable; shipping and handling are free when full payment is enclosed with the order. To order, call Aspen Law & Business at 1-800-638-8437.

## UPCOMING PUBLICATIONS BY DAVID A. GAUNTLETT

- ◆ *Intellectual Property Due Diligence in Corporate Transactions*: § 12A (West 2007) (contributor)
- ◆ *Assets & Finance: Audits and Valuation of Intellectual Property-Internal Controls, Materiality and Investment* (West/Thompson Reuters) (Westlaw AFAVIP) (contributor)
- ◆ Also soon to be published are three books:
  - *A Primer on Insurance Coverage Law, and Intellectual Property Claims Under Commercial General Liability Policies* (Insurance of IP assets) (contributing authors for Chapter 7) (Tod Zuckerman, Bob Chesler, Mary Hildebrand and Christopher Keegan)
  - *Free and Open Source Software and Content Desk Reference: A Legal and Risk Management Guide* (Browntree Publications) (contributing author of chapters on F/OSS and F/OC adoption and corporate risk management policies and procedures)
  - *Intellectual Property Practitioner's Handbook on Insurance Coverage* (ABA 2009)
- ◆ *The Licensing Journal* regularly features articles written by Mr. Gauntlett, the latest entitled *Can Antitrust Violations Premised on Covered "Personal and Advertising Injury" Offenses Create a Defense Duty When Indirect Injury Is Asserted?* (West/Thompson Reuters 2009) (publication pending)
- ◆ *TIPS-ICLC 2009 Annual Survey* will also feature an article by Mr. Gauntlett on latest developments in Insurance Coverage Litigation.

## UPCOMING SEMINARS ON INSURANCE COVERAGE AND INTELLECTUAL PROPERTY WHERE DAVID A. GAUNTLETT IS SPEAKING OR ATTENDING

Mr. Gauntlett was recently named a *Super Lawyer* (Southern California) for the following practice areas:  
**Insurance Coverage, Intellectual Property and Antitrust Litigation**

October 22-25, 2008	American Intellectual Property Law Association - Washington, DC - Attending
February 4, 2009	American Intellectual Property Lawyer Association online Monthly Online Meeting - Presenting - "Procurement and Use of Insurance to Address Intellectual Property Lawsuits"
March 5-7, 2009	2009 American Bar Association Insurance Coverage Seminar - Tucson, AZ - Presenting - "The Right to Independent Counsel and How It Impacts the Defense of Business Tort Claims in all Its Manifestations"
April 19-23, 2009	Risk and Insurance Management Society, Inc. Annual Conference - Orlando, FL - Attending

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**DUE TO CONTINUED READERSHIP DEMAND, THE POLICYHOLDER ADVOCATE NEWSLETTER WILL CONTINUE TO BE ISSUED QUARTERLY** as a supplement to our blogs:

[www.GauntlettOnIntellectualProperty/AntitrustInsurance.com](http://www.GauntlettOnIntellectualProperty/AntitrustInsurance.com)

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**For more information, contact our Director of Business Development, Richard A. Beserra, at (949) 553-1010 x 208**  
Email: [marketing@gauntlettlaw.com](mailto:marketing@gauntlettlaw.com) to be added to our newsletter circulation list, or to be removed.

## GAUNTLETT & ASSOCIATES – THE POLICYHOLDER ADVOCATE

*Gauntlett & Associates specializes in policyholder insurance coverage and litigation re copyright, antitrust, patent, trademark, trade secret, business and general coverage disputes, including:*

1. Insurance Coverage Litigation Focusing on IP, Antitrust and Business Tort Claims
2. Securities Fraud Litigation Insurance Coverage
3. IP Litigation; Representation in Arbitrations and Mediations
4. Mergers and Acquisitions Insurance Coverage Counsel and Advice
5. Expert Witness on Insurance Coverage Issues, Including Fee Disputes
6. Counsel to IP Case-in-chief Counsel for Insurance Coverage, Including: Choice of Forum, and Negotiation
7. Consultant to Corporations Regarding What Type of Policies to Purchase to Protect Against IP Litigation

*If you have a topic you would like to see addressed in future issues, please feel free to contact us with your suggestions.*

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