I. INTRODUCTION

Businesses need to know what insurance may be available to protect them against contractual indemnification claims when such claims arise. Both customers and vendors of computer software should consider what insurance products are available in the marketplace, whether they should have certain insurance in their own portfolio, and whether they should require that other contracting parties have particular insurance to protect against significant risk that may arise under their contracts.

Intellectual property assets have become the core value to many small to mid-sized companies in the information technology industry. It has been estimated that the value of intellectual property owned by S&P 500 companies is $3.4 trillion. With so much at stake, lawsuits involving intellectual property can put businesses at risk for their very survival. Defense costs alone can quickly mount to over $1 million. This is why prudent technology companies are evaluating their risk management portfolio to assure that they have the coverage necessary to respond to intellectual property infringement claims. Because so many software developers and vendors are undercapitalized, their business customers as well should insist upon their vendors' having insurance programs that will stand behind the vendors' contractual indemnification obligations.

Standard commercial general liability insurance policies that for so long provided the primary form of insurance protection for businesses generally have proved inadequate with respect to intellectual property risks typically involved in contractual indemnification clauses in software licenses. Many software vendors are not, from the insurance company's perspective, ideal insurance purchasers. They usually do not have experience insuring against and managing commercial risk, and they tend to be risk takers, rather than being risk adverse. As a result, insurance companies have begun marketing new policies providing broader intellectual property coverage, as well as coverage for defamation, invasion of privacy, hacking and viruses.

II. LAWYERS' DUTY TO ADVISE CLIENTS ABOUT INSURANCE COVERAGE
Lawyers who fail to advise their clients about insurance coverage, or fail to provide notice of pending litigation to insurance companies, may be committing malpractice. Two recent cases go in opposite directions on this issue, but both support the lawyer's duty in the case were potential coverage is clear. One case from New York found that the lawyer did not have a duty to advise his client of potential coverage claims, while the other from California found lawyers guilty of malpractice due to their failure to advise their clients that insurance coverage may be available for claims against them. Both cases involved intellectual property claims. In neither cases was the lawyer asked by the client to provide advice about insurance.

In *Darby & Darby, P.C. v. VSI International, Inc.*, 739 N.E.2d 744 (N.Y. Ct. App. 2000), the client retained an intellectual property law firm to represent it in trademark and patent infringement lawsuits pending in Florida. After three years, the case was turned over to another law firm, which promptly requested that the client report the claims to its insurance carriers. The insurance carriers refused to reimburse the client for defense costs incurred prior to receiving notice of the claims. The client claimed that the first law firm had committed legal malpractice by, among other things, failing to advise the client of the possibility that its insurance policies might cover the costs of defending the intellectual property lawsuits. The New York Court of Appeals ruled, however, that at the time of the law firm's representation of the client, neither New York nor Florida recognized the duty of an insurer to defend patent infringement claims under a general liability policy's advertising injury clause, and so the lawyer had no duty to advise the client about the possibility of such coverage. *Id.* at 747. The clear implication is that, if cases did recognize such a duty of an insurer to defend such claims, the lawyer would have the duty to disclose this to his client.

In *Jordache Enterprises, Inc. v. Brobeck Phleger & Harrison*, 18 Cal. 4th 739 (1998), the California Supreme Court, ruling on a statute of limitations question, assumed that failure to advise a client about potential coverage would constitute legal malpractice. Thus, it is clear that lawyers in general must be familiar with insurance law and be careful to protect their clients' rights to insurance coverage.

### III. TYPICAL RISK ALLOCATION PROVISIONS IN SOFTWARE LICENSES

#### A. Express and Implied Warranties

The extent of warranty protection in a software license is usually a matter of business leverage. Basic warranties usually included in a license agreement are that the software materially conforms to the specifications and documentation, that the vendor has good title to the software and has the right to license it free of any encumbrances, and that the software is virus-free and does not contain worms, trojan horses or other harmful code. Often there is a time duration associated with express warranties.

#### B. Indemnification Against Third Party Claims

Indemnification clauses deal with third-party claims or suits against one of the contracting parties. A common indemnity clause in a software license agreement is for the vendor to defend and indemnify the customer and hold the customer harmless from and against third party claims for infringement of intellectual property rights, for claims of injury, death or property damage brought by the vendor's employees, agents or contractors resulting from services at the customer site. Because third party claims are not within the contracting parties' control, the damages resulting from such claims should be addressed separately from other provisions allocating risks between the parties.
C. Limitations of Liability

The limitation of liability section typically relates to the liability of the parties to each other, as opposed to third party actions covered by the indemnification section. These provisions normally include a mutual waiver of incidental, consequential, indirect and punitive or special damages, and an overall cap on the vendor's liability to the customer for direct damages. A larger or more influential customer may negotiate certain exceptions to the mutual waiver of incidental or consequential damages or to the cap on direct damages. For example, a vendor may agree to carve out an exception to the waiver of incidental or consequential damages in the event of breach of the confidentiality provision, or it may agree to exclude from the cap on direct damages any liability resulting from its gross negligence.

D. Insurance

An insurance provision is important where the software is part of a business critical application in the customer's business, and there is no commercially reasonable alternative in the market. It is also important in cases where the vendor will have its personnel performing services at the customer's site. The customer should ask the vendor to provide complete commercial general liability coverage, workers' compensation coverage, automobile liability coverage and employee fidelity coverage. If the vendor is going to customize software to meet the customer's unique requirements, the customer should request data processing errors and omissions insurance.

IV. INSURANCE COVERAGE FOR LIABILITY ARISING FROM INDEMNIFICATION PROVISIONS

What insurance may be available to protect a business against contractual indemnification claims when such claims arise? Historically, companies believed that a general liability policy helped protect them from the financial devastation of intellectual property liability claims. However, copyright and trademark protection under general liability policies is usually limited only to certain types of infringements and only if committed in advertisements. Furthermore, such policies may only defend against claims for actual damages, not against claims seeking injunctive relief to stop the use of copyrighted or trademarked materials. Today, most suits arising from intellectual property infringement are specifically excluded from general liability insurance policies.

A number of types of insurance may be available to cover indemnification obligations. These include:

- Commercial general liability insurance;
- Professional liability errors and omissions insurance; and
- Intellectual Property-specific insurance.

When a claim is tendered under a contractual indemnification clause, all policies in effect should be carefully examined, including policies dating back several years, and those insurance carriers should be notified.

A. Commercial General Liability Insurance

Since the 1960s, the insurance industry has sold Comprehensive General Liability (later called Commercial General Liability) (“CGL”) insurance. The CGL policy is a standard-form liability insurance policy promising the broadest coverage available. Businesses sued in intellectual property disputes have typically looked to their CGL insurers for defense and indemnity. However, although CGL policies typically include copyright infringement on their face, most now require that the copyright infringement be “in your advertisement”. Thus, businesses have
usually invoked their "advertising injury" coverage when tendering intellectual property matters to their insurers. CGL policies generally agree to pay those sums that the insured becomes legally obligated to pay as damages because of "personal and advertising injury" to which the insurance applies. The insurance applies to "personal and advertising injury" caused by an "offense" arising out of the insured's business. "Offense" has included "infringement of copyright" (in the 1976/1986 Insurance Services Office ("ISO") form), "infringement of copyright in your advertisement" (1998/2001 ISO form), or "infringement of copyrighted advertising materials" (St. Paul policy form). "Offenses" also include non-copyright claims such as violation of the right of privacy, piracy, unfair competition, misappropriation of advertising ideas or style of doing business, or infringement of title or slogan. Thus, in any intellectual property infringement claim, it is critical to review the potentially applicable CGL policy forms to determine whether the infringement claims are included in the list of "offenses" giving rise to "advertising injury".

There is an emerging consensus among the courts of a three-part test for advertising injury coverage under CGL policy provisions. Namely, (1) is there advertising activity; (2) does the advertising establish a basis for liability under one of the enumerated "advertising injury" offenses; and (3) is there an "advertising injury" offense.

What is advertising? While courts are in disagreement, most agree that widespread public dissemination of information, promotion of goods on a website, catalog distribution, direct mail, trade shows and store displays all constitute advertisement. Some courts have found one-on-one solicitation, such as bids on a project, to be advertisement.

There must be a causal nexus between the policyholder's advertising and an enumerated offense. See L'Koral, Inc. v. TIG Ins. Co., No. B151757, 2002 Cal. App. Unpub. LEXIS 10457 (Cal. App. 2d Div. 4, Nov. 14, 2002), discussed below. Thus, copying or displaying a software program may be copyright infringement, but unless the copying or displaying was done in connection with the policyholder's advertising, there would be no coverage. Thus, most litigation over coverage for intellectual property disputes focuses on two issues: whether the alleged claims constitute "advertising injury", and whether the claims arose out of the policyholder's advertising activities.

Policyholders have prevailed in most cases addressing coverage for trademark infringement claims. Such cases address whether trademark infringement falls under the policy terms "misappropriation of style of doing business" or "infringement of title or slogan". Most courts have held that infringement of a trademark fits squarely within the policy coverage for "misappropriation of style of doing business." See Dogloo v. Northern Ins. Co. of New York, 907 F. Supp. 1383 (C.D. Ca. 1995); A Touch of Class Imports, Ltd. v. Aetna Cas. & Sur. Co., 901 F. Supp. 175 (S.D.N.Y. 1995) (coverage provided because phrase used in sale of jewelry was held to be a "title or slogan"); Swfte International, Ltd. v. Selective Ins. Co. of Am., C.A. No. 94-44-SLR (1994 U.S. Dist. LEXIS 20545 (D. Del., Dec. 30, 1994) (coverage provided because "misappropriation" of another's "advertising ideas" was construed as including misuse of the other's trade name or trademark).

Policyholders' success in obtaining coverage under CGL policies for copyright infringement claims has been mixed. Most advertising injury provisions specifically list "infringement of copyright" as a type of "advertising injury". Therefore, when an insurance company disputes coverage for a copyright infringement claim, it is often on the ground that such a claim did not occur or arise out of the policyholder's advertising activities.

In contrast to the treatment of trademark and copyright claims, most courts have ruled that patent infringement claims are not covered under the "advertising injury" provisions of CGL policies. See, e.g., Novell, Inc. v. Federal Ins. Co., 141 F.3d 983 (10th Cir. 1998); Simply Fresh Fruit, Inc. v. Continental Ins. Co., 94 F.3d 1219 (9th Cir. 1996), cert. denied, 117 S.Ct. 388 (1996); St. Paul Fire & Marine Ins. Co. v. Advanced Interventional Sys., 824 F. Supp. 583 (E.D. Va. 1993), aff'd, 21 F.3d 424 (4th Cir. 1994). Other courts have found such coverage. See, e.g., Elan
Pharmaceutical Research Corp. v. Employers Ins. Of Wausau, 144 F.3d 1372 (11th Cir. 1998). However, if the policy is ambiguous on the issue of coverage, this does not necessarily preclude coverage. A basic principle of insurance law holds that because the insurance companies themselves draft the policies, ambiguities are construed in favor of policyholders. Nevertheless, when evaluating whether a business has the coverages necessary to address contractual indemnification, it is prudent to require the purchase of a policy that specifically enumerates all common types of intellectual property claims, including infringement of patents, copyrights and trademarks.

B. Professional Liability Errors and Omissions Insurance

With companies putting more reliance in information technology solutions, it is increasingly likely that certain software solutions may be critical to the operation of the business. As a result, much more is at stake if the software fails or does not perform a promised. Contractual indemnification claims may arise from a software vendor’s breach of its obligations under the software license agreement, such as for nonperformance or defects in products or services. Losses may arise from losses of data, failures of delivery to key customers, or payroll delays, all potentially caused by software products or services that have gone wrong. Errors and omissions insurance can stand behind thinly-capitalized software vendors to protect their customers from potentially catastrophic losses.

Coverage available under CGL policies are typically limited to third party claims for bodily injury, property damage and advertising injury. It may be difficult or impossible to get coverage under a CGL policy for injury to intangible property, such as software or data, because there has been no bodily injury or physical injury to or loss of use of tangible property. For example, if a software vendor’s product fails and causes a customer to lose valuable sales data, the vendor cannot typically rely on his CGL carrier to respond. However, the customer is likely to seek indemnity for the cost of recreating the lost data and for the lost revenues. CGL policies generally do not provide coverage for programming errors, contract performance disputes or any other professional liability issues. They also typically do not cover consequential financial loss, and most exclude claims arising out of professional services.

E&O insurance provides protection against the risks of failure of the policyholder's product to perform its function and the policyholder's failure to perform services within the terms of the contract. For instance, E&O insurance would apply when a policyholder faced claims because its product caused a loss of data to others, including the loss of use of that data. It would also apply of the policyholder's product or service failed, causing the loss of use of tangible property to others (without physical injury).

Most E&O policies apply only to consequential damages, such as the customer's loss of income or loss of data due to product failure. Coverage is also typically limited to losses that arise after the customer's acceptance of the product or project. If a business is sued because the software vendor's product allowed third parties unauthorized access to intellectual property, such as trade secrets, or confidential personal information, such claims may not be covered, depending on the wording of the policy.

Endorsements are typically available to limit or broaden the scope of E&O insurance. Two of the major endorsements include:

- Intellectual property infringement endorsement. This potentially extends coverage for claims arising out of actual or alleged infringement of patent, copyright, trademark, trade name, trade dress, trade secret or any other type of intellectual property.
- Computer virus endorsement. This potentially extends coverage for results of unauthorized access to an electronic system or program and for damage caused by computer viruses and worms.
C. Specialty Insurance

1. MULTIMEDIA LIABILITY INSURANCE

Executive Risk Indemnity Inc., a subsidiary of Chubb, markets a Multimedia Liability Insurance policy. This policy insures against liability arising out of the insured's "media activities". This is an occurrence-based policy, covering claims relating to media activities taking place during the policy period. Therefore, it is important for businesses to make sure that their software vendors maintain such policies in effect during the term of their software licenses.

The Multimedia Liability Insurance policy defines "media activities", in part, as:

In connection with the Covered Media, any actual or alleged act, error, or omission committed in the course of, or arising out of:

(1) the gathering, recording or collection of Matter for inclusion in the Covered Media, including but not limited to any actual or alleged:

(a) invasion or infringements of the right of privacy or publicity, including the torts of intrusion upon seclusion, publication of private facts, false light, or misappropriation of name or likeness; . . .

(b) copyright infringement, plagiarism, or misappropriation of property rights, information or ideas; or

(2) the publication, dissemination or release of Matter in the Covered Media, by any form, method or medium of communication, including but not limited to any actual or alleged:

(a) libel, slander or any other form of defamation or harm to the character or reputation of any person or entity;

(b) invasion or infringements of the right of privacy or publicity, including the torts of intrusion upon seclusion, publication of private facts, false light, or misappropriation of name or likeness; . . .

(d) product disparagement, trade libel, dilution or infringement of title, slogan, trademark, trade name, service mark, or service name;

(e) copyright infringement, plagiarism, or misappropriation of property rights, information or ideas; or

(f) negligence in connection with the content of Matter, including but not limited to any Claim alleging harm to a person or entity who acted or failed to act in reliance upon such Matter; or

(3) the publication, dissemination or release of Matter by any party with whom the Insured has entered into a written, oral or implied-in-fact indemnification or hold harmless agreement regarding Claims arising out of the publication, dissemination or release of such Matter. (Emphasis added.)

"Covered Media" refers to "publications, programs, broadcast or cable stations, or other communications" listed in the policy's declarations, including any "on-line versions of such media." "Matter" is defined as:

the content of any communication of any kind whatsoever, regardless of the nature or form of such Matter or the medium by which such Matter is communicated, including but not limited to language, data, facts, fiction, computer coding, music, photographs, images, advertisements, artistic expression, or visual or graphical materials.

The policy appears clearly to apply to the software programs licensed by software vendors, as "matter" specifically includes data and computer code, and "covered media" includes "programs", which is not defined in the policy. Also, as noted above, the policy specifically applies to the customers of the policyholder, to the extent the
policyholder has entered into an indemnification agreement. There is no exclusion for copyright disputes brought by
employees or contractors of the policyholder, which is a significant risk due to the complications of the "work for
hire" rule under the Copyright Act, and the failure of many software vendors to enter into proper employment
agreements with their employees.

Policies such as this offer software vendors and their customers greater protection against intellectual property
risks than do standard CGL policies. It also provides coverage for defamation and invasion of privacy claims, both
of which are significant risks in electronic commerce.

2. INFRINGEMENT DEFENSE COST AND DAMAGES REIMBURSEMENT
INSURANCE

To overcome the limitations of general liability insurance policies, insurance companies have developed a wide
range of intellectual property-specific insurance, with an emphasis on patent infringement claims. Intellectual
property coverage protects companies from copyright, trademark or patent infringement claims arising out of the
company's operation. An endless variety of additional "riders" are generally available to be added to basic
intellectual property insurance policies. These may include coverage for loss of business income, loss of ongoing
royalties and license fees, loss of IP portfolio value, loss of trade secret advantage and cost of redesign.

Two types of intellectual property coverage are available. The first protects the policyholder if it is sued for
infringement and it funds the legal defense. The second and more unique coverage is a "pursuit" policy. It helps pay
the legal expenses of suing an alleged infringer.

The first type of intellectual property policy reimburses the policyholder for its legal expenses when the policyholder
must defend itself against lawsuits brought in the U.S. for patent, trademark or copyright infringement. An example
of this policy, published by Intellectual Property Insurance Services Corporation, applies only to claims asserted
against the policyholder at least 90 days after inception of the policy, and reimburses the policyholder's legal costs
when the policyholder asserts invalidity as a defense to a charge of patent, trademark or copyright infringement,
and it reimburses the cost of reexamination proceedings initiated by the policyholder as a defense strategy arising
out of a lawsuit for patent infringement.

A stiff condition precedent to the policy is that the policyholder has obtained a "favorable infringement opinion" from
the policyholder's "selected patent attorney opining that there is no Infringement of any unexpired U.S. Patent,
Trademark or Copyright vis-à-vis a Manufactured Product based upon a search thereof in the United States Patent
& Trademark Office . . . ." This insurance includes claims for infringement by the policyholder or its licensee,
provided that the licensee is added as Additional Insured by endorsement to the policy. Thus, where a licensee has
negotiated with a software vendor to have such a policy in place, it is critical that the licensee be added as
Additional Insured, and be provided with evidence that this has been done.

Losses or expenses arising from bodily injury or property damage are excluded, as those are expected to be
covered by a CGL policy. Also excluded, among other things, are losses arising out of willful infringement,
declaratory judgment actions, allegations of antitrust or anti-competitive conduct, and any circumstances which, on
the Effective Date of the policy, the policyholder "could reasonably believe may result in Civil Proceedings alleging
Infringement . . . ." (Emphasis added.) Thus, the coverage is extremely narrowly tailored and must be responsibly
managed by the policyholder to include all valuable intellectual property owned by the policyholder, and to list all-licensees as additional insureds.
3. INTELLECTUAL PROPERTY INFRINGEMENT ABATEMENT INSURANCE

Intellectual property insurance policies of the second type, the so-called "pursuit" policies, reimburse the policyholder for its litigation expense when the policyholder elects to enforce its patents, trademarks or copyrights against an alleged wrongdoer. It pays the policyholder's legal costs when its intellectual property is challenged by a countersuit for invalidity in an infringement suit.

For example, a "pursuit" policy published by Intellectual Property Insurance Services Corporation applies to infringing acts that begin during the policy period. It does not respond to pre-existing infringement. The insured intellectual property must be specifically listed on the declarations page, and all such intellectual property must be owned by or exclusively licensed to the policyholder. Moreover, there is no coverage unless the litigation is authorized by the insurance company in advance. Any "economic benefit", as defined in the policy, arising from the authorized litigation must be split between the insurance carrier and the policyholder. Abatement coverage for litigation in foreign jurisdictions is ordinarily excluded, but can be added by endorsement.

4. REPUTATION INJURY AND COMMUNICATIONS LIABILITY INSURANCE

One of the specialty insurance products to fill the gaps created by more general coverage is Chubb's Reputation Injury and Communications Liability insurance policy. This product is a third-party liability insurance policy that supplements traditional CGL insurance. It protects against the costs associated with lawsuits alleging copyright and trademark infringement, libel, slander, product disparagement and violation of the rights of privacy and publicity, whether or not in advertisements. In addition, it provides defense against claims seeking injunctive relief, coverage not provided by traditional CGL policies. However, according to Chubb's promotional literature, it excludes coverage for copyright infringement relating to computer code.

V. RECENT COURT CASES TESTING SCOPE OF COVERAGE

*L'Koral, Inc. v. TIG Ins. Co.*, No. B151757, 2002 Cal. App. Unpub. LEXIS 10457 (Cal. App. 2d Dist. Div. 4, Nov. 14, 2002), involved a policyholder who had been sued for copyright infringement, unfair competition and misappropriation of a trade secret. The underlying plaintiff, CGS, claimed that L'Koral infringed its copyright by copying and using CGS computer software without permission. CGS claimed that the software was used to assist in production, not in L'Koral's advertisements. The Court held that the insurer did not breach its duty to defend under the "advertising injury" provisions of their insurance policy, as it found no advertising nexus, and thus no causal connection between infringement and advertising injury as required by the policy. The Court held that under California law, the infringing material must be physically manifested in an advertisement or transmitted in an advertising message in order to give rise to an "advertising injury". See also *Delta Computer Corp. v. Frank*, 196 F.3d 589, 591-92 (5th Cir. 1999) (no advertising injury where infringed software was used to add advertisements to bills, but was developed primarily for billing, and advertisement was incidental).

In *Specific Impulse, Inc. v. Hartford Cas. Ins. Co.*, No. 5:02-cv-02849-JW, 2002 U.S. Dist. LEXIS25600 (N.D. Cal. San Jose Div., Sept. 17, 2002), a third party graphics design firm sued the insured, alleging that the insured stole its proprietary application software and client database and was using the information in the insured's newly created product line. With respect to a claim of false advertising, the third party alleged that the insured had been conducting an advertising campaign in its company website, and had used the third party's works as a sample of the insured's own product. The court held that there was a clear allegation of "advertising injury" arising out of infringement. It reasoned as follows:
California courts have held that at least three distinct requirements must be satisfied in order to trigger the "advertising injury" provisions of any insurance policy. First, it must be alleged that the insured committed one of the enumerated offenses covered by the policy. Second, there must be "advertising" of the insured's goods, products or services. Third, there must be a direct causal relationship between the insured's advertising and the alleged injury. Applying this test to the instant case, the Court finds that these three requirements have been met. 

Id. at *12 (citations omitted). The court rejected Hartford's argument that coverage was excluded either by the "professional services" exclusion or by the "programming services" exclusion, construing both exclusions strictly and relying on the lack of allegations that injury was sustained as a result of professional services or programming services.

The Goodheart-Willcox Co., Inc. v. First Nat. Ins. Co. of Am., Inc., No. 00 C 0411, 2001 U.S. Dist.LEXIS 6284 (N.D. Ill. Eastern Div., May 8, 2001), involved a claim for coverage under certain media special perils insurance policies. In that case, a policyholder sought reimbursement from its insurers of its defense costs incurred in a copyright infringement, unfair competition and breach of contract action. The policyholder was an educational textbook publisher. It was sued by the vendor of a test creation software product that incorporated into its software program customized test materials provided by the policyholder. The vendor sued after allegedly learning that the policyholder was sublicensing for a fee the software products in violation of the license agreement. The court determined that the issues were (1) whether the vendor's claim for copyright infringement was one of the enumerated claims covered by the insurers' policies, (2) whether coverage under the policies required a causal link between the policyholder's advertising of its works and the contents of the policyholder's works, and (3) whether the claims are excluded under the policy's Exclusion B, excluding copyright infringement claims "arising out of" the breach of a license agreement.

The court held that the copyright infringement claim was covered under the policies. It further held that coverage did not require a causal link between the content of the policyholder's work and its advertising. It reasoned based on the policy language that, in order for the copyright claim to fall within the policy's coverage, the alleged infringement must have been committed in the utterance or dissemination of the content of the policyholder's works. It was not required to be uttered or disseminated in its related advertising. Id. at *15. Thus, this "Book Publisher Part" under the insurance policy, covering "works" and "related advertising" was substantively different than a policy that is designed for advertising injury which requires a causal connection between the offense and the related advertising. Id. at *16.

Exclusion B of the policy read as follows:

This Coverage does not apply to . . . claims arising out of breach of any contract or agreement or failure of performance of contract, provided that this exclusion shall not apply to liability assumed under contract as defined herein[.]

The court found that the exclusion applied, as the vendor's infringement claim arose directly out of the software license between the parties. Id. at *20. However, it is worth noting that the exclusion specifically did not apply to any infringement liability claim arising under a contractual indemnification clause. Such a claim would be covered under the policy, because it is just such infringement claims from unknown third parties that the policy is targeting.

VI. RECOMMENDATIONS

Parties to a software license agreement should determine their insurance needs based on several factors. These include the financial resources of the respective contracting parties, the criticality of the software to the business, and the degree of risk of infringement claims. Where the character of the software creates a significant exposure to
either contracting party, it is important to know what are the parties respective rights of indemnification, and what resources stand behind the contractual indemnification. After all, a licensor or licensee with no assets is a worthless target. Assuring that the other party has adequate insurance coverage and has named the other party as an additional insured can be lifesaving to a company that is caught in an expensive infringement suit.

Intellectual property owners, licensees, and their counsel should therefore ask themselves certain key questions regarding insurance for contractual indemnification claims.

- What is the value of the software to my company and the risk to my company if there is an infringement suit?
- What are the financial resources of the other contracting party?
- Is the other contracting party (IP owner/licensee) insured?
- Are contractual indemnification issues covered under the relevant policies?
- Does the insurance program adequately cover the types of risks included in the contractual indemnification?
- Is the company named as an additional insured under the policy of the licensee/licensor?
- Does the license agreement require the other party’s insurance to respond to a claim before the indemnification provisions are triggered?[1]

Notes:

1 The views expressed in this article are those of the author and may not reflect the views of Potter Anderson & Corroon LLP or its clients.