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Insurance Coverage for IP Claims: 2013's Coverage Hits

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As policyholders look back at the insurance coverage landscape of 2013, a major take away point is that the courts continue to debunk the myth that there is no coverage for intellectual property claims under the advertising injury coverage of commercial general liability ("CGL") policies. Most CGL policies contain coverage for injuries arising out of "the use of another's advertising idea in your advertisement" and "infringing upon another's copyright, trade dress, or slogan in your advertisement." Some current CGL policies still include coverage for infringement of title, although 1998 revisions to the language replaced "title" with "trade dress." CGL policies also usually contain an exclusion that purports to bar coverage for injuries "arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights," but that same exclusion provides that the exclusion does not apply to (a) "infringement, in your advertisement, of copyright, trade dress or slogans" and (b) the use of another's advertising idea in your advertisement." Interpreting this standard-form language, in 2013 courts found defense and/or indemnity coverage for copyright claims, trade secret misappropriation claims, trademark infringement, and infringement of title.

Coverage for Copyright Claims – the Internet and Beyond

The explosion in IP litigation over the past decade is only going to increase, in large measure due to the internet. In one of 2013's most notable cases, *St. Luke's Cataract & Laser Institute, P.A. v. Zurich American Insurance Co.*,¹ the Eleventh Circuit found advertising injury coverage for the insured's infringement of copyrighted web site content. In this case, one Dr. Sanderson was a surgeon at St. Luke's Cataract and Laser Institute.² St. Luke's registered certain domain names, including LASERSPECIALIST.com, and its web site carried copyright notices identifying St. Luke's as its owner.³ Sanderson resigned from St. Luke's, opened his own practice, and relaunched the LASERSPECIALIST.com web site with content virtually identical to the St. Luke's web site.⁴ The copyright disclaimer on Sanderson's web site identified him as the owner.⁵ In the underlying action, St. Luke's alleged that Sanderson infringed its copyright in the site and that he removed the St. Luke's copyright notice in violation of the Digital Millennium Copyright Act ("DMCA").⁶ A jury returned a verdict in favor of St. Luke's on all claims except copyright infringement.⁷ St. Luke's filed a revised copyright registration on the web site, and filed a new infringement lawsuit against Sanderson. Sanderson and St. Luke's settled the case and jointly sued

¹ 506 Fed. Appx. 970 (11th Cir. 2013).

² *Id.* at 972.

³ *Id.* at 972-73.

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

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Sanderson's insurers for coverage.⁸ The district court granted summary judgment for the insurers, based on the unauthorized use exclusion, which purports to bar coverage for any advertising injury claim "arising out of the unauthorized use of another's name or product in your e-mail address, domain name or metatag, or any other similar tactics to mislead another's potential customers."⁹ The Eleventh Circuit rejected this defense and held that this exclusion could not be read so broadly as to eviscerate the copyright infringement coverage of the policies.

Specifically, the Eleventh Circuit found that the underlying infringement claim was based on "wrongful use of the contents, layout, and design of St. Luke's LASERSPECIALIST.com website," which is "not the same thing as the use of 'another's name or product'."¹⁰ The court further found that the insured "used the content for display on his own website, rather than in an 'e-mail address, domain name or metatag'."¹¹ The court refused to "allow the 'similar tactics' language to swallow the narrow language used in the exclusion and turn it into a catch-all exclusion for the use on the internet in any way of material belonging to another."¹² Finally, the court found the requisite causal connection lacking: "[n]either the district court nor the Insurance Companies point to any causal connection between [the insured]'s copyright infringement and his use of St. Luke's domain name as required by Florida law. St. Luke's copyright claim may be related to – but it does not arise out of – Sanderson's use of the LASERSPECIALIST.com domain name."¹³ The court likewise upheld coverage for the DMCA claim.¹⁴

St. Luke's illustrates that policyholders facing IP copyright claims related to their internet advertising activities may be entitled to insurance coverage, even when their policies contain the unauthorized use exclusion.

The 2013 decision in *Lexington Insurance Company v. MGA Entertainment, Inc.*,¹⁵ demonstrates the breadth of the duty to defend copyright infringement claims. The plaintiff in the underlying action against MGA, Bernard Belair, alleged copyright infringement as a result of MGA's alleged improper copying of his copyrighted images to develop the Bratz line of toys and dolls and Bratz "marketing materials".¹⁶ In finding that MGA's umbrella insurers had a duty to defend under California law, the court rejected the insurer's defense that the alleged injury could not have arisen out of advertising because the underlying complaint did not pursue its claim for copyright infringement expressly on the theory that MGA's Bratz advertising infringed Belair's copyrights.¹⁷ The court found that the broad allegations of the underlying complaint made it reasonable to infer such a claim and that had Belair simply amended his complaint "by adding one word" it "indisputably" would be within the defense coverage of the policies.¹⁸

⁸ *Id.* at 973-74.

⁹ *Id.* at 974.

¹⁰ *Id.* at 976.

¹¹ *Id.*

¹² *Id.*

¹³ *Id.* at 978.

¹⁴ *Id.* at 978-79.

¹⁵ ____ F.Supp.2d ____, 2013 WL 3479415 (S.D.N.Y. 2013).

¹⁶ *Id.* at *2.

¹⁷ *Id.* at *8-9.

¹⁸ *Id.* at *9.

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Most importantly, the court discussed how patent infringement claims and copyright infringement claims may be differently related to advertising. A patent infringement claim may not implicate the advertising injury coverage when the policyholder advertises the allegedly infringing product, because “patent infringement cannot occur in the course of advertising activities,” but rather occurs by making, using, or selling a patented invention.¹⁹ In such cases the advertising activity merely exposes an independent act of infringement. In contrast, “infringement of copyright . . . typically occurs upon unauthorized reproduction or distribution of protected material . . . [T]he injury emanates within the advertisement itself and requires no further conduct.”²⁰ The advertisement constitutes an infringing act itself.²¹ Copyright infringement, then, usually has a direct causal relation to the subject advertising bringing it squarely within the scope of the advertising injury coverage. While the court’s statement that patent infringement can never occur in the course of advertising is contrary to precedent, the discussion correctly presents the close connection between copyright infringement claims and advertising.

Finally, advertising injury claims that have a strong IP flavor may be covered even if not expressly advanced as a copyright infringement or other IP claim. In *Air Engineering, Inc. v. Industrial Air Power, LLC*,²² the Wisconsin Court of Appeals considered whether alleged misappropriation and use of a competitor’s internet advertising system (which tracked user’s internet searches and allowed the sending of targeted advertisements to their computers) activated the insurer’s duty to defend under the advertising injury coverage for “the use of another’s advertising idea in your advertisement”. The decision is noteworthy, first, because it broadly defined the term “advertising idea” (which generally is undefined in CGL policies) as “an idea for calling public attention to a product or business, especially by proclaiming desirable qualities . . . so as to increase sales or patronage.”²³ Further, the decision relied on earlier case law finding coverage for alleged patent infringement of a competitor’s web-based interactive marketing tool to reach its definition of “advertising idea,” but decided the duty to defend coverage issue independently of the specific nature of the IP claims that were or could have been pled in the underlying complaint. In brief, claims that, in the hands of another attorney or with just slightly different facts, might have been pled as claims of IP infringement but instead have been pled, as in *Air Engineering*, as trade secret misappropriation, for example, may be covered as “use of another’s advertising idea in your advertisement . . .”

Coverage for Trademark Infringement

The breadth of the advertising injury coverage for trademark claims was confirmed, once again, in *Travelers Indemnity Co. of Connecticut v. Sterling Wholesale, LLC*,²⁴ where the District Court held that Travelers had a duty to defend its policyholder Sterling for alleged product counterfeiting and related false advertising claims arising under the Lanham Act.

In the underlying case, the plaintiff alleged that Sterling (among numerous other defendants) purchased blood glucose strips sold abroad, removed the original foreign-language labels,

¹⁹ *Id.* at *6, *9.

²⁰ *Id.* at *6 (internal citation omitted).

²¹ *Id.* at *9.

²² 828 N.W.2d 565 (Wis. Ct. App. 2013).

²³ *Id.* at 572 (internal citation omitted).

²⁴ 2013 WL 3816736 (E.D. Va. 2013).

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repackaged the products with English-language labels and false lot numbers, repackaged the products in counterfeit boxes that were modeled on the original boxes in all relevant respects, and imported the repackaged products into the United States for resale. Applying Virginia law, the court held that the policy language “infringement of copyright, title, or slogan” was “broad enough to encompass a claim of trademark infringement.”²⁵ The court further held that the terms “slogan” and “trademark” “are neither coextensive nor mutually exclusive, and they may sometimes overlap.”²⁶ Accordingly, “a trademarked term may in some circumstances also constitute a slogan, the infringement of which may trigger an insurer’s duty to defend . . .”²⁷

Because the underlying complaint alleged that the counterfeit packaging included a variety of registered trademarks of the plaintiff, and further alleged that the policyholder used a “slogan, trade dress, word, term, name, symbol, or device . . . in commercial advertising or promotion,” the court found that Travelers had a duty to defend.

Coverage for Infringement of Title

The 2013 decision of the Second Circuit in *CGS Industries, Inc. v. Charter Oak Fire Insurance Co.*,²⁸ illustrates the breadth of advertising injury coverage when applied to novel facts. In CGS, the policyholder was sued for trademark infringement based on its use of a distinctive stitching design on jeans that CGS supplied to a large retailer. In an extended analysis, the court noted that the two key policy terms at issue – “slogan” and “title” – were not defined in the policy and that other sources (e.g., New York law) were of little use in resolving the issue of their meaning. As to “slogan,” the court found that the distinctive stitching design did not constitute a slogan because the definition of “slogan” includes “phrases,” specifically “phrases used to promote or advertise a house mark or product mark . . .”²⁹ The court’s analysis of “title” struggled with the issues whether the term was synonymous with “name” and, specifically, whether it meant the name of a literary or artistic work. After reviewing the many cases in which “title” is given a broader meaning that also includes designs, symbols, trademarks, and “devices” by which products are identified and distinguished, the court concluded that “title” has a narrow meaning of “the name or appellation of a product” and that it does not include design elements such as pocket stitching.³⁰ Nonetheless, because the issue was unresolved under New York law and there was sufficient judicial divergence of opinion, the court found that the insurer breached its broad duty to defend CGS, but was not obligated to indemnify the insured for the underlying settlement.

Conclusion

Because the lack of policy definitions of critical terms and strong pro-coverage precedent provide fertile grounds for coverage-promoting arguments, in 2014 and beyond policyholders facing IP claims would be wise to view their advertising injury coverage as a valuable risk-management asset.

²⁵ *Id.* at *7.

²⁶ *Id.*

²⁷ *Id.*

²⁸ 720 F.3d 71 (2d Cir. 2013).

²⁹ *Id.* at 78.

³⁰ *Id.* at 79-81.

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