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# Using General Liability Insurance Policies to Cover IP Claims

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Under the coverage provisions in standard comprehensive general liability insurance policies, there is often coverage for what is known as "Advertising Injury." Depending upon the wording of the particular policy, coverage for Advertising Injury often exists with respect to claims made against the insured for copyright infringement, trademark and trade dress (product design and packaging) infringement and sometimes for patent infringement as well.

Although this coverage is of critical importance, its very existence often comes as a surprise to those business executives who need it most and often to their counsel as well. The reasons for this "unawareness" are not clear, although, in part, could be attributed to the lack of case law in this area prior to a landmark decision in California in 1995 in the case of *American Economy Ins. v. Reboans*, 900 F. Supp. 1246 (N.D. Cal. 1995), which held that a claim for trademark infringement was covered under the "misappropriation" and "infringement of title" provisions in the insured's liability insurance policy. Even after this decision and a multitude of others finding for the insured, today the existence of this coverage is still one of the most important but least understood weapons available to those faced with claims of trademark or copyright infringement.


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Litigation, particularly when it involves intellectual property, can be extremely costly and without the protections afforded by an appropriate insurance policy, the costs of litigation often compel companies to enter into unfavorable settlements or to prematurely abandon potentially successful marketing programs. If there is coverage for a particular claim, the insurance company will be required to pay both the costs of defense and any damages found to be due to the plaintiff.

Ideally, a business should not wait until a claim is made before focusing on the possibility of insurance coverage for Advertising Injury. The importance of having legal

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counsel who is knowledgeable in the field and the review of insurance coverages (as well as samples of proposed policies) before selection of an insurance carrier and policy cannot be overstated. Even subtle differences in the language of the forms of insurance policies being considered could mean the difference between having meaningful coverage or no coverage at all.

Even if a company has not previously focused on the need to have coverage for Advertising Injury, it is quite possible that such coverage already exists as part of a standard comprehensive general liability policy. Most state forms of liability insurance policies contain at least some coverage for Advertising Injury.

There are two basic policy provisions that are used by insurance companies which define Advertising Injury coverage. One form of such policy language reads as follows:

> "Advertising Injury" means injury arising out of an offense committed during the policy period occurring in the course of the named Insured's advertising activities, if such injury arises out of libel, slander, defamation, violation of right of privacy, piracy, unfair competition, or infringement of copyright, title or slogan.

A potential concern with this definition from an insurance coverage perspective is that it seems to require that the offense occurred "in the course of the named insured's advertising activities." Insurance companies have succeeded at times in avoiding coverage unless there is a "causal connection" between the infringement and the insured's "advertising activities." See *Hosel & Anderson v. ZV II*, No. 00 CIV. 6957(LAK), 2001 WL 392229, at *2 (S.D.N.Y. March 21, 2001); *Quitman Mfg. v. Northbrook Nat. Ins.*, 698 N.Y.S.2d 469, 266 A.D.2d 105 (1st Dep't 1999). Often, however, the insured can establish that the claims are in some meaningful way related to advertising activity and by so doing preserve coverage. *J.A. Brundage Plumbing & Roto Rooter v. Mass. Bay Ins.*, 818 F. Supp. 553 (W.D.N.Y. 1993), vacated on other grounds 153 F.R.D. 36 (W.D.N.Y. 1994); see *DISH Network v. Arch Specialty Ins.*, 659 F.3d 1010, 1027 (10th Cir. 2011). A benefit of this form of policy language is that it specifically covers "unfair competition," which a court could view as broader protection than that afforded to traditional copyright, trademark or patent infringement claims. See *Ruder & Finn v. Seaboard Surety*, 422 N.E.2d 518, 52 N.Y.2d 663, 439 N.Y.S.2d 858 (N.Y. 1981).

The other form of "Advertising Injury" coverage states that a claim is covered if it arises from:

> A. Oral or written publication of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services;
>
> B. Oral or written publication of material that violates a person's right of privacy;
>
> C. Misappropriation of advertising ideas or style of doing business; or
>
> D. Infringement of copyright, title or slogan.

This definition is helpful because it eliminates the language requiring the claim to arise in the course of "advertising," but also eliminates coverage for "unfair competition."

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Courts have held a variety of intellectual property claims to be included under the Advertising Injury provision of a comprehensive liability injury policy. These claims include copyright infringement, see, e.g., *GRE Ins. Grp. v. GMA Accessories*, 691 N.Y.S.2d 244, 246-47, 180 Misc. 2d 927, 930 (Sup. Ct. N.Y. County 1998); *Western Am. Ins. v. Moonlight Design*, 95 F. Supp. 2d 838 (N.D. Ill. 2000) (applying New York law); trademark infringement, see, e.g., *Allou Health & Beauty Care v. Aetna Cas. and Sur.*, 703 N.Y.S.2d 253, 256, 269 A.D.2d 478, 480 (2d Dep't 2000); *J.A. Brundage*, 818 F. Supp. at 558; *Charter Oak Fire Ins. v. Hedeen & Cos.*, 280 F.3d 730, 736 (7th Cir. 2002); and trade dress infringement, see, e.g., *Prof'l Prod. Research v. Gen. Star Indem.*, 623 F. Supp. 2d 438, 441 (S.D.N.Y. 2008). Courts have been less inclined to apply Advertising Injury coverage to a claim for patent infringement (*Energex Sys. v. Fireman's Fund Ins.*, No. 96 CIV. 5993(JSM), 1997 WL 358007, at *2 (S.D.N.Y. June 25, 1997); *Weiss v. St. Paul Fire & Marine Ins.*, 283 F.3d 790, 797 (6th Cir. 2002) (contract terms in CGL policy did not support a finding that a claim for patent infringement was covered); *Discover Fin. Servs. v. Nat'l Union Fire Ins. of Pittsburgh, PA*, 527 F. Supp. 2d 806, 826 (N.D. Ill. 2007)), although there is some authority finding insurance coverage for patent infringement claims. See *DISH Network*, 659 F.3d at 1027; *Hyundai Motor Am. v. Nat'l Union Fire Ins. of Pittsburgh, PA*, 600 F.3d 1092, 1101 (9th Cir. 2010) ("[I]nfringement of a patented advertising method could constitute a misappropriation of advertising ideas.").

It is often not enough that a claim falls within the definition of Advertising Injury as there are specific exclusions contained in the insurance policy that could relieve the insurance company of its obligations even though the claim may otherwise fall under a coverage definition. Below are some typical exclusions to Advertising Injury coverage. Most policies will not contain all of the exclusions listed but all policies will include several:

> This insurance does not apply to Advertising Injury:
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> • Arising out of oral, written or electronic publication of material, if done by or at the direction of the insured with knowledge of its falsity;
>
> • Arising out of oral, written or electronic publication of material whose first publication took place before the beginning of the policy period;
>
> • Arising out of a wilful, dishonest, criminal or fraudulent act committed by or at the direction of the insured;
>
> • Arising out of any breach of contract, except an implied contract to use another's "advertising idea" in your "advertisement";
>
> • Arising out of the failure of goods, products or services to conform with any statement of quality or performance made in your "advertisement";
>
> • Arising out of the wrong description of the price of goods, products or services.

In order for an exclusion to apply, it must be clearly applicable and the law requires that any ambiguity is to be resolved in favor of the insured. *Cragg v. Allstate Indem.*, 950 N.E.2d 500, 17 N.Y.3d 118, 122, 926 N.Y.S.2d 867, 869 (2011) ("To the extent that there is any ambiguity in an exclusionary clause,

we construe the provision in favor of the insured."). As held by the U.S. Court of Appeals for the Second Circuit, "well recognized is the general rule that ambiguities in an insurance policy are to be construed against the insurer, particularly when found in an exclusionary clause" and "[a] term in an insurance contract that is reasonably and fairly susceptible of more than one meaning is said to ambiguous." *McCormick & Co. v. Empire Ins. Grp.*, 878 F.2d 27, 30 (2d Cir. 1989); see *Duane Reade v. St. Paul Fire & Marine Ins.*, 600 F.3d 190, 201 (2d Cir. 2010) (citations omitted) ("ambiguity is present where the contractual language at issue is reasonably susceptible to more than one reading"). This rule of contract interpretation can help carry the day in a legal dispute with an insurance company over coverage for Advertising Injury. In addition, the insurance company's duty to defend its insured is broader than its duty to indemnify so that even if ultimate coverage is questionable, the insurance company may still be compelled to pay the costs of defense. See *CGS Indus. v. Charter Oak Fire Ins.*, 751 F. Supp. 2d 444, 449 (E.D.N.Y. 2010) (duty to defend is "exceedingly broad" and was triggered where symbols on competitor's clothing reasonably could have constituted slogans, and CGL policy provided for "infringement of slogan").

All insurance policies require that the insured provide prompt written notice of a claim so that the carrier can undertake an investigation. Depending upon the specific policy involved, the insured may be required to notify the insurance company even if only a claim letter is sent and there is not yet a lawsuit filed. Other policies require prompt written notice only once a lawsuit has been filed.

Historically, an insured in New York who failed to provide prompt notice to an insurance company ran the risk of being denied coverage on "late notice" alone. However, New York law now requires insurers to show prejudice before denying a claim for lack of prompt notice as long as the insured files the claim within two years. If notice is provided after two years, the insured may still be covered if she can prove a lack of prejudice. N.Y. Ins. Law §3420(a)(5) (McKinney 2013); *Ins. Corp. of N.Y. v. U.S. Fire Ins.*, 882 N.Y.S.2d 18, 21 n.1, 63 A.D.3d 455, 459 n.1 (1st Dep't 2009).

After receiving a claim, insurance companies will often issue a "disclaimer" in the form of a letter stating that the insurance company will not cover the claim for the reasons stated in the letter. These disclaimers cite to policy definitions or exclusions that the insurance company claims allow it to avoid coverage.

Unfortunately, it is too often the case that an insurance company will attempt to disclaim coverage for an intellectual property claim that is in fact covered. Presumably, many insurance companies operate with the philosophy that at least some insureds will simply accept the insurance company's disclaimer.

If the insurance company cannot be convinced to cover the claim, depending upon the severity of the situation, litigation with the carrier may be the next step. If successful, the litigation can result in a declaratory judgment ordering the insurance company to cover the claim, to hire counsel to defend its insured and also to reimburse the insured for its costs incurred to defend the underlying action. See, e.g., *United Parcel Serv. v. Lexington Ins. Grp.*, 12 CIV. 7961 SAS, 2013 WL 5664989 (S.D.N.Y. Oct. 16, 2013); *Urban Resource Institute v. Nationwide Mut. Ins.*, 594 N.Y.S.2d 261, 191 A.D.2d 261, (1st Dep't 1993) (upon finding insurer in breach of obligation to defend and indemnify the insured, an order directing the insurer to provide insured with defense and to reimburse insured for any and all legal costs incurred in defending action is an appropriate remedy). In some states, the insured can also recover its legal fees incurred in the coverage lawsuit against the insurance company. *John Deere Ins. v. Shamrock Indus.*, 929 F.2d 413 (8th Cir. 1991). Some of these states only allow recovery of such legal fees if the insurance company was the party who first filed for a declaratory judgment on the issue of coverage. *Kramarik v. Travelers*, 808 N.Y.S.2d 807, 809, 25 A.D.3d 960, 963 (3d Dep't 2006).

Sometimes, instead of a "disclaimer," an insurance company may send a "reservation of rights" letter. This letter will state that the insurance company agrees to hire an attorney to defend the insured in the underlying lawsuit but that the insurance company reserves the right to later deny coverage for the damages found to be owed to the plaintiff in the lawsuit or to later withdraw from paying defense costs. This reservation of rights could be merely temporary until the insurance company has had sufficient time to investigate the claim to better understand if it believes there is coverage or it could be issued because whether there is coverage or not could depend upon what the judge or jury ultimately determines in the case. For example, if the insurance policy covers the claim but has an exclusion for "intentional or wilful" acts, the ultimate determination as to whether the insurance company must pay the claim could depend on whether the court finds, after trial, that the infringement was intentional or wilful.

If the insurance company issues a "reservation of rights" letter and agrees to hire counsel, many states, including New York, provide that, depending upon the nature of the "reservation of rights," the insured may have the right to play a role in selecting the counsel who is hired. See *Pub. Serv. Mut. Ins. v. Goldfarb*, 425 N.E.2d 810, 815, 53 N.Y.2d 392, 401, 442 N.Y.S.2d 422, 427 (1981); *City of N.Y. v. Clarendon Nat. Ins.*, 765 N.Y.S.2d 802, 803, 309 A.D.2d 779, 779 (2d Dep't 2003) ("It is well settled that where a conflict of interest is probable, such as here, where the insurer has conditioned its defense on a reservation of rights, the insured is entitled to an attorney of its own choosing."). In these states, the insured should pressure the insurance company to hire only counsel knowledgeable about intellectual property litigation and quite often deals can be struck where the insurance company will allow the insureds' regular counsel to be retained at the insurance company's expense, provided such counsel has the relevant experience.

If you were already aware of the possibility of using advertising injury coverage for intellectual property claims against your clients, then consider yourself among the more informed business counsel. If you were not already aware of the implications of such advertising injury coverage then aren't you glad you read this article? I can assure you your clients' insurance companies will not be happy that you did!