PROMOTION MARKETING ASSOCIATION, INC

25th Annual Promotion Marketing Law Conference
Chicago, Illinois
Tuesday, December 9th, 2003
Expert Roundtables 1:30 – 2:15 pm

"Advertising Injury" Insurance Coverage for Trademark and Copyright Claims

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THE "SECRET" OF "ADVERTISING INJURY" INTELLECTUAL PROPERTY INSURANCE

Introduction

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 (especially for those in the advertising and promotion marketing business) 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. Co. v. Reboans, Inc.*, 852 F. Supp. 875 (N.D. Cal. 1994) 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 findings for the insured, today, the existence of this coverage is still one of the most important but least understood weapons available to advertisers and marketers faced with claims of trademark or copyright infringement.

What Is Advertising Injury Insurance Coverage?

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.

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 counsel who is knowledgeable in the field review 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” as part of its liability insurance policy, it is quite possible that such coverage already exists as part of a standard comprehensive general liability policy. Most forms of commercial liability insurance policies contain at least some coverage for "Advertising Injury."

There are two basic policy basic 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 name 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 that require 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 "casual connection" between the infringement and the insured's "advertising activities". *Bank of the West v. Superior Court*, 2 Cal.4th 1254, 10 Cal.Rptr.2d 538, 833 P.2d 545 (1992). Often, however, the insured can establish that the claims are in some meaningful way related to advertising activity and by so doing preserve coverage. *See J.A. Brundage Plumbing & Roto Rooter, Inc. v.*

Massachusetts Bay Ins. Co., 818 F. Supp 553 (W.D.N.Y. 1993) vacated on other grounds 153 F.R.D. 36 (W.D.N.Y. 1994). 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, Inc. v. Seaboard Surety Co.*, 52 N.Y.2d 66, 422 N.E.2d 518, 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".

If there is coverage for a particular claim, the insurance company will be required to pay both legal fees (known as “cost of defense”) and any damages found to be due to the Plaintiff (known as “indemnification”). Of course, the total amounts payable are limited by the policy limits so it is very important to review these limits periodically and to increase coverage where warranted.

Potentially Covered Claims

Courts have held a variety of offenses to be included under the "Advertising Injury" provision of a comprehensive liability injury policy. These claims include copyright infringement -- *Zurich Ins. Co. v. Killer Music, Inc.*, 998 F.2d 674 (9th Cir. 1993); trademark infringement -- *J.A. Brundage, supra*; and trade dress infringement - *Dogloo, Inc. v. Northern Ins. Co. of New York*, 907 F.Supp. 1383 (C.D.Cal., Dec 01, 1995) (No. CV 95-3591 ABC (CTX)); *Cf., Advance Watch Co.,*

Ltd. v. Kemper National Ins. Co., 99 F.3d 795 (6th Cir. 1996) (holding that under Michigan law coverage for "misappropriation of style of doing business" does not include trademark or trade dress infringement). Courts have been less inclined to apply "Advertising Injury" coverage to a claim for patent infringement, *Everett Associates, Inc. v. Transcontinental Ins. Co.*, 35 Fed.Appx. 450, 2002 WL 848002 (9th Cir.(Cal.); *Intex Plastics Sales Co. v. United National Ins. Co.*, 23 F.3d 254 (9th Cir. 1994), although there is some authority finding insurance coverage for patent infringement claims. *Union Ins. Co. v. Land and Sky, Inc.*, 529 N.W.2d 773 (Neb. 1995); *Aetna Casualty and Surety Co. v. Watercloud Bed Co., Inc.*, 1988 WL 252578 (C.D. Col.).

Policy Exclusions

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:

Exclusions

This insurance does not apply to Advertising Injury:

- 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. *Albert J. Schiff Assocs., Inc. v. Flack*, 51 N.Y.2d 692, 435 N.Y.S.2d 972 (1980); *Little v. Blue Cross of Western New York, Inc.*, 72 A.D.2d 200, 424 N.Y.S.2d 553 (4th Dep't 1980). As held by the Second Circuit Court of Appeals, "[w]ell-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., Inc. v. Empire Ins. Group*, 878 F.2d 27, 30 (2d Cir. 1989). 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 John Deere Ins. Co. v. Shamrock Industries, Inc., et al.*, 929 F.2d 413 (8th Cir. 1991).

If a Claim Is Made -- Move Quickly

All insurance policies require that the insured provide prompt written notice of a claim. 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.

Whatever the policy language governing when notice is required, it is crucial to make certain that there is no delay in giving notice to the insurance company. The insurance company is

entitled to prompt notice so that it can undertake an investigation into the claim. Any delay in providing notice could jeopardize your coverage or give the insurance company at least an argument that your lack of timely notice has negated your coverage. *See e.g. Allstate Ins. Co. v. Grant*, 185 A.D.2d 911, 587 N.Y.S.2d 382 (2d Dep't 1992) *Cf. Mighty Midgets, Inc. v. Centennial Ins. Co.*, 47 N.Y.2d 12, 416 N.Y.S.2d 559, 563 (1979)(the provision that notice be given "as soon as practicable" calls for a determination of what was within a reasonable time in light of the facts and circumstances of the case at hand).

Fighting with the Insurance Company

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 which the insurance company claims allow it to avoid coverage.

Any insured receiving such a disclaimer should have its insurance policy reviewed by counsel and if counsel disagrees with the grounds for the disclaimer, counsel should write back to the insurance company citing the reasons for disagreement with the insurance company's disclaimer. Unfortunately, it is too often the case that an insurance company will attempt to disclaim coverage for a claim which is in fact covered. Many insurance companies operate with the philosophy that some insureds will simply accept the insurance company's disclaimer and will not hire competent counsel to fight for the insured's rights.

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. Urban Resource Institute, Inc. v. Nationwide Mut. Ins. Co.*, 191 A.D.2d 261, 594 N.Y.S.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); *United States Fidelity & Guaranty Co. v. Copfer*, 48 N.Y.2d 871, 424 N.Y.S.2d 356 (1979). In some states the Insured can also recover its legal fees incurred in the coverage lawsuit against the insurance company. *John Deere Ins. Co. v. Shamrock Industries, Inc., supra*. 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. *Illusion Hair Designers, Inc. v. Commercial Union Insur. Companies*, 181 A.D.2d 527, 581 N.Y.S.2d 312 (1st Dep't 1992); *Mighty Midgets, Inc. v. Centennial Ins. Co.*, 47 N.Y.2d 12, 416 N.Y.S.2d 559 (1979).

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, in many states the insured has the right to play a role in selecting the counsel who is hired. *Twin City Fire Ins. Co. v. City of Madison, Mississippi, et al.*, 309 F.3rd 901 (5th Cir. 2002); *Federal Ins. Co. v. X-Rite, Inc.*, 748 F. Supp. 1223 (W.D. Mich. 1990). In these states, the insured should pressure the insurance company to hire only counsel knowledgeable about intellectual property litigation. As previously indicated, with a defense being provided under a "reservation of rights" there is always the possibility that the insurance company could escape ultimate financial responsibility for a judgment eventually entered against the insured. There is also the possibility that a judgment could exceed policy limits. This is why it is critical to ensure that competent counsel is hired to defend the insured and why it is always a good idea to have the insured's regular counsel monitor the progress of the lawsuit to make certain that its interests are protected.

Possible Malpractice?

The possibility that a suit alleging a violation of intellectual property could be covered by "Advertising Injury" coverage is so important that an attorney who is consulted to defend the underlying action could face a legal malpractice claim if he or she fails to advise the client of the possibility of such insurance coverage. In *Darby & Darby v. VSI International Inc., 716* N.Y.S.2d 378 (C.A. N.Y. 2000) the New York Court of Appeals held that a law firm that was retained to defend a patent infringement claim did not commit malpractice by failing to advise its client about the possibility of Advertising Injury coverage for the patent infringement claim. However, the reasoning of the New York Court of Appeals was that there was no malpractice because when the law firm was retained the availability of insurance coverage for patent infringement was a "novel" or "questionable" theory. Since there is well developed case law finding "Advertising Injury"

coverage for trademark and copyright claims, the result may well have been different had the underlying claim involved a trademark or copyright claim.

Conclusion

Now that you have discovered the "secret" that "Advertising Injury" coverage contained in a comprehensive general liability insurance policy could provide costs of defense and indemnification for claims of trademark, trade dress, and copyright infringement (and possibly patent infringement), the possibility of such insurance coverage should be the first area of inquiry once a claim is presented. Depending upon the nature of the claim and the jurisdiction involved, it is quite possible for a defendant to shift the entire risk of such a claim to its insurance carrier. Do not, however, expect the insurance company to assume responsibility for the claim without legal pressure. Given the extreme costs and risks of claims involving infringement of intellectual property, succeeding in securing insurance coverage could save your company hundreds of thousands if not millions of dollars!