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Intellectually Perplexing – Insurance Coverage Issues for Trademark, Copyright, and Advertising Injury Claims

By Wayne S. Tartline December 20, 2016

Your insured just copied its competitor's trademarked logo and used it on its own Web site. To add insult to injury, they are also changing the packaging on all items they sell to look more like their competitors. Of course, you just received a copy of the intimidating "cease and desist" demand that was sent to your insured from a downtown, $550.00 an hour attorney. You sit back and sip some coffee, confident that coverage for the insured's brazen infringement is excluded by the policy language and that your firm won't be around to watch the logo thief get what he deserves. You think a claim denial is just around the corner. But don't deny the claim just yet. Insurance coverage for Intellectual Property ("IP") is often not as clear as it seems.

Broadly speaking, IP refers to three areas: patents, copyrights, and trademarks. IP is often the most valuable asset owned by an insured, and no IP owner wants to share their IP. As you can imagine, that makes IP litigation a lucrative proposition for all concerned. Often, jury verdicts in IP cases are extraordinarily large. IP litigation is also often a zero-sum game: that is, there are clear winners and clear losers in the world of IP litigation.

IP litigation is booming and, as a result, companies are looking to their Commercial General Liability ("CGL") carrier to provide a defense and coverage of IP claims. In response, CGL carriers are pushing back against the growing wave of claims made by companies and are increasingly attempting to deny coverage through filing declaratory judgment actions. The result is growing legal expenses on the part of insurance companies as they shoulder the burden of defense costs plus declaratory judgment costs. Unfortunately, the courts are scattered, and the law is often murky in the area of insurance coverage for IP claims. Recent cases from the 11th Circuit Federal Court provide some insight on how to tread on the IP litigation battleground.

No Policy is Perfect

One of the most obvious defenses to IP coverage is through exclusion in the underlying CGL policy. While exclusions for patent infringement claims are generally pretty clear cut, exclusions relating to trademark or copyright infringement are sometimes problematic or not as helpful as they may appear. The problem is not that courts do not enforce exclusions found in CGL polices. The problem is that IP claims are so varied that many exclusions may not cover each and every specific claim made by a Plaintiff, even if the underlying actions can generally be described as "infringement."

In the recent case of *St. Luke's Cataract and Laser Institute v. Zurich, et al.*, 105 U.S.P.Q 2d 1783 (2013), the 11th Circuit drove home the point of how narrow it interprets exclusions in an insurance policy in the context of IP litigation. Sanderson, the insured, opened up an eye doctor's office that directly competed

against his old employer. When he opened up the office, Sanderson started a Web site that was virtually identical to his old employer's Web site.

Sanderson's insurance policy provided coverage for "advertising injury liability" including claims for copyright infringement. Pursuant to the policy, claims of copyright infringement that "arise 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" were excluded from coverage.

Zurich (and other interested insurance companies) argued that Sanderson's use of a competitor's Web site content and layout fell within the policy exclusion quoted above. The trial court agreed with the insurance companies. But, on appeal, the 11th Circuit reversed the trial court.

The 11th Circuit found that the use of a Web site's content and layout was distinguishable from unauthorized use of another's "name or product." The 11th Circuit further found that Sanderson did not use the content in an "e-mail address, domain name or metatag" and was unwilling to find that a Web page was a "similar tactic" to mislead customers under the exclusion. The Court specifically highlighted that the exclusions were drafted by the insurance companies. Ultimately, the 11th Circuit found that insurance coverage existed for Sanderson and that he was owed an expensive defense.

St. Luke's teaches that the 11th Circuit will be interpreting exclusions very narrowly and as literally as possible, especially in the IP context. The case also tells us that seemingly clear and obvious exclusion language can be rendered meaningless after a court picks apart every word and highlights some obscure facts in the case.

Look Out for Alternative Claims

Often, the best course of action is to seek counsel from an experienced in-house or outside attorney prior to denying coverage of IP claims. This is because the intricacies of IP litigation require that one watch out for alternative claims. This was illustrated in another recent decision, *James River Insurance Company v. Bodywell Nutrition, LLC*, 842 F. Supp. 2d 1351 (2012).

In *James River*, all parties agreed that the insurance policy expressly excluded coverage for trademark infringement. But Bodywell contended that the complaint, taken as a whole, made claims for relief based on trade dress and slogan infringement – two areas of IP litigation not specifically excluded by the broad trademark exclusion in the insurance policy. Therefore, Bodywell wanted a defense and coverage of the plaintiff's underlying claim. The court found that the complaint did not make a specific claim for trade dress or slogan infringement and therefore there was no coverage. However, the court practically invited the plaintiff to make a simple amendment to the underlying complaint to include a claim for trade dress infringement, which would be covered. Despite the clear exclusion, the possibility remained that the carrier would be on the hook for providing an expensive defense as soon as the plaintiff filed a quick and simple pleading.

While a CGL policy may provide clear exclusions for some causes of action, in light of decisions like *James River*, clever plaintiffs' attorneys will plead several alternative claims in an attempt to state claims that are not specifically excluded. Be aware that with the liberal rules regarding amendments to pleadings, plaintiffs may have several opportunities and over a year or more to amend their claims to find one that is

covered.

As you know, CGL policies and exclusions come in many forms, so careful review of the language is critical before any denial of coverage. In the high-stakes world of IP litigation, such detailed examination is crucial. You always want to be confident that any denial of coverage is proper. However, recent cases have shown that even when a denial is logical and seems clear based upon the language of the policy, a court could find otherwise.

Consultation with experienced legal counsel in the areas of IP coverage and IP litigation is one way to gain support and confidence in a coverage decision. Even where an exclusion seems clear, other creative options might be considered that may result in less risk and a more predictable outcome. In some cases, an early and reasonable settlement paid to the insured (in lieu of providing a defense) might be a solution that avoids litigation of a declaratory judgment action or the insurer having to reimburse hundreds of thousands of dollars incurred by the insured defending a claim.

The particular facts of each case give rise to various claims plaintiffs may make. Having legal counsel to lean on prior to denying a claim (even if a denial makes sense) is important to keep legal costs down, to efficiently resolve claims, and to avoid the potential for large losses in the form of IP litigation defense costs or liability for a substantial infringement judgment.

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