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COVERAGE FOR INTELLECTUAL PROPERTY CLAIMS UNDER THE CGL POLICY

Updated March 2015 *An analytical approach for evaluating intellectual property claims under the "Personal and Advertising Injury" liability coverage**

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INTRODUCTION

In the last decade, there has been a tremendous increase in the number of intellectual property claims tendered to commercial general liability ("CGL") carriers. There is no question that Coverage B, the "personal and advertising injury" liability coverage of the CGL policy, covers some intellectual property claims. For example, the enumerated offenses set forth in the definition of "personal and advertising injury" include infringement of another's copyright, trade dress, or slogan in the named insured's "advertisement," and use of another's advertising idea in the named insured's "advertisement." Various intellectual property claims might also implicate coverage under the libel, slander, disparagement and violation of privacy offenses.

This article sets forth the proper analytical framework for evaluating a claim for coverage for intellectual property claims under the "personal and advertising injury" liability coverage, including a discussion of the offenses that fall within the definition of "personal and advertising injury," the exclusions and the other important limitations to coverage.

I. Background to the "Personal and Advertising Injury" Liability Coverage

The personal injury and advertising injury liability coverage was first introduced into the commercial general liability ("CGL") policy form in 1973 through the use of a broad form endorsement. In 1985, ISO introduced a CGL form that incorporated personal injury and advertising injury liability coverage as part of the standard CGL policy. That version of the coverage contained certain changes to the enumerated offenses covered under the 1973 form, and deleted, in some policy forms, an exclusion for trademark infringement. Minor revisions to the personal injury and advertising injury coverage were made in the 1996 coverage form.

In 1998, ISO introduced additional significant changes to the personal and advertising injury liability coverage. Most importantly, the 1998 form combined the "personal injury" and "advertising injury" definitions into a new combined coverage term called "personal and advertising injury." The personal injury offenses were not changed in any material respect as a result of the combination of the terms. However, the 1998 CGL policy form requires that certain offenses be committed in the named insured's "*advertisement*," which is now a defined term. The wording of some of the exclusions was changed to accommodate the now combined terms, and a new exclusion was added for personal and advertising injury "caused by or at the direction of the insured with knowledge that the act would violate the rights of another and would inflict personal and advertising injury." Finally, the definition of "personal and advertising injury" in the 1998 ISO form includes consequential bodily injury arising from "personal and advertising injury."

The policy excludes such consequential bodily injury from the Bodily Injury Coverage in the CGL policy.

In 2001, ISO again instituted changes in the personal and advertising injury liability coverage. The definitions of "personal and advertising injury," "advertisement" and "coverage territory" were enhanced to underscore the impact of electronic communications. Several exclusions were added or expanded upon in the 2001 CGL form as a result of the burgeoning number of intellectual property claims being tendered under Coverage B and the enhanced risk of liability due to the Internet. Less significant changes occurred in the 2004, 2007 and 2013 policy forms, but all forms added new exclusions.

Under all versions of the policy form, the analytical approach to the personal and advertising injury liability coverage remains basically the same.

II. General Requirements of the Personal and Advertising Injury Coverage

The analytical approach to the personal and advertising injury liability coverage requires at least a seven-step process. First, there must be conduct that falls within one of the enumerated offenses set forth in the definition of "personal and advertising injury." Second, the "offense" must be committed during the policy period. Third, the offense must occur in the named insured's business. Fourth, if the injury arises from the "use of another's advertising ideas" or "infringement upon another's copyright, trade dress, or slogan," it must take place in the named insured's "advertisement." Fifth, the "offense" must be committed in the "coverage territory." Sixth, the coverage only applies to claims seeking damages for "personal and advertising injury." Seventh, the injury or claim must fall outside of the exclusions to coverage.

Similar to all other liability coverage, the insured must have also performed or satisfied all pre-conditions to coverage, such as paying the premiums when due, providing timely notice and cooperating with the insurer. This article does not address those pre-conditions, but focuses only on the unique elements of the "personal and advertising injury" liability coverage.

A. The Injury Must Arise Out of One of the Enumerated Offenses

The first requirement is that the alleged injury must arise out of one of the offenses listed in the definition of "personal and advertising injury." The chart below sets forth the offenses under the "advertising injury" definition in the 1973 and 1985 policy forms, the "personal injury" definition in the 1973 and 1985 policy forms, as well as the offenses under the "personal and advertising injury" definition of the 1998, 2001, 2004, 2007 and 2013 policy forms.

The 2001 ISO form slightly revised the definition of "Personal and Advertising Injury" to underscore the impact of electronic communications. The revisions are found in the following two offenses set forth in the "personal and advertising injury" definition:

> d. Oral or written publication, in any manner, of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services;
>
> e. Oral or written publication, in any manner, of material that violates a person's right of privacy;

<table>
<tr><th colspan="4">Enumerated Offenses in Definitions of "Advertising Injury," "Personal Injury" and "Personal and Advertising Injury"</th></tr>
<tr><th>1973 ISO Form</th><th>1985 ISO Form</th><th>1998 ISO Form</th><th>2001, 04, 07, 13 ISO Forms</th></tr>
<tr>
<td>Advertising Injury Offenses:
• libel
• a publication or utterance (a) of a libel or slander or other defamatory or disparaging material, or (b) in violation of an individual's right of privacy;
• piracy
• unfair competition
• infringement of copyright, title or slogan
Personal Injury Offenses:
• false arrest, detention imprisonment. or malicious prosecution
• wrongful entry or</td>
<td>Advertising Injury Offenses:
• 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
• oral or written publication of material that violates a person's right of privacy
• misappropriation of advertising ideas or style of doing business
• infringement of copyright, title, or slogan
Personal Injury Offenses:
• false arrest,</td>
<td>• 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
• oral or written publication of material that violates a person's right of privacy
• the use of another's advertising idea in your "advertisement"
• infringing upon another's copyright, trade dress or slogan in your "advertisement"</td>
<td>• oral or written publication, in any manner, of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services
• oral or written publication, in any manner, of material that violates a person's right of privacy
• the use of another's advertising idea in your "advertisement"
• infringing upon another's copyright, trade dress or slogan in your</td>
</tr>
</table>

Enumerated Offenses in Definitions of "Advertising Injury," "Personal Injury" and "Personal and Advertising Injury"			
eviction, or other invasion of the right of private occupancy • a publication or utterance (a) of a libel or slander or other defamatory or disparaging material, or (b) in violation of an individual's right of privacy; ----except publication or utterances in the course of or related to advertising, broadcasting, publishing or telecasting activities conducted by or on behalf of the named insured	detention, or imprisonment • malicious prosecution • wrongful eviction from, wrongful entry into or invasion of the right of private occupancy of a room, dwelling or premises that a person occupies by or on behalf of its owner, landlord or lessor • oral or written pub-lication of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services • oral or written publication of material that violates a person's right of privacy	• false arrest, detention or imprisonment • malicious prosecution • the wrongful eviction from, wrongful entry into, or invasion of the right of private occupancy of a room, dwelling or premises that person occupies committed by or on behalf of its owner, landlord or lessor	"advertisement" • false arrest, detention or imprisonment • malicious prosecution • the wrongful eviction from, wrongful entry into, or invasion of the right of private occupancy of a room, dwelling or premises that person occupies committed by or on behalf of its owner, landlord or lessor

The 1998 and later ISO forms also incorporate consequential bodily injury into the definition of "personal and advertising injury." The consequential "bodily injury" must arise out of the "personal and advertising injury" offenses. For example, if a business owner reads a publication issued by the insured that slanders or libels him, causing such severe emotional distress that the plaintiff manifests physical ailments, the plaintiff's consequential bodily injury would fall within the personal and advertising injury coverage. Note, however, that Coverage A of the CGL policy form (the "bodily injury" and "property damage" liability coverage) has been revised to include an express exclusion for “bodily injury” arising out of “personal and advertising injury.”

The enumerated offenses set forth in the 1998 and later ISO policy forms that are potentially (or actually) implicated by intellectual property claims are discussed in greater detail in Section III, below.

B. The Offense Must Be Committed During the Policy Period

The second requirement is that the enumerated offense must take place during the policy period. Most policies define “policy period” as the earlier of either the dates listed on the declaration pages or the termination/cancellation of the policy. Notably, the injury itself need not occur within the policy period, but only the insured’s conduct which constitutes the offense, *i.e.*, the libel, slander, infringement of copyright, etc. This element was addressed in *Two Pesos, Inc. v. Gulf Insurance Co.*, 901 S.W.2d 495 (Tex. App. 1995). In that case, the insured had been found liable for trade dress infringement but did not stop copying the claimants’ trade dress. The claimant sought additional damages for the insured’s continuing infringement. Noting that the trade dress was unchanged over time, the court found that the “offense” was committed when the trade dress was first adopted and that it was not a new offense in the subsequent policy period. Rather, only the damages were continuing. Interestingly the court also found that coverage was only available for a fortuitous loss. Because the claim constituted a known loss or loss in progress, coverage was also precluded on that basis.

When determining whether an offense took place within the policy period, courts will generally consider the allegations set forth in the underlying complaint in a light most favorable to the policyholder. *See, e.g.*, *Ryland Group, Inc. v. Travelers Indem. Co.*, No. A-00-CA-233 JRN, 2000 U.S. Dist. LEXIS 21412 (W.D. Tex. Oct. 25, 2000) (finding that, because the complaint did not exclude the possibility that the infringing activities occurred during the policy period, the insurer failed to establish that the insured did not commit an offense during the policy period); *Indian Harbor Insurance Co. v. Hartford Casualty Ins. Co.*, No. B192819, 2007 WL 2955564 (Cal. Ct. App. 2007) (unpublished) (reading the complaint broadly, the court found that the complaint did not foreclose the possibility that some of the offending trademark infringement at issue could have occurred during the policy period; the court found particularly relevant the fact that the insured had provided to the insurer a catalog published during the policy period which showed an infringing product described in the complaint); *Tria Beauty, Inc. v. National Fire Ins. Co. of Hartford*, No. C 12-05465, 2013 U.S. Dist. Lexis 71499 (N.D. Cal. May 20, 2013) (applying California law)(because none of the potentially disparaging statements were made during the policy period, there was no duty to defend under that policy).

C. The Offense Must Occur in the Named Insured's Business

This element was addressed in *American Family Ins. Co. v. Roach*, 2009 Ohio 4532 (Ohio Ct. App., Stark County Aug. 31, 2009) (applying Ohio law). In that case, a Business Owners Policy was issued to named insured "Brian Roach dba Innovative Future LD," a real estate holding company. Brian Roach was sued for allegedly impugning and disparaging the claimant in the insured's comments posted on a certain website. In analyzing the allegedly defamatory comments posted by Brian Roach, the court determined that the comments did not relate to any business of Innovative Futures. Instead, Brian Roach posted the comments in his individual, personal capacity and unrelated to Innovative Future. Therefore the "personal and advertising injury" liability was not implicated by the underlying suit.

D. Certain Offenses Must be Committed in the Named Insured's "Advertisement"

The third requirement is that certain enumerated offenses must be committed in the named insured's "advertisement" (earlier forms required that "advertising injury" be caused by an offense "committed in the course of advertising" the named insured's goods, products or services).

This requirement is set forth in the description of the offenses: "the use of another's advertising idea *in your 'advertisement'*," and "infringement of copyright, trade dress or slogan *in your 'advertisement.'*"

The 1998 form added the following definition of "advertisement" to the policy:

> 1. "Advertisement" means a notice that is broadcast or published to the general public or specific market segments about your goods, products or services for the purpose of attracting customers or supporters.

The addition of this definition clarified many questions regarding what conduct qualifies as "advertising," as well as whether given conduct was committed in the course of the named insured's advertising of its goods, products or services.

In the 2001 CGL form, the following clarification was added to the end of the definition, which has remained in the 2004 and 2007 ISO policy forms:

> For purposes of this definition:
>
> a. Notices that are published include material placed on the Internet or on similar electronic means or communication; and

b. Regarding websites, only that part of a website that is about your goods, products or services for the purposes of attracting customers or supporters is considered an advertisement.

The clarifying language was added to acknowledge the widespread commercial use of the Internet and web pages in policyholder's advertising activities.

When determining whether allegations of infringing activity occurred "in [the named insured's] 'advertisement,'" courts will focus their analysis on whether the allegations of the underlying complaint meet the definition of "advertisement" found in the policy. A number of courts have recognized that the CGL policy's definition of "advertisement" is not as broad as the ordinary meaning of the term "advertisement," since the CGL policy limits the term to notices "broadcast or published . . . for the purpose of attracting customers or supporters." *See, e.g., Westfield Companies v. O.K.L. Can Line*, 804 N.E.2d 45, 155 Ohio App. 3d 747 (Ct. App. 2003) (recognizing the concept of trade dress infringement necessarily involves advertising, but finding that the definition of "advertisement" in the policy requires a "notice" intended to attract customers, which the court found was satisfied by allegations the insured "sold and marketed" the product on its website and confused "buyers and potential buyers"); *Citizens Insurance Co. v. Pro-Seal, Inc.*, 477 Mich. 75, 730 N.W.2d 682 (2007) (under the policy's definition of "advertisement," the insured must publicly disseminate information about its goods and services for the purpose of attracting the patronage of potential customers; the insured's actions in affixing a Pro-Seal label on a competitor's packaging did not meet the policy's definition of "advertisement" because its purpose was merely to identify for that specific customer to whom the product was shipped the source of the seal to allow it to contact the insured with questions or complaints about the product).

The following cases underscore the significance of the requirement that certain offense be committed in the named insured's "advertisement:"

In *PetroNet LLC v. Hartford Cas. Ins. Co.*, No. 10-3675, 2011 U.S. Dist. LEXIS 79893 (D. Minn. Jul. 21, 2011) (applying Minnesota law), the insured was sued for copyright infringement and breach of its contractual duties to maintain the claimant's confidential information and trade secrets. The insured had been hired by the claimant to construct a software interface between the claimant's billing and accounting software. The insured then began offering for sale an Internet-based system that was similar to the claimant's billing software. The court held that the policy's copyright infringement offense was not implicated because the infringement was not alleged to have taken place in the insured's "advertisement."

In *Feldman Law Group P.C. v. Liberty Mut. Ins. Co.*, 11 Civ. 425 (SAS), 2011 U.S. Dist. LEXIS 71440 (S.D.N.Y. Jun. 30, 2011) (applying Pennsylvania law) (on reconsideration, 2011 U.S.Dist.LEXIS 88561, Aug. 6, 2011), the insured allegedly infringed upon the claimant's copyright and trade dress by selling jewelry containing elements of the claimant's jewelry designs. The court found that the action stemmed from an alleged misappropriation of a product, rather than an advertising concept and, thus, the claim could not be fairly characterized as alleging advertising injury.

In *Hartford Cas. Ins. v. Softwaremedia.com*, No. 2:10-CV-01098, 2012 U.S. Dist. Lexis 38731 (D. Utah Mar. 20, 2012) (applying Utah law), the insured was alleged to have intentionally engaged in a fraudulent bait-and-switch scheme in which it switched customer orders for Microsoft software licenses with a less expensive "Software Assurance," which was not a license and did not create any license rights. The court found that the complaint did not seek damages because of "personal and advertising injury" because the insured's alleged conduct did not occur in its "advertisement" and the claimant's injuries were not caused by an "advertisement." Rather, the claimant's injuries were caused by the insured's fraudulent bait-and-switch scheme, which led buyers to use Microsoft's software without valid licenses.

In *Colony Ins. Co. v. Frison Flea Mkt. Inc.*, No. 4:13-cv-2193, 2014 U.S. Dist. LEXIS 130841 (E.D. Mo. 2014) (applying Missouri law), the insured was a flea market that was sued in the underlying action for sales of counterfeit goods. The insured was found liable for copyright infringement in the underlying action, based on the insured willfully permitting vendors at the flea market to sell counterfeit goods resembling the claimant's goods. In analyzing whether the insurer owed any duty to indemnify the insured's liability, the court found that the insured's liability was not based on its infringement of another's copyright in the insured's advertisements. In addition, because the vendors' infringing sales could have occurred independent of the insured's advertising activities, the court found that there was no causal connection between any alleged advertising and the infringing sales. Accordingly, the court found that insured's liability was not covered and that the insurer did not owe any duty to indemnify.

In a recent decision, the 5th Circuit Court of Appeals held that a building can constitute an "advertisement." In *Mid-Continent Cas. Co. v. Kipp Flores Architects, LLC*, Nos. No. 14-50649, Consolidated with No. 14-50673 (per curiam decision, Feb. 15, 2015)(applying Texas law), the Fifth Circuit held that the insurer owed a duty to indemnify the insured for a copyright infringement claim based on the insured's unauthorized use of the claimant's architectural drawings for the construction and sale of houses, beyond the scope of the insured's license to use the drawings. The Court held that the copyright infringement was committed in the named insured's "advertisement" based on its determination that houses constructed based on infringing architectural designs constitute an "advertisement" as defined in CGL policies. The court noted that the policies did not define the terms "notice," "broadcast" or "published" as used in the definition of "advertisement." The court further noted that the policy did not limit the term "notice" to a writing or a website, and that the ordinary meaning of "publish" is "to make public or generally known" or "to make generally accessible or available for acceptance or use (a work of art, information, etc.); to present to or before the public." Thus the constructed house fell within that definition.

Notably, other courts have found that the copyright infringement of architectural plans does not implicate the "personal and advertising injury" liability coverage where the architectural plans themselves were not advertised, but only the constructed buildings. *See, e.g., Constr. Mgmt. Sys., Inc. v. Assurance Co. of Am.*, 135 Idaho 680, 23 P.3d 142 (2001); *Rhein Building Co. v. Gehrt*, 21 F. Supp. 2d 896 (E.D. Wis. 1998).

E. (Pre-1998 Forms) Certain Offenses Must Be Committed "In the Course of Advertising"

1. What Is Advertising?

The 1973 and 1985 policy forms do not define the term "advertising." This gave rise to a tremendous amount of litigation over whether the insured's advertising activities require the "widespread distribution of the [alleged advertising] material to the public at large," or whether "advertising" includes any activity designed to bring a seller's goods or services to the attention of potential buyers, whether the method used by the seller is public or somewhat private, including even one-on-one oral representations. *Compare Playboy Enterprises, Inc. v. St. Paul Fire & Marine Ins. Co.*, 769 F.2d 425, 429 (7th Cir. 1985) (holding that letters sent by the insured to advertisers did not constitute "advertising" even though the letters were arguably "related to" advertising), *and Fox Chemical Co., Inc. v. Great American Ins. Co.*, 264 N.W.2d 385, 386 (Minn. 1978) (holding that the distribution of an allegedly defamatory pamphlet to the insured's own sales staff, but not to the general public, was not advertising), *with Bank of the West v. Superior Court (Industrial Indemnity Co.)*, 277 Cal. Rptr. 219, 230 (1991) (use of third parties to carry messages to public is advertising), *rev'd on other grounds*, 2 Cal. 4th 1254, 833 P.2d 545, 10 Cal. Rptr. 2d 538 (1992), *and Merchants Co. v. American Motorists Ins. Co.*, 794 F. Supp. 611, 619 (S.D. Miss. 1992) (sending flyers was advertising).

Many courts constructed their own definitions of "advertising." For example, in *Ross v. Briggs & Morgan*, 520 N.W.2d 432, 435 (Minn. Ct. App. 1994) *rev'd*, 540 N.W.2d 843 (Minn. 1995), the Minnesota Court of Appeals defined "advertising" as including:

> Any oral, written, or graphic statement made by the seller in any manner in connection with the solicitation of business and includes * * * statements and representations made in a newspaper or other

> publication or on the radio or television or contained in any notice, handbill, sign, catalog or letter.

See also Auto Owners Ins. Co. v. La Oasis, Inc., No. 2:04 CV 174, 2005 WL 1313684 (N.D. Ind. May 26, 2005) (applying Indiana law) (looking to the Black's Law Dictionary definition of "advertises" as "the action of drawing the public's attention to something to promote its sale," the court found that the use of Shell identifications at the insured's gas station constituted advertising activity, since the allegations of consumer confusion in the underlying complaint suggested that the Shell identifications constitute the primary, if not only, means of identifying Shell-branded gasoline to the consumer public); *Rice v. Fox Broadcasting Co.*, 330 F.3d 1170 (9th Cir. 2003)(statements constituted advertising where the statements were (1) commercial speech; (2) by a defendant who is in commercial competition with plaintiffs; and (3) for the purpose of influencing consumers to buy defendant's goods or services).

Some courts have refused to expand the term "advertising" to one-on-one solicitations. *See Elite Brands, Inc. v. Pennsylvania General Ins. Co.*, No. 04-5486-CV, 2006 WL 172217 (2d Cir. Jan. 24, 2006) (unpublished opinion) (rejecting insured's argument that the packaging of infringing products amounted to "advertising," since "defining 'advertising' so broadly as to include 'any form of 'calling public attention' . . . stretch[es] the term . . . in a way that has no natural stopping point short of absurd results'"); *Monumental Life Ins. Co. v. USF&G Co.*, 94 Md. App. 505, 617 A.2d 1163 (Ct. Spec. App. 1993) *cert. denied*, 330 Md. 319, 624 A.2d 491 (1993) ("[a]dvertising means advertising, i.e., widespread distribution or announcements to the public ... [i]ndividual, one-to-one solicitations [are] clearly not advertising within the normal meaning of the word"); *Select Design, Ltd. v. Union Mut. Fire Ins. Co.*, 674 A.2d 798 (Vt. 1996) (contacting potential customers from improperly obtained competitor's customer list was not advertising because minority of cases that recognize one-on-one solicitations as advertising are not persuasive, little congruity exists between expansive definition of advertising that includes one-on-one solicitations and the definition as set out in the policy, and no causal connection between advertising and allegations in the complaint).

The 9th Circuit determined that a web site constitutes "advertising" in *Hyundai Motor America v. National Union Fire Ins.*, 600 F.3d 1092 (9th Cir. 2010) (applying California law). That case addressed whether patent infringement occurring on a website triggered coverage under the offense, "misappropriation of advertising ideas" in the course of advertising. The method patent at issue was owned by the claimant and protected its rights in software that allowed customers of car manufacturers to utilize a "build your own car" feature by choosing desired features of a car and being presented a customized product proposal. The insured allegedly infringed on the patent by using a similar "build your own car" feature on its website. The insured contended that the build your own car feature was not "advertising," which is defined under California law as "widespread promotional activit[y] … directed to the public at large" because it facilitated a one-on-one interaction between the customer and seller. The court disagreed, noting that the complaint described the feature as a "marketing method" or "marketing system." Further, while the feature allows individual customers to create unique product proposals, the feature was distributed for use to the public at large, and thus, was "advertising." The court went on to find that the alleged infringement of the insured's patent in the "build your own car" software fell within the "misappropriation of advertising ideas" offense.

2. "In The Course Of Advertising"

In the earlier forms (pre-1998) there had to be a causal connection between the insured's advertising activity and the advertising injury for the policy to provide coverage. *Hyman v. Nationwide Mut. Fire Ins. Co.*, 304 F.3d 1179 (11th Cir. 2002). The policy required that the "advertising injury" be caused by an offense "committed in the course of advertising" the named insured's goods, products or services.

This causal connection requirement was discussed by the California Supreme Court in the seminal case of *Bank of the West v. Superior Court (Industrial Indemnity Co.)*, 2 Cal. 4th 1254, 833 P.2d 545, 10 Cal. Rptr. 2d 538 (1992). In that case, the court held:

> As a matter of interpretation, the context of the CGL policy strongly indicates the requirement of a causal connection. The other types of "advertising injury" enumerated in the policy often do have a causal connection with advertising. "Defamation," whether libel or slander, occurs upon publication. (See Civ. Code, §§45, 46.) "Violation of right of privacy," in the advertising context, is virtually synonymous with unwanted publicity. (See, e.g., *Id*., § 3344.) "Infringement of copyright, title or slogan" typically occurs upon unauthorized reproduction or distribution of the protected material. (See 17 U.S.C. §106.) Reading the term "unfair competition" in this context, an objectively reasonable insured would not conclude that the term "unfair competition" could refer to claims that bore no causal relationship to its advertising activities.
>
> Moreover, as a matter of common sense, an objectively reasonable insured would not expect "advertising injury" coverage to extend as far as the Bank argues it should extend. Virtually every business that sells a product or service advertises, if only in the sense of making representations to potential customers. If no causal relationship were required between "advertising activities" and "advertising injuries," then "advertising injury" coverage, alone, would encompass most claims related to the insured's business.

> However, insureds generally expect to obtain such broad coverage, if at all, only by purchasing several forms of insurance, including coverage for "errors and omissions liability," "directors and officers liability," "completed operations and products liability," and/or other coverages available as part of a CGL policy.

10 Cal. Rptr. 2d at 560.

There are numerous cases which have addressed the causal connection requirement. *See, e.g.*, *Everest and Jennings, Inc. v. American Motorists Ins. Co.*, 23 F.3d 226, 229 (9th Cir. 1994) (facts "do not establish the necessary causal connection between the alleged infringement and [the insured's] advertising"); *Iolab Corp. v. Seaboard Surety Co.*, 15 F.3d 1500, 1506 (9th Cir. 1994) (the infringement was not caused by the insured's advertisement itself); *Sentry Ins. v. R. J. Weber Co., Inc.*, 2 F.3d 554 (5th Cir. 1993) (copyright infringement claim was not covered because there were no allegations that such infringement was committed in the course of the insured's advertising); *Winklevoss Consultants, Inc. v. Federal Ins. Co.*, 991 F. Supp. 1024 (N.D. Ill. Jan. 23, 1998) (the advertising, rather than the manufacture and development of a product, must be the source of the offense -- thus, the court held there was no causal connection between the allegations of trade secret misappropriation and the insured's advertising activities, where the complaint alleged that the insured used the plaintiff's trade secrets to create a rival product to be marketed to the plaintiff's existing and potential customers); *Varilease Technologies Group, Inc. v. Michigan Mut. Ins. Co.*, No. 249121, 2004 WL 2913661 (Mich. Ct. App. Dec. 16, 2004) (unpublished decision) (allegations the insured committed copyright infringement by developing software containing copies of and deriving from the claimant's proprietary material did not trigger a defense obligation under the "advertising injury" coverage of the policy because the plaintiff did not claim copyright infringement was committed in the course of the insured's advertising); *Delta Pride Catfish, Inc. v. Home Ins. Co.*, 697 So. 2d 400 (Miss. 1997) (Mississippi Supreme Court held that there must be a causal connection between the insured's allegedly wrongful conduct and the insured's advertising activities); *Select Design, Ltd. v. Union Mut. Fire Ins. Co.*, 674 A.2d 798, 801 (Vt. 1996) (holding there was no causal connection between the alleged misappropriation of advertising ideas and the advertising, and the act of soliciting customers alone did not constitute conduct "in the course of advertising").

What satisfied that causal link was, and still remains, the subject of substantial litigation. *See, e.g., IDG, Inc. v. Continental Cas. Co.*, 275 F.3d 916 (10th Cir. 2001) (applying Oklahoma law) (allegations of copyright infringement not sufficient to satisfy the causal connection requirement because the insured was sued for copyright infringement arising out of its copyrighting and sale of the programs, and not out of its promotional activity; the allegations of copyright infringement were independent of any advertising activity by the insured and the mere fact that the program was advertised or distributed at some point in time was not sufficient to transform the plaintiff's ownership infringement claims into “advertising injury”); *American States Ins. Co. v. Dastar Corp.*, No. 00-6058-HO, 2006 WL 1514857 (D. Or. May 25, 2006) (applying Oregon law) (finding the sale of certain infringing videotapes bearing infringing titles on their packaging was not infringement “in the course of advertising”); *Skylink Technologies*, *Inc. v. Assurance Co. of America*, 2004 WL 42365 (N.D. Ill. Jan 06, 2004) (allegations of copyright infringement did not trigger the “advertising injury” coverage of the insured’s policy because the copyright infringement was not caused by the insured’s advertising, but rather, by the manufacture, use, and sale of an allegedly infringing product; further, the possibility that the insured advertised the infringing product or sold the product through advertisements was irrelevant, since the advertising activities of the insured must cause the claimant’s injury, not merely expose it); *Premier Pet Prods. v. Travelers Prop. Cas. Co. of Am.*, 678 F. Supp. 2d 409 (E.D. Va. 2010) (applying Virginia law)(allegations in the complaint of the insured’s “use” of infringing trademarks and “sale” of goods did not allege an injury committed in the course of advertising); *Construction Management Systems, Inc. v. Assurance Co. of America*, 23 P.3d 142 (Idaho 2001) (where the underlying complaint alleged that the insured constructed four homes based on architectural plans and technical drawings copyrighted by plaintiff, the court held there was no infringement “in the course of” advertising because the claim of infringement, even when read broadly, was based upon the construction of the homes rather than their advertisement; there was no allegation that the copyrighted plans and drawing were used to advertise the homes, nor any suggestion that advertisements or other promotional literature contributed in any way to the infringement of the copyright); *Finger Furniture Co. v. Travelers Indem. Co. of Connecticut*, No. H-01-2797, 2002 U.S. Dist. LEXIS 15351 (S.D. Tex. Aug. 19, 2002) (finding allegations the trademark infringement occurred “in connection with [the insured’s] marketing . . . of furniture store goods and services” satisfied the causal connection requirement because one of the basic functions of trademark is to advertise the product or services of the registrant, and since the insured was alleged to have represented to the consuming public that its services emanated from the underlying plaintiff, it is easy to conclude, the court explained, that the use of the term “marketing” includes references to “advertising”).

F. The Offense Must Be Committed In The “Coverage Territory”

Like their predecessors, the insuring agreement contained in the 1998 and later ISO forms provide that the “personal and advertising injury” coverage applies “only if the offense was committed in the ‘coverage territory’ during the policy period.” Under the 1998 ISO form, “coverage territory” is defined as:

a. The United States of America (including its territories and possessions), Puerto Rico and Canada:

b. International waters or airspace, provided the injury or damage does not occur in the course of travel or transportation to or from any place not included in a. above; or

c. All parts of the world if:

1) The injury or damage arises out of:

a) Goods or products made or sold by you in the territory described in a. above; or

b) The activities of a person whose home is in the territory described in a. above, but is away for a short time on your business; and

2) The insured's responsibility to pay damages is determined in a "suit" on the merits, in the territory described in a. above or in a settlement we agree to.

The 2001 and later ISO forms contain a slightly different definition for "coverage territory" found in paragraphs b. and c.:

b. International water or airspace, but only if the injury or damage occurs in the course of travel or transportation between any places included in a. above; or

c. All other parts of the world if the injury or damage arises out of:

(1) Goods or products made or sold by you in the territory described in a. above

(2) The activities of a person whose home is in the territory described in a. above, but is away for a short time on your business; or

(3) "Personal and advertising injury" offenses that take place through the Internet or similar electronic means of communication—

provided the insured's responsibility to pay damages is determined in a "suit" on the merits, in the territory described in a. above or in a settlement we agree to.

The requirement that the offense be committed in the "coverage territory" was addressed in *Industrial Indem. Co. v. Apple Computer, Inc.*, 83 Cal. Rptr. 2d 866 (Ct. App. 1999), *modified on denial of reh'g*, No. A074119, 1999 WL 312377 (May 17, 1999). In that case, the underlying suit alleged that the insured committed trademark infringement by selling certain infringing products in England. The court held that coverage did not apply because the insured's covered activity, trademark infringement, occurred in England and not in the United States. The insured argued that even though the infringing products were sold in England, most of its manufacturing and marketing activity occurred in the United States. In accordance with the plain terms of the policy, the court held that "advertising" means "calling something to the attention of the public by means of paid broadcast or printed announcements." The court distinguished this from the insured's formulation of marketing tools and strategies, i.e., it's planning of the advertising campaigns, which may have taken place in the United States. Regardless of where the planning took place, the court held that the commission of the advertising offenses occurred in England. Additionally, the court noted that the insured had purchased foreign coverage, which tended to preclude an objectively reasonable expectation of coverage.

Under the policy language, a suit for "personal and advertising injury" offenses that take place through the Internet must be filed in the United States of America, its territories and possessions, Puerto Rico or Canada in order for coverage to apply.

G. The Suit Must Seek "Damages"

In order for the personal and advertising injury coverage to be triggered, the action must seek "damages." As a general rule, an action which seeks only injunctive relief will not implicate the personal and advertising injury liability coverage. *See Feed Store, Inc. v. Reliance Ins. Co.*, 774 S.W.2d 73 (Tex. App. 1989) (no duty to defend where the complaint does not purport to seek damages from an advertising injury). *But see American Motorists Ins. Co. v. Mars Sales Co., Inc.*, 9 F.3d 1550 (9th Cir. 1993) (holding that there is a duty to defend even though the complaint seeks only injunctive relief because the plaintiff could always amend to seek damages); *Energex Systems Corp. v. Fireman's Fund Ins. Co.*, 1997 WL 358007 (S.D.N.Y. June 25, 1997) (No. 96 CIV 5993 (JSM)) (not reported in F. Supp) (while prayer for relief did not specifically seek damages, fact that prayer also sought whatever relief the court deemed just and proper sufficient to encompass a claim for damages, thereby triggering insurer's duty to defend); *Williamson v. North Star Cos.*, 1997 WL 53029 (Minn. Ct. App. Feb. 11, 1997) (No. C3-96-1139), *review denied*, (Apr. 15, 1997) (unpublished slip opinion) (court found insurer had duty to defend its insured even after claimant dismissed all of its claims that sought money damages, but left remaining its claims which sought injunctive relief, attorneys fees, costs and an accounting because the words "pay" and "sums" in the policy triggered the insurer's duty to defend where the claims would obligate the insured to pay *money* to the claimant, and the claims for attorney's fees, costs and an accounting still sought money that would be owed to the claimant).

Insurers have also argued that the coverage does not apply to certain unfair business practices or intellectual property claims because the plaintiff was seeking restitution rather than damages. For example, in *Bank of the West v. Superior Court (Industrial Indemnity Co.)*, 2 Cal. 4th 1254, 833 P.2d 545, 10 Cal. Rptr. 2d 538 (1992), the Supreme Court of California held that an action for restitution or disgorgement of funds, even though seeking monetary relief, does not fall within the scope of advertising injury liability coverage. The court explained:

> It is well established that one may not insure against the risk of being ordered to return money or property that has been wrongfully acquired. . . . .
>
> The public policy rationale that underlies these holdings, explicitly or implicitly, is this: When the law requires a wrongdoer to disgorge money or property acquired through a violation of the law, to permit the wrongdoer to transfer the cost of disgorgement to an insurer would eliminate the incentive for obeying the law. Otherwise the wrongdoer would retain the proceeds of his illegal acts, merely shifting his loss to an insurer.

Id. at 555.

In contrast, in *Limelight Productions, Inc. v. Limelite Studios, Inc.*, 60 F.3d 767 (11th Cir. 1995), the court held that an action for service mark infringement, in which the plaintiff sought the defendant's ill-gotten profits, stated a claim for damages under the "advertising injury" coverage. The court noted that a plaintiff's lost profits will often be difficult if not impossible to establish, and, that as a result, Congress provided an alternative in the form of a presumption that any profits gained by the defendant accrued but for the violation. As such, the court reasoned that Congress authorized plaintiffs to recover the defendant's ill-gotten profits as a presumed equivalent of their own lost profits. In addition, the court reasoned that the Eleventh Circuit recognized ill-gotten profits as a form of damages because of the plaintiff's inability to prove damages in this area. Finally, the court noted that the insurers were on notice that plaintiffs could recover such profits as damages, and that the insurers intended to cover such damages because they were not specifically excluded from coverage. *See also International Communication Materials, Inc. v. Employer's Ins. of Wausau*, (W.D. Pa. May 29, 1996) (No. 94-1789) (as reported in Mealey's Emerging Insurance Disputes, Vol. 1, No. 13, July 8, 1996 at p. 10) (the term "damages" was not defined, that it was ambiguous and construed against the insurer by giving the term "damages" its ordinary meaning as "[m]oney compensation sought or awarded as a remedy for a breach of contract or for tortious acts," and concluding that "damages" included legal and equitable remedies); *Abt v. St. Paul Fire & Marine Ins. Co.*, No. 1:92 CV 1747 (N.D. Ohio May 27, 1998) (Mealey's Emerging Insurance Disputes Vol. 3, #15, 8/16/98) (in *dicta*, court opined that royalties awarded in underlying patent infringement suit were not equivalent to a disgorgement).

In *American Employers Ins. Co. v. DeLorme Publishing Co., Inc.*, 39 F. Supp. 2d 64 (D. Me. 1999), the underlying complaint sought a permanent injunction, an equitable accounting by the insured of all its profits, advantages obtained by its sale of the alleged infringing item, costs and attorney fees, and contained a general request for "other and further relief as the Court deems just and proper." The court rejected the insurer's argument that it had no duty to defend because the underlying complaint did not seek money damages. Adopting the reasoning of the Eleventh Circuit's decision in *Limelight Productions, Inc. v. Limelite Studios, Inc.*, the court held that the Lanham Act allows recovery of ill-gotten profits as a form of damages because of the unavailability of proof in such cases. The court further reasoned that because the underlying complaint did not seek compensation for lost sales, it was possible that the accounting for lost profits would equal compensation for lost sales.

The court also held that the underlying complaint sought "damages" because of the general request for "other and further relief as the Court deems just and proper." As the Lanham Act permits recovery of compensatory damages, if the claimant proved it was entitled to equitable relief, it also could have received money damages. Therefore, the court held that a request for an accounting of lost profits under the Lanham Act is a request for damages. Ultimately, however, the court held that there was no duty to defend based on an exclusion to coverage.

Some courts have found that civil penalties do not constitute damages. In *Liberty Mut. Fire Ins. Co. v. General Info. Servs.*, No. 3:13-cv-375, 2014 U.S. Dist. LEXIS 69882 (E.D. Va. 2014) (applying South Carolina law), the insured was sued for two class action claims based on the insured's violation of the Fair Credit Reporting Act. The two class action claims sought recovery of statutory damages, punitive damages, attorneys' fees and costs. The court found that the class action claims did not seek recovery of damages because of "personal and advertising injury." Therefore, the insurer did owe any defense obligation to the insured for any of the claims alleged in the underlying suit. See also, *Big 5 Sporting Goods Corp. v. Zurich Am. Ins. Co.*, No. CV 012-03699, 2013 U.S. Dist. Lexis 100757 (C.D. Cal. July 10, 2013) (applying California law) (civil penalties recoverable under the Song-Beverly Act did not constitute "damages" covered under the policies).

In *Standard Mut. Ins. Co. v. Lay,* 2013 IL 114617 (2013) (applying Illinois law), the claimant sought satisfaction of a settlement for claims that the insured sent unsolicited facsimile advertisements in violation of the Telephone Consumer Protection Act ("TCPA"). The Illinois Supreme Court held that the TCPA's liquidated damages of $500 per offense are remedial in nature, not penal. As a result, insurance coverage for statutory damages under the TCPA was not barred by Illinois law or public policy. The court reasoned that the TCPA is among a class of remedial statutes which are designed to grant remedies for the protection of rights and the public good. The court further noted that the TCPA's provision for treble damages indicates that the treble damages, not the liquidated damages, serve the goals of punishment and deterrence. Accord, *Columbia Cas. Co. v. HIAR Holding, LLC*, 411 S.W.3d 258 (Mo. 2013) (applying Missouri law).

H. The Claim Must Fall Outside The Exclusions For Advertising Injury Liability Coverage

Assuming that the allegations of a complaint fall within one of the enumerated offenses under an applicable coverage form, the next inquiry is whether one or more of the claims fall within any of the exclusions to the "personal and advertising injury coverage." This section of the article identifies all of the exclusions to the "personal and advertising injury" coverage. In Section IV, infra, those exclusions most commonly implicated in cases involving intellectual property claims are discussed in greater detail.

1. The 1998 ISO Form

The 1998 ISO Form combines the personal and advertising injury coverage into a unified coverage entitled "personal and advertising injury coverage." As a result, the exclusions were modified to apply to both "personal and advertising injury." The 1998 ISO CGL form states that this insurance does not apply to:

a. "Personal and Advertising Injury":

(1) Caused by or at the direction of the insured with the knowledge that the act would violate the rights of another and would inflict "personal and advertising injury";

(2) Arising out of oral or written publication of material, if done by or at the direction of the insured with knowledge of its falsity;

(3) Arising out of oral or written publication of material whose first publication took place before the beginning of the policy period;

(4) Arising out of a criminal act committed by or at the direction of any insured;

(5) For which the insured has assumed liability in a contract or agreement. This exclusion does not apply to liability for damages that the insured would have in the absence of the contract or agreement;

(6) Arising out of a breach of contract, except an implied contract to use another's advertising idea in your "advertisement";

(7) Arising out of the failure of goods, products or services to conform with any statement of quality or performance made in your "advertisement";

(8) Arising out of the wrong description of the price of goods, products or services stated in your "advertisement";

(9) Committed by an insured whose business is advertising, broadcasting, publishing or telecasting. However, this exclusion does not apply to Paragraphs 14.a., b. and c. of "personal and advertising injury" under the Definitions Section; or

(10) Arising out of the actual, alleged or threatened discharge, dispersal, seepage, migration, release or escape of "pollutants" at any time.

b. Any loss, cost or expense arising out of any:

(1) Request, demand or order that any insured or others test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effective of "pollutants"; or

(2) Claim or suit by or on behalf of a governmental authority for damages because of testing for, monitoring, cleaning up, removing, containing, treating, detoxifying or neutralizing, or any way responding to, or assessing the effects of "pollutants."

The most significant changes from the 1996 and 1985 CGL policy forms are found in exclusions 1, 4 and 10 of the 1998 form. Exclusion 1 is an entirely new exclusion. Many of the listed offenses in the "personal injury and advertising injury" definition involve intentional conduct. However, prior policy forms did not include any exclusions for *injuries* expected or intended by the insured. This exclusion is designed to preclude coverage in those instances.

Exclusion 4 is a re-work of the "willful violation of penal statute" exclusion. It is a broader exclusion than previously provided. Finally, Exclusion 10 incorporates a pollution exclusion into the "personal and advertising injury" coverage to address policyholder arguments that pollution claims could qualify for coverage under the "personal injury" coverage under theories of trespass or nuisance.

There is no coverage if a claim or injury falls within the scope of one of the exclusions. In order to maximize coverage, courts typically read the allegations of a complaint liberally and construe exclusionary language narrowly. All of the exclusions are discussed in greater detail in Section IV below.

2. The 2001 ISO Form

In addition to the abovementioned exclusions, the 2001 ISO form contains the following new exclusions acknowledging the widespread commercial use of the Internet and web pages in policyholder's advertising activities and the impact of electronic communications. In addition, the 2001 form modifies the criminal act exclusion to exclude coverage for "'personal and advertising injury' arising out of a criminal act committed by or at the direction of the insured." The new exclusions in the 2001 form are:

> This insurance does not apply to:
>
> **i) Infringement Of Copyright, Patent, Trademark or Trade Secret**
>
> "Personal and advertising injury" arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights.
>
> However, this exclusion does not apply to infringement, in your "advertisement," of copyright, trade dress or slogan.
>
> **j) Insureds in Media and Internet Type Businesses**
>
> "Personal and advertising injury" committed by an insured whose business is:
>
> (1) Advertising, broadcasting, publishing or telecasting;
>
> (2) Designing or determining content of websites for others; or
>
> (3) An Internet search, access, content or service provider.
>
> However, this exclusion does not apply to Paragraphs 14.a., b. and c. of "personal and advertising injury" under the Definitions Section.

For the purposes of this exclusion, the placing of frames, borders or links, or advertising, for you or others anywhere on the Internet, is not by itself, considered the business of advertising, broadcasting, publishing or telecasting.

k) Electronic Chatrooms Or Bulletin Boards

"Personal and advertising injury" arising out of an electronic chatroom or bulletin board the insured hosts, owns, or over which the insured exercises control.

l) Unauthorized Use Of Another's Name Or Product

"Personal and advertising injury" 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.

3. Exclusions Added in the 2004 ISO Form

o. War

"Personal and advertising injury", however caused, arising, directly or indirectly, out of:

(1) War, including undeclared or civil war;

(2) Warlike action by a military force, including action in hindering or defending against an actual or expected attack, by any government, sovereign or other authority using military personnel or other agents; or

(3) Insurrection, rebellion, revolution, usurped power, or action taken by governmental authority in hindering or defending against any of these.

4. Exclusions Added in the 2007 ISO Form

The Intellectual Property Exclusion (exclusion I) was modified slightly to add the sentence highlighted below to the exclusion:

i) Infringement Of Copyright, Patent, Trademark or Trade Secret

"Personal and advertising injury" arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights. **Under this exclusion, such other intellectual property rights do not include the use of another's advertising idea in your "advertisement."**

However, this exclusion does not apply to infringement, in your "advertisement," of copyright, trade dress or slogan.

The 2007 Form also added the following exclusion (which is often referred to as the "TCPA exclusion"):

p. Distribution Of Material In Violation Of Statutes

"Personal and advertising injury" arising directly or indirectly out of any action or omission that violates or is alleged to violate:

(1) The Telephone Consumer Protection Act (TCPA), including any amendment of or addition to such law; or

(2) The CAN-SPAM Act of 2003, including any amendment of or addition to such law; or

(3) Any statute, ordinance or regulation, other than the TCPA or CAN-SPAM Act of 2003, that prohibits or limits the sending, transmitting, communicating or distribution of material or information.

5. Exclusions Added in the 2013 ISO Form

The Distribution of Material exclusion was renamed and broadened. It now states:

p. Recording And Distribution Of Material Or Information In Violation Of Law

"Personal and advertising injury" arising directly or indirectly out of any action or omission that violates or is alleged to violate:

(1) The Telephone Consumer Protection Act (TCPA), including any amendment of or addition to such law; or

(2) The CAN-SPAM Act of 2003, including any amendment of or addition to such law; or

(3) The Fair Credit Reporting Act (FRCA), and any amendment of or addition to such law, including the Fair and Accurate Credit Transactions Act (FACTA); or

(4) Any statute, ordinance or regulation, other than the TCPA CAN-SPAM Act of 2003, or FCRA and their amendments and additions, that addresses, prohibits or limits the printing, dissemination, disposal, collecting, recording, sending, transmitting, communicating or distribution of material or information.

III. Analysis Of The "Enumerated Offenses" That Potentially Cover Intellectual Property Claims

A. Defamation, Libel, Slander And Disparagement

All of the CGL policy Forms include the offense of "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." Notably, there is no requirement that this offense be committed in the insured's "advertisement."

The terms defamation, libel, and slander are closely aligned with one another, although there are certain legal distinctions. Defamation is generally used to describe false communications to third parties which damage an individual's reputation. Defamation by spoken word or gesture is generally considered "slander," while defamation by written word is "libel."

"Disparagement" is interpreted by many courts as being a defamation-type tort. *See, e.g., Hamlin v. Western National Mut. Ins. Co.*, 461 N.W.2d 395, 398 (Minn. Ct. App. 1990). *See also Elite Brands, Inc. v. Pennsylvania General Ins. Co.*, 164 Fed. App'x 60 (2d Cir. 2006) (finding the insured failed to prove its claim that the "advertising injury" constituted the enumerated offense of disparagement, because New York law requires "specific assertions of unfavorable facts reflecting upon the rival product, which the catalog did not contain). Other courts have taken a slightly broader approach, defining disparagement as "to lower in esteem or reputation; lower in rank by action or words; to speak slightingly of; or to run down." *Ottumwa Housing Authority v. State Farm Fire & Casualty Co.*, 495 N.W.2d 723, 728 (Iowa 1993), quoting Webster's Third New International Dictionary. *See also Winklevoss Consultants, Inc. v. Federal Ins. Co.*, 991 F. Supp. 1024 (N.D. Ill. 1998) (court cited Black's Law Dictionary's definition of disparagement as "[a] statement about a competitor's goods which is untrue or misleading and is made to influence or tends to influence the public not to buy"). *But see U.S. Test, Inc. v. NDE Environmental Corp.*, 196 F.3d 1376 (Fed. Cir. 1999) (applying Louisiana law) (the court held there were no allegations of disparagement because, while the suit alleged that the insured falsely asserted that its products did not infringe on any patents, it did not allege that the insured falsely denigrated the claimant's products); *Applied Chemicals Magnesias Corp. v. Pacific Indem. Co.*, No. 04-CV-0210-RPM (D. Colo. Sept. 30, 2005) (unpublished) (rejecting the insured's argument that allegations of inducement to infringe a method patent state a claim for disparagement within the "advertising injury" coverage because inducement to infringe the method protected by the claimant's patent does not disparage that method).

Even where the underlying complaint does not specifically contain allegations of disparagement, the insurer may not be relieved of its duty to defend where the substance of the claims potentially constitutes disparagement. *See, e.g., Amquip Corp. v. Admiral Ins. Co.*, No. 03-4411, 2005 WL 742457 (E.D. Pa. March 31, 2005) (applying Ohio law) (finding that the underlying complaint's failure to use "magic words" in citing the elements of defamation and disparagement did not relieve the insurer of its duty to defend, since the substance of the claims were covered by the policy).

This was the case in *Amerisure Ins. Co. v. Laserage Tech. Corp.*, 2 F. Supp. 2d 296 (W.D.N.Y. 1998). The insured was sued by a competitor for breach of contract, fraud, misappropriation of trade secrets, and anti trust violations, among other causes of action. Tucked within the allegations was a claim that the insured had made misrepresentations to potential customers that the competitor's product infringed various patents. The court held that this was an allegation of defamation or disparagement that would have triggered a duty to defend, had the insured not forfeited coverage by providing late notice to the insurer. The court stated: "It seems obvious to this court that wrongfully asserting that a competitor's product infringes patents clearly defames the competitor and disparages his product." *Id.* at 304. *Accord Atlantic Mut. Ins. Co. v. J. Lamb, Inc.*, 100 Cal. App. 4th 1017, 1033, 123 Cal. Rptr. 2d 256 (2002).

A lot of case law – particularly in California - has focused on whether claims of implied disparagement trigger a duty to defend. The California Supreme Court recently addressed that issue inn *Hartford Casualty Ins. Co. v. Swift Distribution, Inc.*, 59 Cal. 4th 277, 326 P.3d 253 (2014) (applying California law). There, the California Supreme Court determined that a claim for disparagement requires that the plaintiff show a false or misleading statement that: (1) specifically refers to the plaintiff's product or business; and (2) clearly derogates the plaintiff's product or business. The court then found that that underlying claims of trademark infringement, false designation of origin, and damage to business, reputation, and goodwill, did not implicate the disparagement offense, because the claims did not allege that insured's statements made any direct nor indirect reference to the claimant's products, nor did the insured's statements derogate the claimants' products. Thus, the claims did not implicate the disparagement offense and the insurer did not owe the insured any duty to defend.

Many insureds have argued that Lanham Act claims fall within this offense. For example, in *DecisionOne Corp. v. ITT Hartford Insurance Group*, 942 F. Supp. 1038 (E.D. Pa. 1996), the court considered whether allegations that the insured infringed microcode and system maintenance software programs fell within the "advertising injury" offense of "oral or written publication of material that disparages a person's or organization's goods, products or services." In particular, STK alleged that Bell Atlantic, in violation of the Lanham Act, "falsely designated the origin and source of its ability to maintain STK equipment [and] falsely promoted or advertised its maintenance of STK library equipment ... [and that] in the course of its commercial and promotional activities designed to secure library maintenance contracts, Bell Atlantic made false or misleading factual representations concerning its maintenance of STK library equipment and made false or misleading comparisons between itself and STK." Hartford disclaimed coverage maintaining that the violations of the Lanham Act were not committed in the course of advertising, but arose out of copyright infringement and theft of trade secrets, claims which are not covered under the policy.

The trial court disagreed with Hartford's assertion. In particular, the court noted that the allegations at issue did not even mention copyright infringement or trade secret violations. Further, because the allegations concerned Bell Atlantic's alleged promotion or advertisement regarding its maintenance of STK library equipment, the court viewed the allegations as occurring within the course of advertising. Finally, the court indicated that the Lanham act violations fell within the scope of the enumerated offense "oral or written publication of material that disparages a person's or organization's goods, products or services." While the term "disparagement" was undefined within Hartford's policy, the court viewed *Black's Law Dictionary's* definition, which provided:

> [I]t is a statement about a competitor's goods which is untrue or misleading and is made to influence or tends to influence the public not to buy.

The court held that Bell Atlantic's alleged violation of the Lanham Act fell within the advertising injury coverage for oral or written publication of material that disparages a person's or organization's goods, products or services, and therefore concluded that Hartford owed its insured a duty to defend. *See also Vector Products, Inc. v. Hartford Fire Ins. Co.*, 397 F.3d 1316 (11th Cir. 2005) (applying Florida Law) (finding claims against the insured for false advertising in violation of §43(a) of the Lanham Act gave rise to a duty to defend, where the insured allegedly suggested in its advertising that its product was superior to the "leading brands," because the court found the policies, which provided coverage for "personal and advertising injury . . . arising out of . . . publication or material that . . . disparages a person's or organization's goods, products or services," were ambiguous because they were not clear as to whether the insured must mention a claimant's name in an advertisement in order to give rise to a duty to defend a false advertising injury claim). *But see Federal Ins. Co. v. Symons Corp.*, No. A105790, 2007 WL 689679 (Cal. Ct. App. March 7, 2007) (unpublished opinion) (finding no duty to indemnify the insured for damages arising from violations of §43(a) of the Lanham Act where the insured failed to show that disparagement was inherent in the false advertising at issue in the underlying litigation, with the court reasoning that not all negative comments about a competitor's product or claims of product superiority constitute disparagement).

The insured in *Gartner, Inc. v. St. Paul Fire & Marine Ins. Co.*, 415 Fed. Appx. 282 (2d Cir. 2011) (applying Connecticut law) was alleged to have fraudulently represented the claimant's technology as obsolete when renegotiating a licensing agreement with the claimant in order to prolong negotiations, during which time it incorporated the claimant's intellectual property into software that it held out as its own. The court held that the allegations did not trigger coverage under the disparagement offense because there was no publication of slanderous material. The insured was only alleged to have communicated the disparaging statement about the claimant's technology to the claimant and not any third party. Nor was the insured's promotion of its product as new explicitly or implicitly disparaging of the claimant's product.

In *Burgett, Inc. v. American Zurich Ins. Co.*, 875 F. Supp. 2d 953 (E.D. Cal. Nov. 23, 2011) (applying California law), the insured was accused of trademark infringement and unfair competition. The insured allegedly held itself out as the rightful owner of the claimant's trademark and licensed the trademark to its co-defendant. The co-defendant then used the trademark in conjunction with the sale of pianos. The court first concluded that the complaint did not allege that the insured slandered or libeled the claimant because the insured's statements were not relating to, or "of and concerning" the plaintiff, as required for a claim of libel or slander under the first amendment. However, the court held that the allegations did state a potential claim for disparagement, which can be satisfied by a derogatory statement that makes an indirect reference to a claimant's products. The court concluded that the insured's statement that it owned the trademark suggested that the claimant did not have a right to it and, as a result, degraded the claimant's products by implication.

In *Natural Organics, Inc. v. OneBeacon America Ins. Co.*, No. 2011-03269, 2013 N.Y. App. Div. Lexis 202 (N.Y. App. Jan. 16, 2013), the insured was sued for unfair competition under the Lanham Act. The underlying suit alleged that the insured, after wrongfully terminating an exclusive distributorship agreement with the claimant, issued a press release announcing that a third-party was the exclusive distributor of the insured's products. The underlying suit alleged that the press release caused confusion, mistake and deception as to the claimant's distribution of the insured's products. The court agreed with the insured's argument that the allegations constituted the "written publication of material that disparages a person's or organization's goods, products or services," because the press release could be construed as implying that the claimant's inventory of the insured's products was unauthorized.

Courts have also considered whether claims for passing off one's goods as another's triggers coverage under the disparagement offense. In *Microtech Research, Inc. v. Nationwide Mut. Ins. Co.,* 40 F.3d 968 (9th Cir. 1994), Green Hills sued Microtech for passing off Green Hills' computer compiler code as Microtech's own. The complaint alleged false designation of origin, unfair competition, breach of contract, misappropriation of trade secrets, intentional interference, breach of confidence and declaratory relief. The district found that Microtech's insurers owed no coverage and the Ninth Circuit affirmed. The crux of the court's opinion was that while it was alleged that Microtech "passed off" the code as its own -- thereby giving the impression that Microtech had written it -- there were no allegations of disparagement. Green Hills' complaint alleged that Microtech's advertising would lead customers to believe that Microtech had more technical skill than Green Hills and that Green Hills' reputation was injured. However, in rejecting that the alleged conduct constituted advertising injury, the court noted that "Green Hills did not allege that Microtech had said anything negative about Green Hills." Without allegations of Microtech having made false or injurious statements about the quality of Green Hills' compiler codes, there was no action for disparagement, belittlement or trade libel, and accordingly, no covered offense had been alleged.

B. Invasion of Privacy

All of the CGL policy Forms include the offense of "oral or written publication of material that that violates a person's right of privacy." Like the defamation and disparagement offense, there is no requirement that such offense take place in the named insured's "advertisement." This offense has the potential for being implicated in claims involving misappropriation of a person's likeness for another's commercial advantage. For example, In *Hartford Accident and Indem. Ins. Co. v. Capella Group, Inc. d/b/a Care Tree*, Case No. 4:09-cv-295-A, 2009 U.S. Dist. LEXIS 118669 (N.D.Tex. Dec. 21, 2009) (applying Texas law), the underlying complaint asserted unlawful appropriation of the plaintiffs names for financial gain. The parties did not dispute that this claim fell within the privacy offense. Rather, the insurer argued that the claim was excluded by the breach of contract exclusion. The court rejected the insurer's argument.

In *Aroa Marketing, Inc. v. Hartford Ins. Co. of the Midwest*, 198 Cal. App. 4th 781 (2011) (applying California law), the insured contracted with the claimant to film an exercise video for the insured's business. The insured allegedly misappropriated the claimant's likeness for its own commercial gain by using her name and image to promote products outside of her contract. The complaint alleged statutory and common law misappropriation of likeness, unjust enrichment, breach of contract, and unfair competition. The court held that the claimant's right of publicity claims were a subset of common law claims concerning the right to privacy and, therefore, should fall within the scope of the right of privacy offense. The court went on to find that coverage was precluded by the policy's broad IP exclusion.

The invasion of privacy offense has not been limited, however, to claims involving misappropriation of the claimant's likeness for the defendant's own commercial gain. In *Travelers Indem. Co. of Am. v. Portal Healthcare Solutions, LLC*, No. 1:13-cv-917, 2014 U.S. Dist. LEXIS 110987 (E.D. Va. Aug. 7, 2014) (applying Virginia law), the insured was sued for negligence for posting patients' confidential medical records on the internet in a manner that made the records freely accessible to the public. The court found that the claims implicated the policy's offenses of "electronic publication of material that … gives unreasonable publicity to a person's private life" and "electronic publication of material that … discloses information about a person's private life." In doing so, the court determined that the insured's actions in placing the medical records before the public constituted a publication. Accordingly, the insurer owed a duty to defend.

In *Encore Receivable Management, Inc. v. ACE Prop. & Cas. Ins. Co.*, No. 1:12-cv-297, 2013 U.S. Dist. Lexis 93513 (S.D. Ohio July 3, 2013) (applying Ohio law), the insureds were sued for recording the claimants' telephone conversations without their consent. The claimants were various Hyundai customers. The recordings were not distributed to anyone aside from the insureds' employees. The insurer argued that the "personal and advertising injury" offense of "oral or written publication … of material that violates a person's right of privacy" was not implicated because there was no "publication" as the conversations were not disseminated to the public. The court disagreed and found that there was a publication the moment that the conversations were disseminated or transmitted to the recording device, and that it was not necessary to establish that the communications were actually disseminated to third parties. Therefore, the court found that the insurer owed a duty to defend.

A burgeoning area of exposure for insurers were claims made against policyholders for their violation of certain statutes, which statutes were held to have been enacted to protect person's privacy. For example, some courts have found that claims that the insured violated the Telephone Consumer Protection Act ("TCPA"), Fair Credit Reporting Act (FRCA), and the Fair and Accurate Credit Transactions Act (FACTA) constitute oral or written publication of material that violates a person's right of privacy. In these instances, however, the publication of material was made to the claimant. Therefore, there was not a publication of material to third parties. See, e.g, *Owners Ins. Co. v. European*

Auto Works, Inc., 695 F.3d 814 (8th Cir. 2012) (applying Minnesota law)(TCPA violation triggered invasion of privacy offense); *Sawyer v. West Bend Mut. Ins. Co.*, 821 N.W.2d 250 (Wis. App. 2012) (applying Wisconsin law)(same); *Nat'l Union Fire Insurance Co. v. Papa John's Int'l, Inc.*, No. 3:12-cv-00677-CRS, 2014 U.S. Dist. LEXIS 90792 (W.D. Ky. July 3, 2014) (applying Kentucky law) (same); *State Farm Fire & Cas. Co. v. Kapraun*, No. 310564, 2014 Mich. App. LEXIS 1276 (Mich. App. Ct. July 3, 2014) (applying Michigan law)(same; also finding that policy was ambiguous as to whether the offense only applies to "persons" and not to corporate entities).

Not all courts have embraced the view that TCPA, FACTA or FRCA claims involve a ***publication*** of material that violates a person's right of privacy. The insured in *Integral Res. Inc. v. Hartford Fire Ins. Co.*, No. 2:14-cv-02308-R, 2014 U.S. Dist. LEXIS 83793 (C.D. Cal. June 13, 2014) (applying California law), was sued for making automated and unsolicited telemarketing calls to the underlying plaintiff's cellular phone. The underlying suit alleged claims for violation of the TCPA, violation of privacy rights and negligence. The court found that the underlying suit did not implicate the offense "oral publication which violates a person's right to privacy," because the insured was not alleged to have published any private information to a third party.

In *Defender Sec. Co. v. First Mercury Ins. Co.*, No. 1:13-cv-00285-SEB-DKL, 2014 U.S. Dist. LEXIS 33318 (S.D. Ind. March 14, 2014) (applying Indiana law), the insured was alleged to have recorded the claimant's telephone communications without the claimant's consent, during which the claimant shared her full name and ZIP code. In analyzing whether the claims implicated the "right of privacy" offense, the court determined that there was no publication of the recorded information because the information was not communicated, distributed, sold or shared with any other individual or entity. As such, the court held that the "right of privacy" offense was not implicated and that the insurer did not owe any duty to defend. Accord, *Ticknor v. Rouse's Enters., LLC,* No. 12-1151, 2014 U.S. Dist. LEXIS 21129 (E.D. La. Feb. 20, 2014) (applying Louisiana law).

On the other hand, in *Grice v. ISI Alarms NC, Inc.*, No. 12-2873, 2014 U.S. Dist. LEXIS 55030 (E.D. La. April 21, 2014) (applying North Carolina law), the insured was sued for violating the Fair Credit Reporting Act and fraud for wrongfully obtaining the claimant's credit report and social security number, and using that information to apply for credit in the claimant's name. The court found that the insured's use of the claimant's credit report to complete credit applications constituted a publication that invaded the claimant's privacy. Ultimately, however, the court found that the insured's fraudulent conduct fell within the scope of the "criminal act" exclusion and the "Distribution of Material Exclusion". Accordingly, the court found that the insurer did not owe any duty to defend and indemnify.

As discussed in greater detail in the exclusion discussion, beginning in 2007, most CGL policies contained a specific exclusion for TCPA , FRCA and FACTA liability.

C. Use Of Another's Advertising Idea in Your [the Named Insured's] "Advertisement"

This was a new offense in the 1998 ISO Form which has continued to be used in subsequent forms. It states:

> f. The use of another's advertising idea in your "advertisement";

This is similar to the predecessor offense of "misappropriation of advertising ideas." *See* discussion *infra*, in Section E.1. Courts construing that offense have held that an advertising idea is "an idea for calling public attention to a product or business, especially by proclaiming desirable qualities so as to increase sales or patronage." *Atlantic Mut. Ins. Co. v. Badger Medical Supply Co.*, 191 Wis. 2d 229, 528 N.W.2d 486, 490 (Ct. App. 1995). Courts have also applied other definitions of advertising idea when construing the offense of "misappropriation of advertising ideas."

A significant number of courts have held that a trademark constitutes an advertising idea. *See, Cat Internet Servs., Inc. v. Providence Washington Ins. Co.*, 333 F.3d 138, 142 (3rd Cir. 2003) ("We now hold that when a complaint alleges that an insured misappropriates and uses trademarks or ideas in connection with marketing and sales and for the purpose of gaining customers, the conduct constitutes `misappropriation of an advertising idea or style of doing business' under Pennsylvania law."), *Frog, Switch & Mfg. Co., Inc. v. Travelers Ins. Co.*, 193 F.3d 742, 749 (3rd Cir.1999) ("A trademark depends for its effectiveness on communicating a message to consumers about the marked good, which is the essence of advertising, and therefore allegations of trademark infringement arguably allege misappropriation of an advertising idea."), *Adolfo House Distrib. Corp. v. Travelers Prop. & Cas. Ins. Co.,* 165 F.Supp.2d 1332, 1339 (S.D.Fla.2001) ("This court therefore concludes that allegations of trademark or trade dress infringement meet the CGL `advertising injury' definition of `advertising injury' under the definition sub-part for `misappropriation of advertising ideas or style of doing business.'"); *NGK Metals Corp. v. National Union Fire Ins. Co.*, Slip Copy, No. 1:04-cv-56, 2005 WL 1115925 (E.D. Tenn. Apr. 29, 2005) (unpublished) (under Pennsylvania law, "the use of another's trademark constitutes the use of another's advertising idea"). *But see Advance Watch Co., Ltd. v. Kemper Nat. Ins. Co.,* 99 F.3d 795, 802 (6th Cir.1996) ("[T]his court concludes, contrary to the district court's conclusion, that `misappropriation of advertising ideas or style of doing business' does not refer to a category or grouping of actionable conduct which includes trademark or trade dress infringement.").

Courts have held that a number of different intellectual property claims potentially trigger the "use of another's advertising idea." *See, e.g., Ohio Cas. Ins. Co. v. Albers Medical, Inc.*, No. 03-1037-CV-W-ODS, 2005 WL 2319820 (W.D. Mo. Sept. 22, 2005) (applying Missouri law) (the offense of "use of another's advertising idea in your 'advertisement'" was implicated by allegations the insured sold products labeled as the drug Lipitor when they were not Lipitor because, by labeling a substance as something that it is not, the insured used the claimant's idea for calling public/consumer attention to its product, thereby damaging the claimant); *Amazon.com, Inc. v. Atlantic Mut. Ins. Co.*, No. C05-00719RSM, 2005 WL 1711966 (W.D. Wash. July 21, 2005) (applying Washington law) (finding the offense of "misappropriation of advertising ideas or style of doing business" to have been implicated where the insured was alleged to have infringed multiple patents through use on its website of certain technology such as an electronic catalog system, customized electronic identification, and a virtual shopping cart for the purposes of advertising and soliciting business); *Native American Arts, Inc. v. Hartford Cas. Ins. Co.*, Nos. 03 C 7233, 03 C 7234, 2004 WL 2065065 (N.D. Ill. Sept. 10, 2004) (applying Illinois law), *aff'd*, 435 F.3d 729 (7th Cir. 2006) (finding the underlying complaint to have sufficiently alleged an "advertising injury" where the complaint alleged that the insured used a similar style of advertising as the claimants when they advertised Indian style goods in a manner suggesting that they were Indian products or produced by Indians); *J.A. Brundage Plumbing & Roto-Rooter, Inc. v. Massachusetts Bay Ins. Co.*, 818 F. Supp. 553 (W.D.N.Y. 1993), *vacated pursuant to settlement*, 153 F.R.D. 36 (W.D.N.Y. 1994) (misuse of another's trademark or trade name constitutes misappropriation of an advertising idea).

In *Air Engineering, Inc. v. Industrial Air Power, LLC*, 828 N.W.2d 565 (Wis. App. Jan. 3, 2013) (applying Wisconsin law), the insured was sued for trade secret misappropriation, breach of contract, breach of fiduciary duty and unjust enrichment for allegedly using the same website source code and content as found on the claimant's website and for misappropriating an "Internet Advertising System" ("IAS"). This IAS was allegedly developed by the claimant to advertise its products to the public in order to facilitate sales. The IAS was designed to direct persons to the claimant's advertising and links detailing product information, based on certain Google search terms entered by such persons. The court found that the alleged misappropriation of the "IAS" triggered the "use of another's advertising idea" offense because the system was an idea that called public attention to a product or business. With respect to the alleged misappropriation of the website source code and content, the court also found that such conduct triggered the "use of another's advertising idea" offense because the "content" of a website could be reasonably read as constituting or including an advertisement.

Not all efforts to shoehorn claims into this offense have met with success. *See Westport Reinsurance Mgt., LLC v. St. Paul Fire & Marine Ins. Co.*, 80 Fed. App'x 277 (3d Cir. 2003) (not selected for publication in the Federal Reporter) (applying New Jersey law) (allegations that the insured was involved in a scheme to steal an insurance policy developed by the claimant which integrated two certain types of coverage, its copyrights, confidential information, trade secrets, and intellectual property related to the design and development of the integrated policy at issue did not fall within the advertising offense of "misappropriation of an advertising idea" because the integration of two types of insurance policies creates a product, not an advertising idea or concept); *Trailer Bridge, Inc. v. Illinois Nat'l Ins. Co.*, 657 F.3d 1135 (11th Cir. 2011) (applying Florida law)(the Eleventh Circuit rejected the insured's argument that antitrust allegations fell within the "use of another's advertising idea" offense); *Gemini Ins. Co. v. Andy Boyd Co.*, 243 Fed.Appx. 814 (S.D. Tex. May 3, 2006) (applying Texas law) (allegations the insured misappropriated a customer list in the form of sales records were insufficient to state an "advertising injury" because sales records do not contain an "advertising idea"); *Walk v. Hartford Cas. Ins. Co.*, 382 Md. 1, 852 A.2d 98 (Ct. App. 2004) (unpublished) (applying Maryland law) (finding no "advertising injury" where underlying complaint merely alleged the insured used the claimant's business and marketing plans in the course of soliciting clients, but did not allege the insured copied any of its advertising ideas or styles in an "advertisement," because a business or marketing plan is not the same as an "advertising idea"); *Sorbee International Ltd. v. Chubb Custom Ins. Co.*, 735 A.2d 712 (Pa. Super. Ct. 1999) (rejecting the insured's characterization of the underlying suit as a claim for "misappropriation of advertising ideas," where the insured was sued for unfair competition based on its alleged wrongful use of the terms "low calorie," "sugar free," "fat free," and "cholesterol free" to describe its products because such terms were not sufficiently novel or original, but merely general terms used to describe the product).

Again, a critical component of this offense is that the conduct must be committed in the named insured's "advertisement." This element was addressed in *Continental Cas. Co. v. Consolidated Graphics Inc.*, 656 F.Supp.2d 650 (S.D. Tex. Aug. 28, 2009) (applying Texas law). In that case, the insured was sued for alleged misappropriation of trade secrets, customer lists and other proprietary information. The pricing information at issue included information about past "promotions given." Because "promotions given" was not further explained in the underlying complaint and because "promotion" is defined as the furtherance of the sale of merchandise through advertising, the court found that it was reasonable to read the complaint as alleging a misappropriation of an advertising idea and/or use of another's advertising idea for purposes of a duty to defend. However, the advertising nexus was not satisfied. The lynchpin of what constitutes an "advertisement" or "advertising" under a liability policy is that the alleged conduct must be widely disseminated to the general public. Hence, the direct solicitation and misappropriation of a competitor's customers is not advertising.

The underlying complaint did not allege that the insured advertised the misappropriated confidential information or used the information in connection with an advertisement. Therefore, no duty to defend was triggered.

D. Infringing Upon Another's Copyright, Trade Dress Or Slogan In Your "Advertisement."

1. Copyright Infringement

The Federal Copyright Act, 17 U.S.C.A. §101, *et seq.*, provides federal copyright protection for "original works of authorship fixed in any tangible medium of expression." "Original works of authorship" include literary works, musical works, dramatic works, pantomimes, choreographs, pictorials, graphics and sculptural works, motion pictures and sound recordings. Infringement of a copyright is the violation of any of the exclusive rights of the copyright owner, which include the rights of reproduction, adaptation, distribution, performance or display.

Considerable litigation has ensued over whether copyright infringement occurred "in the course of the insured's advertising," under the pre-1998 ISO forms. *See, e.g.*, *Teletronics International, Inc. v. CNA Ins. Co. /Transportation Ins. Co.*, 120 Fed. App'x 440 (4th Cir. 2005) (unpublished decision applying Maryland law) (insured's distribution of "knock-off" version of claimant's copyrighted installation manual, by posting it on its website, constituted advertising activity, therefore the causal nexus between the asserted infringing activity and the insured's advertising was satisfied); *General Cas. Co. of Illinois v. Four Seasons Greetings, LLC*, Nos. A04-518, A04-920, 2004 WL 2987796 (Minn. App. Ct. Dec. 28, 2004) (unpublished) (applying Minnesota law) (infringing activity occurred "in the course of" advertising because, according to the complaint, the insured infringed the claimant's copyright in part by "promotion and/or advertising" greeting cards bearing designs substantially similar to the claimants); *King v. Continental Western Ins. Co.*, 123 S.W.3d 259 (Mo. Ct. App. 2003) (applying Missouri law) (by itself, home construction is not advertising, but in this case, the insured's construction of a home in violation of the claimant's copyright was committed "in the course of" advertising because, according to the court, it was a necessary part of the insured's advertising).

However, in the 1998 and later policy forms the offense was modified to require that the infringement occur *in* the named insured's "advertisement" itself -- as opposed to "in the course of advertising." That has foreclosed much of this litigation.

In *Hartford Cas. Ins. Co. v. EEE Business Inc.*, Case No. C 09-018888 JSW, 2009 U.S. Dist LEXIS 104994 (N.D.Cal. Nov. 10, 2009) (applying California law), the court held that there was no duty to indemnify with respect to a judgment entered against the insured for copyright infringement because the infringement did not have any causal relationship with the insured's advertising. Rather, the insured infringed certain software copyrights by importing and selling the software in the United States when it was only licensed for sale abroad and to educational institutions.

In *PetroNet LLC v. Hartford Cas. Ins. Co.,* No. 10-3675, 2011 U.S. Dist. LEXIS 79893 (D. Minn. Jul. 21, 2011) (applying Minnesota law), the insured was sued for copyright infringement and breach of its contractual duties to maintain the claimant's confidential information and trade secrets. The owners of the insured had been hired by the claimant to construct a software interface between the claimant's billing and accounting software. The insured then allegedly began offering for sale an internet-based system that was strikingly similar to the claimant's billing software. The court held that the policy's copyright infringement offense was not implicated because the infringement was not alleged to have taken place in the insured's "advertisement." The court also found that to the extent the insured's advertisement on its website contained the claimant's unique numbering code convention, such use was not the direct or proximate cause of the alleged injury and, thus, did not implicate the policy's advertising injury coverage.

There is a fair amount of dispute on whether a claim for copyright infringement based on the copying of architectural designs can constitute copyright infringement in the named insured's advertisement. A number of courts have rejected the insured's claim for coverage on the basis that the claims at issue did not involve an advertisement of the architectural designs themselves. See, e.g., *Rhein Building Co. v. Gehrt*, 21 F. Supp. 2d 896 (E.D. Wis. 1998) (holding that although the property owner "erected signs advertising [property owner's] apartment buildings and that [property owner] advertised her properties in newspapers and brochures," the underlying claims for copyright infringement of architectural plans did not implicate "advertising injury" liability coverage because "there is not one scintilla of evidence in the record that the Defendants advertised their infringing drawings to the public"); *Constr. Mgmt. Sys., Inc. v. Assurance Co. of Am.*, 135 Idaho 680, 23 P.3d 142 (2001) (holding that underlying claims, alleging that the insured constructed four homes based on copyrighted architectural plans and technical drawings, did not implicate coverage because the claimed infringement was based on the construction of the homes, not the advertisement of the homes); *Nationwide Mut. Ins. Co. v. Bartlett*, 2000 Conn. Super. LEXIS 1360 (Conn. Super. Ct. May 23, 2000) (holding that claims alleging that the insured intentionally copied and used the plaintiff's copyrighted site and architectural plans for a senior housing project did not implicate coverage because "[the plaintiff] in its complaint does not assert that its copyright to its architectural plans was infringed as a result of [the insured's] advertising of the [project] to the public" but instead, the plaintiff's claim was based on the "the using and the altering of the architectural plans in connection with their submission….").

In *Mid-Continent Cas. Co. v. Kipp Flores Architects, LLC,* Nos. No. 14-50649, Consolidated with No. 14-50673 (per curiam decision, Feb. 15, 2015)(applying Texas law), the Fifth Circuit held that the insurer owed a duty to indemnify the insured for a copyright infringement claim based on the insured's unauthorized use of the claimant's architectural drawings for the construction and sale of houses, beyond the scope of the insured's license to use the drawings. The Court found that the copyright infringement was committed in the named insured's "advertisement" based on its determination that houses constructed based on infringing architectural designs constitute an "advertisement" as defined in CGL policies. The court noted that the policies did not define the terms "notice," "broadcast" or "published" as used in the definition of "advertisement." The court further noted that the policy did not limit the term "notice" to a writing or a website, and that the ordinary meaning of "publish" is "to make public or generally known" or "to make generally accessible or available for acceptance or use (a work of art, information, etc.); to present to or before the public." Thus the constructed house fell within that definition.

2. Trade Dress Infringement

Trade dress infringement was not an enumerated offense under the 1973 or 1985 versions of the advertising injury coverage. Policyholders however, were generally successful in arguing that trade dress infringement constituted "misappropriation of advertising ideas or style of doing business" under the earlier policy language. *See, e.g., St. Paul Fire & Marine Ins. Co. v. Advanced Interventional Systems, Inc.*, 824 F. Supp. 583 (E.D. Va. 1993), *aff'd*, 21 F.3d 424 (4th Cir. 1994); *Gemmy Industries Corp. v. Alliance General Ins. Co.*, 190 F. Supp. 2d 915 (N.D. Tex. 1998); *Industrial Molding Corp. v. American Mfrs. Mut. Ins. Co.*, 17 F. Supp. 2d 633 (N.D. Tex. 1998). S*ee also* discussion *infra* Part IV.D.1. *But see Advance Watch Co., Ltd. v. Kemper Nat'l Ins. Co.*, 99 F.3d 795 (6th Cir. 1996) (holding that "misappropriation of advertising ideas or style of doing business does not refer to a category or grouping of actionable conduct which includes trademark or trade dress infringement").

Trade dress infringement was added as an offense in the 1998 and later policy forms. Like copyright infringement, the infringement of trade dress must occur in the named insured's "advertisement."

Trade dress broadly refers to the overall image of a product. Section 43(a) of the Lanham Act (Federal Trademark Act), 15 U.S.C. §1051, *et seq.*, establishes a cause of action for unregistered trade dress infringement and seeks to protect the public from confusingly similar marks or product appearance. In order to sustain a cause of action under Section 43(a), a plaintiff must prove:

(1) that the two competing products are similar enough to create a likelihood of confusion among the consuming public;

(2) that the appropriated features of the allegedly copied product are nonfunctional; and

(3) that the trade dress is either inherently distinctive or has acquired a secondary meaning.

In determining whether the allegations of the underlying complaint constitute trade dress infringement, courts have analyzed the definition of the term "trade dress." *See, e.g., NGK Metals Corp. v. National Union Fire Ins. Co.*, No. 1:04-cv-56, 2005 WL 1115925 (E.D. Tenn. April 29, 2005) (unpublished) (applying Pennsylvania law) ("'[T]rade dress' includes the total look of a product and its packaging and even includes the design and shape of the product itself. Trade dress can encompass either part or all of the total image or overall impression created by a product or its packaging."). In *NGK Metals*, the court found that there was no potential for trade dress infringement because the complaint did not refer to the total look of the product, the total image or overall impression of the product, and did not refer to "the packaging, design or the shape" of the product. *Accord* In *Basalite Concrete Products, LLC v. National Union Fire Ins. Co.*, No. 2:12-civ-02814, 2012 U.S. Dist. Lexis 70597 (E.D. Cal. May 17, 2013) (applying California law)(court held that the trademark infringement allegations did not set forth a potential claim for "personal and advertising injury" arising out of infringement of trade dress in the insured's "advertisement" because the trademarked product name was not the "total image, design, and appearance of a product").

Policyholders have attempted to shoe horn other claims into the trade dress infringement offense. For example, in *KLN Steel Products Co., Ltd. v. CNA Ins. Cos.*, 278 S.W.3d 429 (Tex.App. [4th] 2008), the insured was sued for patent infringement, misappropriation of trade secrets, unfair business practices, unfair competition and interference with a prospective business relationship. The claimant alleged that the insured obtained, through improper means, confidential information pertaining to the design of a bed for use with a naval barracks. The court determined that a trade dress infringement has two elements: (1) the trade dress must be valid in that the public must recognize the design as distinguishable from that of others and the distinguishing design must be nonfunctional; and (2) the trade dress of the defendant's product is so similar to that of the plaintiff that it is likely to cause confusion as to the product's source. Because the underlying complaint did not allege that any feature or design of the subject bed was distinctive and non-functional, the underlying suit did not support a claim for trade dress infringement. Thus, the court concluded that the underlying suit did not allege the offense of "infringing upon another's copyright, trade dress or slogan in your advertisement."

In *West Trend, Inc. v. AMCO Insurance Co.*, No. CV 14-06872-RGK (PLAx), 2015 U.S. Dist. LEXIS 6807 (C.D. Cal. Jan. 9, 2015), however, the insured was successful in triggering a defense obligation under the trade dress infringement offense, even though the law suit did not contain a claim for trade dress infringement. The underlying complaint concerned a long sleeve shirt marketed and sold by the insured that contained stitching allegedly similar to the claimant's own recognizable design. The complaint contained causes of action for federal trademark infringement, false designation of origin, and unfair competition. The insured argued that the underlying lawsuit sought damages arising out of the infringement of the claimant's trade dress. The district court determined that there were sufficient facts in the complaint to potentially support a claim for trade dress infringement. The court reasoned that the stitching, lettering, and sleeve placement pertained to the total image of the clothing product.

Despite acknowledging the fact that, as a general principle of intellectual property law, trade dress infringement inherently involves advertising where the overall configuration of the product is alleged as trade dress, some courts have refused to hold that trade dress infringement inherently involves advertising when determining whether a complaint sufficiently alleges an "advertising injury" for purposes of coverage under a CGL policy. *See, e.g.*, *Westfield Cos.s v. O.K.L. Can Line*, 804 N.E.2d 45, 155 Ohio App. 3d 747 (Ct. App. 2003) (applying Ohio law) (disagreeing with the trial court's conclusion that trade dress infringement inherently involves advertising because "this abstract concept of intellectual property law does not govern whether [the allegations of the underlying complaint fall] under the 'personal and advertising injury' provisions of the [policy]" because the definition of "advertisement" in the policy requires a "notice" intended to attract customers).

Suits involving the sale and distribution of counterfeit products may have the potential to implicate the infringing of another's trade dress offense, if there are allegations that such infringement was committed in the named insured's "advertisement." See, e.g., *Middlesex Ins. Co. v. PBC Operations, L.P.,* 2009 U.S. Dist LEXIS 103728 (W.D. Texas, Nov. 5, 2009). There, the underlying suit involved allegations of civil conspiracy and unlawful importation, sale and distribution of counterfeit products in violation of RICO and the Lanham Act. While finding no duty to defend or indemnify on the trademark infringement claims, the court determined that the trade dress claim fell within the "personal and advertising injury" coverage and triggered a duty to defend.

Not all such efforts meet with success. In *America's Recommended Mailers Inc. v. Maryland Cas. Co.,* Case No. 08-41106, 2009 U.S. App. LEXIS 17320 (5th Cir. Aug. 4, 2009) (applying Texas law), the insured was alleged to have been engaged in a fraudulent scheme to sell financial services to older Americans that falsely claimed endorsement by AARP by sending out cards that included the AARP trademark. The insured conceded that trademark infringement did not fall within the "personal and advertising injury" offense of "infringing upon another's copyright, trade dress or slogan in an advertisement." It argued, however, that the underlying complaint's claims for misrepresentation and false advertising triggered a duty to defend as covered “trade dress” claims. The court disagreed because the AARP was not challenging the shape, design, color scheme, or any other aesthetic aspect of the cards or the similarity of the insured’s cards to any other advertisements for financial products. Rather, the AARP’s claims are each premised upon trademark infringement, which is not covered.

3. Infringement of Slogan

The ISO CGL policy forms do not define the term “slogan.” Courts have often struggled with determining whether certain phrases, names or references qualify as a slogan so as to trigger coverage. The following definition of slogan was adopted in *A Touch of Class Imports Ltd. v. Aetna Cas. & Sur. Co.*, 901 F. Supp. 175 (S.D.N.Y. 1995):

> English dictionaries generally define “slogan” as any word or combination of words that acts as an attention-getting device. I take judicial notice of the several following slogans: “We try harder;” “Just for the taste of it;” “You’re in good hands with Allstate;” and “Good to the last drop.”

Id. at 177. In that case, the insured was sued for trademark infringement by another company named "Touch of Class" The insurance policy covered "infringement of copyright, title or slogan" but excluded "infringement of trademark, service mark or trade name, other than titles or slogans." The court noted trademarks can be the color of an item, *e.g.* pink sugar substitute packets, the location of a patch on a pair of jeans, *e.g.* on the back hip of one brand of jeans, the scent of an item, *e.g.* that of a household deodorizing spray, and the design of a package, e.g., the wrapper of a candy bar. None of these trademarks involves the product's title or slogan." The court concluded that while it was a close question whether the phrase "Touch of Class" was employed as a "title and/or slogan," there was coverage because the plaintiff had "used that term as an attention-getting device for its jewelry."

In certain factual situations an insured may be able to successfully argue that the same activity constituting trademark infringement also implicates the covered offenses of infringement of title or slogan. For example, in *Finger Furniture Co. v. Travelers Indem. Co. of Connecticut*, No. H-01-2797, 2002 U.S. Dist. LEXIS 15351 (S.D. Tex. Aug. 19, 2002), the underlying complaint alleged that the plaintiff created and ran extensive national and regional advertising programs in print and on radio and television to promote its TRUE VALUE mark and thereby help its members to sell products in their stores. Further, the complaint alleged that the insured appropriated the TRUE VALUE mark to advertise its own goods, products and services. The court held that “TRUE VALUE” could certainly be considered a “title or slogan,” and an infringement of that mark potentially fit within the “advertising injury” offense of “infringement of copyright, title or slogan.” Construing the policy in the manner most favorable to the insured, the court held that “advertising injury” includes an injury arising out of trademark infringement. It followed then, the court stated, that the allegations of the underlying complaint triggered the insurer’s duty to defend.

In *Interstate Bakeries Corp. v. OneBeacon Ins. Co.*, 773 F. Supp. 2d 799 (W.D. Mo. Feb. 25, 2011) (applying Missouri law), the insured was sued for allegedly using the phrases “Nature's Pride” and “Nature's Choice” to advertise and promote its bread products, thereby allegedly infringing the claimant’s trademark “Nature's Own.” The insured argued that the underlying suit alleged claims for infringement of slogan and infringement of title. Specifically, the insured argued that the phrase “Nature’s Own” constituted both a slogan and title. Relying primarily on the Second Circuit decision in *Hugo Boss Fashions, Inc. v. Federal Ins. Co.*, 252 F.3d 608 (2d Cir. 2001), the court first determined that “Nature’s Own” constituted a trademarked name, and not a slogan. Additionally, because the subject policy defined the term “title” as “the caption or name of [any communication, regardless of its nature or form, including but not limited to advertising….],” the court determined that the phrase “Nature’s Own” constituted a brand name of a product, not the name of a communication as required by the policy’s definition of “title.” The *Interstate Bakeries* court also found that the policy’s unfair competition and infringement of trademark exclusions applied to preclude liability coverage for the insured.

Disputes may also arise as to whether the claim, although involving a slogan, actually seeks damages because of infringement of slogan. In *Santa’s Best Craft, LLC v. St. Paul Fire & Marine Ins. Co.*, No. 04 C 1342, 2004 WL 1730332 (N.D. Ill. July 30, 2004) (applying Illinois law), for example, a trade dress claim in the underlying complaint referenced four slogans from the claimant’s product packaging that were allegedly “copied” by the insured, along with other elements of its packaging. The insurer maintained that the trade dress claim was excluded from coverage, but the court found that even though the “slogans” may support a claim for trade dress infringement, they may also potentially yield a judgment for the claimant based on the insureds’ “unauthorized use of [the claimant’s] slogan,” separate and apart from the trade dress claims.

E. Enumerated Offenses Under Pre-1998 Policy Forms

1. Misappropriation of Advertising Ideas or Style of Doing Business (1985 Policy Form)

Prior to its inclusion in the 1998 and subsequent policy forms, trade dress infringement was not among the list of enumerated offenses giving rise to coverage for personal and advertising injury. Nevertheless, many courts equated trade dress infringement with the enumerated offense of “misappropriation of advertising ideas or style of doing business.” For example, in *Dogloo Inc. v. Northern Ins. Co. of New York*, 907 F. Supp 1383 (C.D. Cal. 1995), the United

States District Court for the Central District of California ruled that a claim of trade dress infringement potentially fell within a policy's coverage for misappropriation of advertising ideas or style of doing business. There, Doskocil, a manufacturer of dome-shaped doghouses, was sued by its competitor, Dogloo. Doskocil asserted various counterclaims against Dogloo, including a cause of action for unfair competition under the Lanham Act §43(a), based upon Dogloo's use of Doskocil's trade dress. The court found that the counterclaim for unfair competition, "more commonly known as 'trade dress' infringement," was covered under the offense of "misappropriation of advertising ideas or style of doing business" in the Northern policy and, therefore, denied Northern's motion to dismiss. This decision was based upon the court's review of numerous cases from various jurisdictions which have found that misappropriation of advertising ideas or style of doing business includes trade dress infringement:

> Given this abundant authority, the Court cannot say that the Northern Policy's coverage for misappropriation of advertising ideas or style of doing business does not potentially extend to Doskocil's counterclaim for trade dress infringement in violation of the Lanham Act. Indeed, the Court finds that Doskocil's allegations that Dogloo's use of "Doskocil's configuration trademark ... constitutes a false designation of origin and a false description or representation of goods," Counterclaim at P 94, fit squarely within the policy coverage for misappropriation of style of doing business. In essence, Doskocil alleges that Dogloo misappropriated its style of doing business by manufacturing, advertising, and selling a dome-shaped doghouse.

Id. at 1380. *See also St. Paul Fire & Marine Ins. Co. v. Advanced Interventional Systems, Inc.*, 824 F. Supp. 583 (E.D. Va. 1993), *aff'd*, 21 F.3d 424 (4th Cir. 1994); *Industrial Molding Corp. v. American Mfrs Mut. Ins. Co.*, 17 F. Supp. 2d 633 (N.D. Tex. 1998) .

Despite the "abundant authority" equating trade dress infringement with the "misappropriation" offense, the Sixth Circuit in *Advance Watch Co., Ltd. v. Kemper National Ins. Co.*, 99 F.3d 795 (6th Cir. 1996), in a lengthy decision, distinguished or rejected most of the above authority and held that "misappropriation of advertising ideas or style of doing business" does not refer to a category or grouping of actionable conduct which includes trademark or trade dress infringement." The court refused to hold that the enumerated offense refers only to the common law tort of misappropriation, but concluded that "it does refer to the unauthorized taking or use of interests other than those which are eligible for protection under statutory or common law trademark law." *Id.* at 804. *See also Callas Enterprises, Inc. v. Travelers Indem. Co. of America*, 193 F.3d 952 (8th Cir. Oct. 15, 1999) (applying Minnesota law) (adopting the Sixth Circuit's reasoning in *Advance Watch Co.* and holding that trademark infringement is not covered under the enumerated offense of "misappropriation of advertising ideas or style of doing business").

In situations where policyholders have argued that allegations of patent infringement implicate the offense of "misappropriation of advertising ideas or style of doing business," courts have focused their analysis on what the insured was alleged to have wrongfully "taken" as well as the advertising nexus. If the insured took an idea for soliciting business or an idea about advertising, then the court might find the claim to be potentially covered. But if the allegation is that the insured wrongfully took a patented product and tried to sell that product, then coverage is not triggered. *See, e.g.*, *Auto Sox USA, Inc. v. Zurich North America*, 121 Wash. App. 422, 88 P.3d 1008 (Ct. App. 2004) (applying Washington law) (allegations that the insured manufactured and sold a patented rooftop sign were not sufficient to trigger coverage because the court found that the alleged infringement occurred not in advertising, but in the manufacture and sale of the infringing product); *Amazon.com International, Inc. v. American Dynasty Surplus Lines Ins. Co.*, 120 Wash. App. 610, 85 P.3d 974 (Ct. App. 2004) (applying Washington law) (even though patent infringement arising from the manufacture of an infringing product is not an advertising injury even if the infringing product is used in advertising, "patent infringement may constitute an advertising injury where an entity uses an advertising technique that is itself patented;" thus, the court held that allegations the insured used the claimant's patented advertising technique for sampling music available for purchase over the internet conceivably alleged misappropriation of an idea concerning the solicitation of business and, therefore, fell within the misappropriation advertising injury offense). *But see, Discover Financial Services, LLC v. National Union Fire Ins. Co. of Pittsburgh, PA*, 527 F. Supp. 2d 806 (N.D. Ill. 2007) (applying Illinois law) (allegations the insured infringed a patent for a telephone call processing system were insufficient to implicate the "misappropriation" offense because "misappropriation of an advertising idea" must occur within the elements of the advertising itself, rather than in the product being advertised, and "misappropriation of . . . style of doing business" requires that a party wrongfully takes a company's comprehensive manner of operating its business, which is not implicated by allegations the insured misappropriated a patented automatic telephone operating system technology); *Transcontinental Ins. Co. v. Jim Black & Associates, Inc.*, 888 So. 2d 671 (Fla. Dist. Ct. App. 2004) (applying Florida law) (allegations the insured misappropriated the design of, manufactured, demonstrated and sold claimant's patented "plastic port assembly" were insufficient to trigger a defense obligation under the advertising injury offense of "misappropriation of advertising ideas or style of doing business").

There have been a recent "spate" of decisions involving patent infringement claims that address the "misappropriation of advertising ideas" offense. These cases not only demonstrate that there are circumstances where courts will find patent infringement claims to potentially fall within coverage, but also the fact that the "older" language is still being used in many policies.

Most notable among the recent decisions is *Hyundai Motor America v. National Union Fire Ins.*, 600 F.3d 1092 (9th Cir. 2010) (applying California law). The 9th Circuit reviewed an underlying suit against the insured for patent infringement. The method patent at issue was owned by the claimant and protected its rights in software that allowed customers of car manufacturers to "build your own car" by choosing desired features of a car and being presented a customized product proposal. The insured, a car manufacturer, allegedly infringed the patent by using a similar "build your own car" feature on its website. The court held that the insurer had a duty to defend the suit under the offense of "misappropriation of advertising ideas or style of doing business." The court reasoned that the patent was an "advertising idea," as it was a process or invention for displaying information to the public at large for the purpose of facilitating sales.

The court noted that the Ninth Circuit had generally rejected insureds' contentions in other cases that patent infringement was a misappropriation of an "advertising idea." The court distinguished those cases, noting that they generally complained of patent infringement in an insured's product, which was merely exposed in an advertisement. In this case, the court found that the patent was incorporated in and was part of the insured's advertisement.

In *Dish Network Corp. v. Arch Specialty Ins. Co.*, 659 F.3d 1010 (10th Cir. 2011) (applying Colorado law), the claimant alleged that the insured, a satellite TV provider, infringed upon its patents on automated phone systems by using the technology to perform pay-per-view ordering and customer service functions by telephone. The court found that the complaint left open the possibility that the insured's use of the technology included active promotion of products and held that the "misappropriation of advertising ideas" offense was implicated by the patent infringement claims, triggering a duty to defend. The court rejected the district court's finding that the patent infringement claims did not qualify as the misappropriation of an advertising idea because they did not allege that the insured incorporated patented technology as a substantive element of communications with its customers. The court reasoned that the complaint alleged the misappropriation of a means of providing content to customers, including advertising, which was sufficient to implicate the policy's advertising injury coverage.

2. Infringement of Title (Contained in 1973 and 1985 Policy Forms)

The infringement of title and slogan offenses have spawned considerable litigation, as have the very grouping of these intellectual property claims in the policy given rise to arguments by policyholders that other intellectual property claims of a similar nature should be afforded coverage. *See, e.g., State Farm Fire & Cas. Co. v. Steinberg*, 393 F.3d 1226 (11th Cir. 2004) (applying Florida law) (holding that allegations of trade secret misappropriation were not covered under the "infringement of title" offense).

Policyholders have had some success in arguing that allegations of trademark infringement implicate coverage for "advertising injury" arising from "infringement of title." For example, in *Union Ins. Co. v. Knife Co., Inc.*, 897 F. Supp. 1213 (W.D. Ark. 1995), the court held that an action for trademark infringement was covered under the heading "infringement of copyright, title or slogan." The policyholder allegedly sold its products under a name used by a competitor. The court based its holding upon the following definitions:

> A trademark is defined by statute as "any word, name, symbol or device or any combination thereof, adopted by a manufacturer to identify his goods and distinguish them from those manufactured and sold by others." 15 U.S.C. §1127. Similarly, a title is defined by Black's Law Dictionary as: "A mark, style or designation; a distinctive appellation; the name by which anything is known."

Id. at 1216.

Likewise, in *Charter Oak Fire Ins. Co. v. Hedeen & Cos.*, 280 F.3d 730 (7th Cir. 2002) (applying Wisconsin law), the insured allegedly used the underlying plaintiff's trademarks in connection with its own business activities, despite having no right, title or interest. The insured's policy did not list trademark infringement as an enumerated "advertising injury" offense. However, the insured claimed that trademark infringement was covered under the "infringement of copyright, title or slogan" offenses enumerated in the policy. The court noted that infringement of title presumably involves titles of books, songs, products, services, and so forth and was clearly not limited to the infringement of a non-copyrightable title of a creative work. Accordingly, the court held that the offense of "infringement of title" was broad enough to encompass claims of trademark infringement as alleged in the underlying complaint. *See also In Aearo Corp. v. American Int'l Specialty Lines Ins. Co.*, Case No. 1:08-cv-0604-DFH-DML, 2009 U.S. Dist. LEXIS 117823 (S.D. Ind. Dec. 17, 2009) (applying Indiana law)(in a suit involving the insured's sale and promotion of "knock offs," the court found that the allegations of trademark infringement potentially fell within the policy's "advertising injury" offense of "infringement of title" such that, absent an applicable exclusion, a duty to defend was owed by the insurer); *Houbigant, Inc. v. Federal Ins. Co.*, 374 F.3d 192 (3d Cir. 2004) (applying New Jersey law) (allegations the insured used the claimant's name to sell products not produced by the claimant and passed off the claimant's fragrance as his own product implicated coverage under the offense of infringement of a trademarked title; the court defined "trademarked title" as "any name, appellation, epithet or word used to identify or distinguish the trademark holders' goods from those manufactured or sold by others"); *Auto Owners Ins. Co. v. La Oasis, Inc.*, No. 2:04 CV 174, 2005 WL 1313684 (N.D. Ind. May 26, 2005) (applying Indiana law) (allegations the insured sold non Shell-branded and commingled Shell-branded and unbranded gasoline despite the continued presence of Shell-branded trademarks, colors and other Shell identifications on and about the insured's gas station were sufficient to trigger the insurer's duty to defend because trademark and trade dress infringement claims fell within the "advertising injury" offense of "infringement of title").

However, some courts have held that claims of trademark, service mark and trade name are not encompassed by the "infringement of copyright, title or slogan" offense. *See, e.g., Callas Enterprises, Inc. v. Travelers Indem. Co. of America*, 193 F.3d 952 (8th Cir. 1999) (applying Minnesota law) (holding that trademark infringement is not covered under the enumerated offense of "infringement of copyright, title, or slogan"); *Palmer v. Truck Ins. Exchange*, 21 Cal. 4th 1109, 988 P.2d 568 (1999) (holding that coverage for "infringement of title" will not be implicated unless a claim involves the name of a literary or artistic work, such as the title of a book); *Ross v. Briggs & Morgan*, 540 N.W.2d 843, 1995 Minn. LEXIS 1052 (Minn. 1995) (the court based its finding of no coverage upon the conclusion that allegations of the use of a trade name deceptively similar to that of a competitor are not covered by the phrase "infringement of copyright, title or slogan." The *Ross* decision, however, was also founded upon the court's characterization of the underlying action as one strictly for breach of contract); *see also RGP Dental, Inc. v. Charter Oak Fire Insurance Co.*, No. CA 04-445ML, 2005 WL 3003063 (D.R.I. Nov. 8, 2005) (applying Rhode Island law) (rejecting, as a "tortured reading" of the policy, the insured's attempt to characterize the underlying allegations of trademark infringement as essentially stating a claim for infringement of the claimant's legal right to exclusive use of the chair's protected seat design, after the insured argued the term "title" was ambiguous and could reasonably be interpreted to mean "legal right of ownership").

Infringement of title is still used in some policy forms. It was the subject of the court's discussion in *Interstate Bakeries Corp. v. OneBeacon Ins. Co.*, 686 F.3d 539 (8th Cir. 2012) (applying Missouri law). In that case, the insured's use of the trademarks "Nature's Pride" and "Nature's Choice" in connection with the sale of packaged breads was alleged to infringe upon the claimant's "Nature's Own" trademark which the claimant also used to market bread products. The insured was sued for trademark infringement, unfair competition, and unfair and deceptive trade practices. The court held that the allegations in the complaint did not give rise to a potential claim for "infringement of title or slogan." The policy defined "title" as the "caption or name of matter." The complaint alleged that the insured's products were marketed "under" the "Nature's Own" trademark, not that the mark was the title or name of the product. The court found that without a description or depiction of the bread wrapper in the record, it could not infer that the mark was used as a "title."

3. Piracy (Contained In 1973 Policy Form)

The 1973 ISO form provides coverage for claims of "piracy," while the 1985, 1998 and 2001 ISO forms deleted this offense from the policy.

The word "piracy" is basically a relic in common law, with no widely accepted meaning in modern intellectual property law. The term is sometimes applied to "the illegal reprinting or reproduction of copyrighted matter or to unlawful plagiarism from it . . . ." BLACK'S LAW DICTIONARY 1148 (6th Ed. 1990). Some dictionaries, however, include "patent infringement" within the definition of "piracy."

In *Iolab Corp. v. Seaboard Surety Co.*, 15 F.3d 1500 (9th Cir. 1994), the court was asked to determine if claims of patent infringement were covered under the "piracy" offense of the advertising injury liability coverage. The court ruled that there was no such coverage, focusing upon the missing causal connection between the advertising activity and the "piracy." The court stated:

> In the context of policies written to protect against claims of advertising injury, "piracy" means misappropriation or plagiarism found in the elements *of the advertisement itself* -- in its text form, logo, or pictures -- rather than in the product being advertised. Iolab's claim of piracy arising out of advertising has no basis because Dr. Jensen's claim was based on Iolab's infringement of his patent for the intraocular lens itself rather than on an element of Iolab's advertising of the lens.

Id. at 1506.

Likewise, the court in *Konami, Inc. v. Hartford Insurance Co.*, 326 Ill. App. 3d 874, 761 N.E.2d 1277 (App. Ct. 2002), held that allegations of direct and contributory patent infringement do not fall within the offense of "piracy" which was one of the offenses listed in the definition of "advertising injury" in the policy at issue. The court noted that some dictionaries defined "piracy" to encompass patent infringement. However, the court explained, the issue is not what "piracy" means in isolation, but what it means in the context of the insurance policy at issue. In this instance, piracy is expressly limited to an occurrence in the course of the insured's advertising activities. The court found that, as a matter of law, direct and contributory patent infringement are not offenses that occur in the course of one's advertising. Direct patent infringement refers to the making, using, or selling of a patented invention and contributory infringement is based solely on the sale of a patented component. Thus, the gravamen of a direct or contributory infringement of a patent is the making, using, or selling of a patented invention, not the advertising of it. Accordingly, such claims can not fall within the advertising injury" offense of piracy.

4. Unfair Competition (Contained In 1973 Policy Form)

The 1973 ISO form provides coverage for claims of "unfair competition," while the 1985 and later forms deleted this offense from the policy. In most instances where unfair competition is listed as an enumerated offense in the policy, it is not defined. Policyholders have used this fact to argue for a broad interpretation of unfair competition. Among the claims policyholders have tried to include under the heading of unfair competition are the following: trademark infringement, patent infringement, interference with economic advantage or contract, and product disparagement. *See, e.g.*, *Parameter Driven Software, Inc. v. Massachusetts Bay Ins. Co.*, 25 F.3d 332 (6th Cir. 1994) (trademark infringement); *Tews Funeral Home, Inc. v. Ohio Cas. Ins. Co.*, 832 F.2d 1037 (7th Cir. 1987) (slander); *Gencor Industries, Inc. v. Wausau Underwriters Ins. Co.*, 857 F. Supp. 1560 (M.D. Fla. 1994) (patent infringement); *New Hampshire Ins. Co. v. Foxfire, Inc.*, 820 F. Supp. 489 (N.D. Cal. 1993) (interference with economic advantage and misappropriation of trade secrets); *Walbrook Ins. Co., Ltd. v. UNARCO Industries, Inc.*, No. 90 C 5111, 1993 WL 42232, 1993 U.S. Dist. LEXIS 1731 (N.D. Ill., Feb. 17, 1993) (product disparagement). *In Rymal v. Woodcock*, 896 F. Supp 637 (W.D. La. 1995), the court, without explanation, construed an "advertising injury" endorsement that included the offense of unfair competition as ambiguous, and concluded that, as a result, underlying claims for unfair competition and patent infringement were covered.

A majority of the courts interpreting the enumerated offense of unfair competition have given the term a very narrow construction. *See, e.g.*, *Herman Miller, Inc. v. The Travelers Indem. Co.*, 162 F.3d 454 (6th Cir. 1998) (applying Michigan law) (when viewing the "unfair competition" offense within the context of the policy as a whole, patent infringement did not fall within the "unfair competition" offense). *Accord*, *Filenet Corp. v. Chubb Corp.*, 735 A.2d 1170 (N.J. App. Div. July 9, 1999) (court rejected insured's argument that the offense of unfair competition applied to an underlying action alleging patent infringement as the insured, by advertising its products, induced its customers to buy and use its products and, thus, used its advertising to induce others to infringe on the claimant's patents).

In *Bank of the West v. Superior Court (Industrial Indem. Co.)*, 2 Cal. 4th 1254, 833 P.2d 545, 10 Cal. Rptr. 2d 538 (1992), the California Supreme Court held that "unfair competition" is limited to its common law meaning of passing off one's goods as those of another; thus, it does not encompass statutory unfair business claims. Most courts have agreed that this term is limited to the common law definition of unfair competition which refers to the tort of "palming off" or "passing off" one's own goods as those of a competitor, and requires the following: (1) action between competitors, (2) resulting from the offense of "passing off," or "palming off," and (3) for which civil damages are sought. Further, as with all advertising injury coverage, there must be a causal connection between the enumerated offense and the insured's advertising activities. *See, e.g., Smartfoods, Inc. v. Northbrook Prop. & Cas. Co.,* 35 Mass. App. Ct. 239, 618 N.E.2d 1365 (App. Ct. 1993).

IV. <u>Intellectual Property Claims Which Policyholders Have Argued Are Covered Under The Personal And Advertising Injury Insurance</u>

This section addresses offenses which policyholders have asserted fall within the "advertising injury" or "personal and advertising injury" coverage despite the fact that the offense in question is not an enumerated offense. The success of policyholders to gain coverage for these non-enumerated offenses has varied and is usually based on the specific facts alleged in the complaint. Therefore, each claim should be carefully analyzed.

A. Patent Infringement

Policyholders have asserted that patent infringement claims fall within the scope of the enumerated offenses of "unfair competition," "piracy," "misappropriation of advertising ideas or style of doing business," and "infringement of copyright, title or slogan." *See, e.g.*, *Surgin Surgical Instrumentation, Inc. v. Truck Ins. Exch.*, 64 Cal. App. 4th 1409 (Ct. App. 1998) (holding that patent infringement does not fall within these definitions); *Auto Sox USA, Inc. v. Zurich North America*, 121 Wash. App. 422, 88 P.3d 1008 (Wash. Ct. App. 2004) (allegations of patent infringement insufficient to trigger coverage for advertising injury because the "infringement of copyright, title or slogan" offense was unambiguous and the cited terms therein were specific and related to well-known legal categories that did not include patent infringement, a distinct legal claim). Insureds have also attempted to categorize a patent infringement as "publication of material that disparages a person's or organization's goods, products or services" under the "personal injury" coverage. *See National Union Fire Ins. Co. of Pittsburgh, PA v. Seagate Tech., Inc.*, No. C 04-01593 JW, 2005 WL 756599 (N.D. Cal. April 4, 2005) (finding the duty to defend to be broad, the court found that a press release about the insured's new product, which allegedly misappropriated the claimant's proprietary technology, triggered coverage under the "personal injury" and "advertising injury" offense of "oral or written publication of material that slanders or libels a person or organization or disparages a person's goods, products or services").

A duty to defend has been found in circumstances where the complaint, although predominantly for patent infringement and other non-covered claims, contains allegations that the insured libeled or disparaged the products of the claimant. For example, in *Atlantic Mut. Ins. Co. v. J. Lamb, Inc.*, 100 Cal. App. 4th 1017, 1033, 123 Cal. Rptr. 2d 256 (2002), the underlying claimant, Continental, sought a declaration that a patent claimed by Lamb, a competitor of Continental, was invalid and unenforceable. The complaint also contained causes of action for statutory and common law unfair competition and tortious interference with prospective advantage. The complaint contained allegations that Lamb had communicated with a number of Continental's customers and falsely stated that Continental was infringing a patent owned by Lamb and that Lamb would pursue legal action against those customers who continued to purchase the infringing products sold by Continental. One of Lamb's insurers, Atlantic Mutual, denied coverage and filed a declaratory judgment action. The court determined that the complaint contained allegations that amounted to a denigration of Continental's products no less than if Lamb had claimed they were defectively designed or manufactured. The court, therefore, concluded that Atlantic Mutual owed a duty to defend Lamb in the patent infringement suit.

In the past, policyholder attempts to bring patent infringement claims within the scope of advertising injury coverage under the offense of "misappropriation of advertising ideas or style of doing business" were not successful. See, e.g., *Gencor Industries, Inc. v. Wausau Underwriters Ins. Co.*, 857 F. Supp. 1560, 1564 (M.D. Fla. 1994("It is nonsense to suppose that if the parties had intended the insurance policy in question to cover patent infringement claims, the policy would explicitly cover infringement of "copyright, title or slogan," but then include patent infringement, *sub silentio*, in a different provision, by reference to "unauthorized taking ... of [the] style of doing business"). S*ee also Mez Industries, Inc. v. Pacific National Ins. Co.*, 76 Cal. App. 4th 856, 90 Cal. Rptr. 2d 721 (Ct. App. 1999) (holding that inducement to infringe a patent does not trigger the advertising injury offense of "misappropriation of style of doing business," since it would be unreasonable to characterize inducement to patent infringement as being included, *sub silentio*, in the offense of "misappropriation of an advertising idea or style of doing business" where the policy explicitly covers infringements of "copyright, title or slogan," yet there is no mention of patents anywhere in the policy language defining advertising injury); *Fluoroware, Inc. v. Chubb Group of Ins. Cos.*, 545 N.W.2d 678 (Minn. Ct. App. 1996) (allegations that insured infringed patented product by making, using and selling patented disk packaging unit did not state claim for "misappropriation of advertising ideas or style of doing business," and did not trigger coverage as an advertising injury);

In situations where policyholders have argued that allegations of patent infringement implicate the offense of "misappropriation of advertising ideas or style of doing business," courts have focused their analysis on what the insured was alleged to have wrongfully "taken" and the advertising nexus. If the insured took an idea for soliciting business or an idea about advertising, then the claim is covered, but if the allegation is that the insured wrongfully took a patented product and tried to sell that product, then coverage is not triggered. This is exemplified in the court's discussion in *Discover Financial Services, LLC v. National Union Fire Ins. Co. of Pittsburgh, PA*, 527 F. Supp. 2d 806 (N.D. Ill. 2007) (applying Illinois law) (allegations the insured infringed a patent for a telephone call processing system were insufficient to implicate the "misappropriation" offense because "misappropriation of an advertising idea" must occur within the elements of the advertising itself, rather than in the product being advertised, and "misappropriation of . . . style of doing business" requires that a party wrongfully takes a company's comprehensive manner of operating its business, which is not implicated by allegations the insured misappropriated a patented automatic telephone operating system technology). *See* also, A*uto Sox USA, Inc. v. Zurich North America*, 121 Wash. App. 422, 88 P.3d 1008 (Ct. App. 2004) (applying Washington law) (allegations that the insured manufactured and sold a patented rooftop sign were not sufficient to trigger coverage because the court found that the alleged infringement occurred not in advertising, but in the manufacture and sale of the infringing product); *Amazon.com Int'l, Inc. v. American Dynasty Surplus Lines Ins. Co.*, 120 Wash. App. 610, 85 P.3d 974 (Ct. App. 2004) (applying Washington law) (even though patent infringement arising from the manufacture of an infringing product is not an advertising injury even if the infringing product is used in advertising, "patent infringement may constitute an advertising injury where an entity uses an advertising technique that is itself patented;" thus, the court held that allegations the insured used the claimant's patented advertising technique for sampling music available for purchase over the internet conceivably alleged misappropriation of an idea concerning the solicitation of business and, therefore, fell within the misappropriation advertising injury offense)*; see also Transcontinental Ins. Co. v. Jim Black & Associates, Inc.*, 888 So. 2d 671 (Fla. Dist. Ct. App. 2004) (applying Florida law) (allegations the insured misappropriated the design of, manufactured, demonstrated and sold claimant's patented "plastic port assembly" were insufficient to trigger a defense obligation under the advertising injury offense of "misappropriation of advertising ideas or style of doing business").

Even if a court considers patent infringement an enumerated offense, the most difficult obstacle for policyholders seeking coverage for patent infringement claims under the "advertising injury" liability coverage is the requirement that the offense occur in the course of the insured's advertising activities. For example, although the court in *National Union Fire Ins. Co. of Pittsburgh, Pa. v. Siliconix Inc.*, 729 F. Supp. 77 (N.D. Cal. 1989), initially ruled that the term "piracy" does include patent infringement, the court ultimately found there was no coverage, because direct patent infringement, by definition, does not occur in the course of advertising. *Accord Davila v. Arlasky*, 857 F. Supp. 1258 (N.D. Ill. 1994) (acknowledging that piracy and unfair competition might be construed as encompassing patent infringement, but ruling that the lack of a "causal connection" between the insured's advertising activity and the patent infringement was fatal to the insured's claim for coverage).

In *Everest Indem. Ins. Co. v. Allied Int'l Emergency LLC*, Case No. 4:08-CV-678-Y 2009 U.S. Dist. LEXIS 59792, 4:08-CV-678-Y (N.D.Tx July 14, 2009) (applying Texas law), the underlying action involved a patent infringement claim wherein the defendants were alleged to have intentionally caused others to infringe a patent. All that was alleged was the infringement of a patent in firefighting equipment, not the manner in which it has been advertised. The court held that the underlying complaint did not allege a causal connection between the alleged infringement of the patent and any advertisement by the insured. This alone, explained the court, was sufficient to remove the underlying complaint from the policy's coverage for "personal and advertising injury" caused by an offense arising out of the business of the insured, which requires "but-for" causation. However, the court found that the allegations did not fall within the offense of "use of another's advertising idea in your advertisement" in any event. In so holding, the court rejected the insured's argument that use of an advertising idea could be satisfied by allegations of infringement of a method patent such that the infringer may seen as passing off the method as its own.

Recently policyholders have been successful in claiming coverage for patent infringement suit sunder the misappropriation of advertising ideas offense. In *Hyundai Motor America v. National Union Fire Ins. Co. of Pittsburgh, PA,* 600 F.3d 1092 (9th Cir. 2010), the underlying lawsuit involved allegations by Orion IP, LLC ("Orion"), a patent holding company, that Hyundai's website had features that violated patents held by Orion. These patents allegedly covered a "build your own vehicle" feature on the Hyundai website and a parts catalogue feature, both of which allowed users to navigate a series of menus that resulted in the provision of customized information in response to user input. Orion claimed that the implementation of these "build your own" ("BYO") features constituted patent infringement.

Hyundai sought a defense from its insurer. The Ninth Circuit agreed with the insured's claim that the allegations of the complaint fell within the offense of "misappropriation of advertising ideas" and that the advertising nexus was satisfied as the BYO feature on the website was "advertising" to the public at large even though it created custom proposals. *See also*, *Dish Network Corp. v. Arch Specialty Ins. Co.*, 659 F.3d 1010 (10th Cir. 2011) (applying Colorado law).

In *U.S. Fire Ins. Co. v. Cyanotech Corp.*, No. 12-00537, 2013 U.S. Dist. Lexis 152160 (D. Haw. Oct. 23, 2013) (applying Hawaii law), the insured was sued for patent infringement with respect to a certain drug compound called astaxanthin, tortious interference with a business relationship, and breach of confidentiality agreement. The underlying patent infringement claim alleged, in part, that the insured advertised certain products that infringed the claimants' patent. The insured argued that such allegations of advertising implicated the "use of another's advertising idea" offense. The court disagreed and determined that the underlying patent claim related to the insured's use and administration of astaxanthin. The court found that the underlying claim did not allege any misappropriation, sale, offer, or use of the claimant's advertising idea, nor did the underlying claim relate to any method of advertising.

Notably, an intellectual property exclusion was added to the 2001 and later ISO policy forms which expressly excludes coverage "personal and advertising injury" arising out of the infringement of patent. That exclusion should foreclose coverage for claims involving patent infringement liability.

B. Trademark Infringement

Infringement of another's slogan in your [the named insured's] "advertisement" is an enumerated offense under the definition of "personal and advertising injury." Slogans often are trademarked. Thus, there are clearly circumstances where the standard form "personal and advertising injury" coverage will be potentially implicated for a trademark infringement claim.

Even in the absence of a slogan, many courts have otherwise found that trademark infringement potentially falls within the offense of "misappropriation of advertising ideas or style of doing business." See, e.g., *J.A. Brundage Plumbing & Roto-Rooter, Inc. v. Massachusetts Bay Ins. Co.,* 818 F. Supp 553 (W.D.N.Y. 1993) *vacated pursuant to settlement*, 153 F.R.D. 36 (W.D.N.Y. 1994)(court found that trademark infringement fell with the enumerated offenses of "misappropriation of advertising ideas or style of doing business" and "infringement of copyright, title or slogan)" *American Employers' Ins. Co. v. DeLorme Publishing Co., Inc.*, 39 F. Supp. 2d 64 (D. Me. 1999) (the district court held that claims of trademark infringement potentially arose out of the offense of "misappropriation of advertising ideas or style of doing business," however the court found there was no duty to defend based on an exclusion to coverage); *Carnival Brands, Inc. v. American Guar. & Liab. Ins. Co.*, 726 So. 2d 496 (La. Ct. App. 1999) (claims of trademark infringement potentially alleged the offenses of "misappropriation of advertising ideas or style of doing business" and "infringement of copyright, title or slogan")."

Notably, an intellectual property exclusion was added to the 2001 and later ISO policy forms - which expressly excludes coverage for "personal and advertising injury" arising out of the infringement of trademark. That exclusion should preclude coverage for liability arising out of trademark infringement ***except for*** claims based upon infringing upon another's slogan in the named insured's "advertisement."

C. Trade Secret Misappropriation

Many courts have held that trade secret misappropriation does not trigger the "personal and advertising injury" coverage because the misappropriation is not committed in the named insured's "advertisement. Not all courts agree.

In *Liberty Corp. Capital Ltd. v. Security Safe Outlet, Inc.*, No. 5:12-cv-178, 2013 U.S. Dist. Lexis 42975 (E.D. Ky. Mar. 27, 2013) (applying Kentucky law), the insured was alleged to have misappropriated the claimant-competitor's trade secrets by using the claimant's confidential client information to send e-mails to the claimant's customers, which advertised the insured's products and services. The insured allegedly obtained the claimant's customer lists through the claimant's former employee. The court held that the misappropriation claim implicated the "use of another's advertising idea in your 'advertisement'" because the e-mails to the claimant's customers constituted an "advertisement," or notice that is broadcast to a specific market segment about the insured's goods. The court went on to find that the "breach of contract" exclusion precluded coverage for the claim because the former employee of the claimant breached its non-compete agreement by working for the insured.

In *TetraVue, Inc. v. St. Paul Fire & Marine Ins. Co.*, D061002, 2013 Cal. App. Unpub. Lexis 5074 (July 19, 2013) (unpublished) (applying California law), the insured was sued for misappropriation of trade secrets and unfair business practices. The policy defined "advertising injury" in part as "injury ... caused by ... [the] unauthorized use of any advertising material ... of others in your advertising." The underlying claim alleged that the insured misappropriated certain trade secret and confidential materials, as well as non-confidential presentation materials belonging to the claimant. Although the underlying claim did not contain an express allegation that the insured misappropriated materials that constituted the claimant's advertising, the court nonetheless determined that the claim alleged facts that raised the inference or possibility that the insured misappropriated the claimant's advertising. Thus, the court determined that the insurer owed a defense obligation.

Notably, an intellectual property exclusion was added to the 2001 and later ISO policy forms - which expressly excludes coverage for "personal and advertising injury" arising out of the misappropriation of trade secrets.

IV. <u>Analysis of the Exclusions As They Pertain To Intellectual Property Claims</u>

A. Knowing Violation Of Rights of Another Exclusion

The 1998 and later ISO Forms each contain the following exclusion, which states that this insurance does not apply to "personal and advertising injury:"

> (1) caused by or at the direction of the insured with knowledge that the act would violate the rights of another and would inflict "personal and advertising injury."

This exclusion was designed to emphasize the fortuity element that is a part of every insurance contract. Although Coverage B covers intentional acts, it does not cover injury that was intentional. However, even if the facts in a complaint allege only intentional injury, some courts require the insurer to provide a defense if liability could attach absent a finding of intentional injury. For example, in *TIG Ins. Co. v. Nobel Learning Community, Inc.*, 2002 U.S. Dist. LEXIS 10870 (E.D. Pa. 2002), plaintiffs in the underlying action sued Nobel for willful copyright infringement, among other claims. TIG argued that "knowing violation" exclusion precluded coverage for the claim of *willful* copyright infringement. The court noted that when a complaint states a claim for intentional conduct, the insurer is nonetheless required to provide a defense where the claim could potentially sound in negligence. Plaintiffs alleged that Nobel's copyright infringement was intentional because Nobel copied materials with the knowledge that plaintiffs owned the copyright. However, reproducing copyrighted materials is actionable even if done innocently. Thus, even if plaintiffs did not prove that Nobel willfully infringed their copyright, the court could nonetheless award damages. Accordingly, the court found that the "knowing violation" exclusion did not bar coverage for Nobel. *Accord, AMCO Ins. Co. v. Lauren-Spencer, Inc.*, 500 F. Supp. 2d 721 (S.D. Ohio 2007) (applying Ohio law) (exclusion not applicable where underlying complaint alleged that the insured infringed on the claimant's copyright in various jewelry designs and featured its infringing products on display boards at trade shows, in brochure pictures, and in website pictures because the underlying complaint alleged negligent, as well as intentional, copyright infringement); *Central Mut. Ins. Co. v. Stunfence, Inc.*, 292 F. Supp. 2d 1072 (N.D. Ill. 2003) (applying Illinois law) (refusing to apply the exclusion because, to recover for its trademark infringement claims, the claimant need not demonstrate intentional or willful infringement); *Westfield Cos. v. O.K.L. Can Line*, 804 N.E.2d 45, 155 Ohio App. 3d 747 (Ct. App. 2003) (applying Ohio law) (despite allegations of intentional infringement, the knowledge of falsity exclusion was held not to apply because the claimant could have prevailed on its Lanham Act or common law trade dress infringement claims without proving intentional or knowing infringement); *CGS Industries, Inc. v. Charter Oak Fire Ins. Co.*, 720 F.3d 71 (2d Cir. June 11, 2013) (applying New York law)(court held that the policy's "infringement of title" offense was implicated for purposes of a duty to defend and rejected the insurer's argument that the allegations fell within the "knowing violation" exclusion, reasoning that while the insured's infringement was alleged to have been committed intentionally, trademark infringement claims under the Lanham Act do not require proof of intentional conduct); *Air Engineering, Inc. v. Industrial Air Power, LLC*, 828 N.W.2d 565 (Wis. Ct. App. Jan. 3, 2013) (applying Wisconsin law)(court found that the "knowing violation" exclusion did not apply to preclude a defense obligation because the underlying suit included claims for trade secret misappropriation, breach of fiduciary duty and unjust enrichment, which do not require a showing of actual knowledge or intent).

Not all courts agree that the knowing violations exclusion does not preclude coverage for willful infringement. In *Atlas Fencing v. The Hartford Ins. Co.*, No. CV-02-0468174 S, 2004 WL 1925892 (Conn. Super. Ct. July 23, 2004) (unpublished) (applying Connecticut law), the underlying complaint against the insured alleged claims of copyright infringement, trademark infringement and trade secret misappropriation arising out of the insured's alleged copying of a competitor's protected catalogues, theft of its confidential price books, and copying of its drawings and photographs as part of a "bait and switch" scheme whereby the insured showed its competitor's products in its catalogues as its own, and then actually sold customers products manufactured by the insured. The court found such allegations sufficient to potentially implicate coverage under the "infringement of copyright" offense. However, because the underlying complaint alleged willful copyright infringement, the court found coverage was precluded by the knowing violation exclusion. The court rejected the insured's argument that this exclusion was inapplicable to preclude coverage because the underlying complaint contained not only willful, but also non-willful copyright infringement allegations. While the court acknowledged that intent or willfulness is not a required element of copyright infringement, it found that the underlying complaint alleged only volitional acts committed by the insured for the copyright infringement cause of action. Copying and distributing copyrighted work of the owner connotes actions that are of the type expected to inflict an advertising injury and which were not accidental. *See also Dairy Source, Inc. v. Biery Cheese Co.*, No. 02-2994, 2003 WL 22964724 (Wis. Ct. App. Dec. 18, 2003) (applying Wisconsin law) (applying knowing injury exclusion to preclude coverage despite insured's argument that the alleged claims did not require that the insured intended to violate the rights of or injure the claimant, since there was simply no way to read these allegations other than as allegations that the insured did these things knowing they would violate the contractual and proprietary rights of the claimant); *Caremedic Systems, Inc. v. Hartford Cas. Ins. Co*., 2008 U.S. Dist. LEXIS 30370 (M.D. Fla. 2008), *aff'd*, 301 Fed. Appx. 864 (11th Cir. 2008)(application of the exclusion should be based on the allegations of the complaint; if intentional conduct is alleged, the exclusion is triggered).

The exclusion was also applied in *Marvisi v. Greenwich Ins. Co.*, No. 04 CV 6733 (TPG), 2006 WL 1422693 (S.D.N.Y. May 23, 2006) (applying New York law), in which claims against the insured building included allegations that he provided a safe haven from which his tenants sold counterfeit goods which violated the claimants' trademarks. Because the insured was alleged to have knowingly permitted his premises to be used for the sale of counterfeit and infringing goods, the claims fell within the knowing violations exclusion.

In *Custom Hardware Eng'g & Consulting, Inc. v. Assurance Co. of America*, 295 S.W.3d 557 (Mo. Ct. App. 2009) (applying Missouri law), the insured was sued for unfair competition and tortious interference with business relations. The underlying complaint contained a number of factual allegations of intentional misrepresentation and copyright infringement against the insured. The insurer argued that the knowing violation of another's rights exclusion applied to preclude "personal and advertising injury" liability coverage. As the underlying complaint contained only allegations of intentional conduct and was devoid of any allegation indicating that the insured had acted negligently, the court concluded that the knowing violation exclusion applied.

In *Burlington Ins. Co. v. Superior Nationwide Logistics, Ltd.*, No. H-09-2424. 2010 U.S. Dist. LEXIS 80648 (S.D. Tex. Aug. 10, 2010) (applying Texas law), the insured was an agent of the claimant under an agreement by which it booked freight transportation for the claimant's customers. The claimant accused the insured of violating their agreement by creating a competitive company in secret in the same office in which it did business for the claimant. The complaint alleged that these actions were part of a "deceitful, and preemptive strike," to capture as many of the claimant's customers as possible. As part of this plan, the insured falsely informed the claimant's customers that the claimant had gone out of business or that it had taken over the claimant's business. The court found that these statements fell within the scope of the "disparagement" offense of "personal and advertising injury." The court went on to find, however, that the statement was part of a purposeful plan that fell within the "knowing violation" exclusion. The court rejected the insured's argument that because liability for disparagement can ensue based on negligent behavior, the duty to defend could not be barred by the exclusion, as the allegations in the complaint were all based on the insured's intentional and deceitful plan of action.

In *Hartford Cas. Ins. Co. v. EEE Business Inc.*, Case No. C 09-018888 JSW, 2009 U.S. Dist LEXIS 104994 (N.D.Cal. Nov. 10, 2009) (applying California law), judgment was entered against the insured for copyright infringement based upon its importing and selling of software in the United States that was only licensed for sale abroad and to educational institutions. Because the insured was found to have knowingly engaged in an unlawful enterprise, the court found that the knowing violation exclusion precluded coverage and the insurer had not duty to indemnify the insured.

B. Knowledge of the Falsity Exclusion

All of the CGL policy forms exclude coverage for "personal and advertising injury" that is "committed by or on behalf of the insured with knowledge of its falsity." Prior to the inclusion of the knowing violations exclusion in 1998, this was the only exclusion that addressed intentional conduct. Several courts relied upon this exclusion as a basis to foreclose coverage for certain intellectual property claims. Other courts noted that the knowledge of the falsity exclusion did not fit squarely with the intellectual property claims at issue.

For example, at least one court emphasized that the exclusion requires direct assertions of untrue facts on the part of the insured, rather than simply conduct or statements giving rise to a false or misleading impression. Therefore, in *General Cas. Co. of Illinois v. Four Seasons Greetings, LLC*, Nos. A04-518, A04-920, 2004 WL 2987796 (Minn. Ct. App. Dec. 28, 2004) (unpublished) (applying Minnesota law), the court found that the knowledge of falsity exclusion was not applicable to allegations of copyright infringement arising out of the insured's alleged infringement of several greeting card designs.

Some courts have found that the exclusion does not apply to copyright and trademark infringement related claims because infringement does not render the publication "false." *See, e.g., Hyman v. Nationwide Mut. Fire Ins. Co.*, 304 F.3d 1179 (11th Cir. 2002); *Interface, Inc. v. Standard Fire Ins. Co.*, 2000 U.S. Dist. LEXIS 14019 (N.D. Ga. 2000) (holding that knowingly infringing a copyright does not make the publication false for purposes of application of the knowledge of falsity exclusion).

Some courts will not apply the exclusion to preclude coverage if the insured could be held liable for less than intentional conduct, notwithstanding allegations of solely willful conduct. *See ,e.g., Finger Furniture Co. v. Travelers Indem. Co. of Connecticut*, No. H-01-2797, 2002 U.S. Dist. LEXIS 15351 (S.D. Tex. Aug. 19, 2002); *Union Ins. Co. v. Knife Co., Inc.*, 897 F. Supp. 1213 (W.D. Ark. 1995); *Aearo Corp. v. American Int'l Specialty Lines Ins. Co.,* Case No. 1:08-cv-0604-DFH-DML, 2009 U.S. Dist. LEXIS 117823 (S.D. Ind. Dec. 17, 2009) (applying Indiana law); *Amco Ins. Co. v. Inspired Techs, Inc.,* 648 F.3d 875 (8th Cir. 2011)(applying Minnesota law).

Not all courts embrace that analysis. In *Pennsylvania Nat'l Mut. Cas. Ins. Co. v. Sharpe Images, Inc.*, No. 3:11-cv-150, 2012 U.S. Dist. Lexis 128749 (W.D.N.C. Sept. 11, 2012) (applying North Carolina law), the insured was alleged to have conspired to obtain proprietary information concerning the claimant's business, which it then provided to the claimant's competitor so it could make a competing product. The insured was also alleged to have marketed and advertised the product for the claimant's competitor. Each of the claims in the complaint alleged that the insured committed intentional conduct, including making "knowing" misrepresentations about the claimant's product, stealing the claimant's proprietary information, and intending to deceive customers and harm the claimant through its promotional and advertising materials. Based on these allegations, the court held that the "knowledge of falsity" exclusion precluded a defense and indemnity obligation. In so doing, the court rejected the insured's argument that there was coverage because the claim for unfair trade practices could be proven without intent or knowledge of the material's falsity. According to the Court, the insured's argument ignored the fact that the complaint only alleged intentional conduct. *Accord, Atlantic Mut. Ins. Co. v. Terk Technologies Corp.*, 309 A.D.2d 22, 763 N.Y.S.2d 56 (App. Div. 2003) (finding the "knowledge of falsity" exclusion to apply even though the underlying complaint did not contain express allegations of intentional trademark infringement by the insured because it was impossible for the court to envision how the allegations in the underlying complaint could not have been done unknowingly and unintentionally, since all of the allegations in the underlying complaint were premised on intentional, knowing conduct); *T.C. Dev. & Design Inc., v. Disc. Ramps.com, LLC,* Case No. 07-C-0861, 2011 U.S. Dist. LEXIS 36031 (E.D. Wis. Mar. 31, 2011) (applying Wisconsin law) (where the insureds allegedly willfully manufactured, used, and offered for sale products that directly copied and infringed upon another's products and based on the willful, deliberate and intentional conduct alleged in each of the causes of action, the court found that the "knowing violations" and "known falsity" exclusions applied to preclude coverage).

Courts have enforced the exclusion where the complaint leaves no doubt that the conduct was intentional and knowingly false. In *Del Monte Fresh Product, N.A. v. Transportation Ins. Co.*, 500 F.3d 640 (7th Cir. 2007) (applying Illinois law), the insured was sued in a series of class action lawsuits claiming fraud and antitrust violations arising out of the insured's marketing of its pineapples. Each of the complaints in the class action suits is based upon allegations that the insured knowingly submitted fraudulent patent applications, knowingly sent false letters to competitors regarding its patent rights, and knowingly engaged in fraudulent patent litigation. The complaints, the court explained, assert only conduct that is part of a knowingly fraudulent scheme by the insured in which the insured is alleged to have made certain knowingly false statements. The allegations and claims asserted require that, to prevail, the claimant must establish the insured's statements as knowingly false. The court found that the allegations of the complaints fall squarely within the exclusion for "personal injury" or "advertising injury" arising out of oral or written publication of material, if done by or at the direction of the insured, with knowledge of its falsity."

In reaching its holding, the *Del Monte* court rejected the insured's contention that certain claims in the complaints should fall outside of the "knowledge of falsity" exclusion because the statutes under which they are brought do not require proof of knowledge of falsity. The court noted that the claims against the insured were not grounded in any other theory of relief except fraud, even though they hypnotically could have been. Relying on the actual allegations in the complaints as pled, the court found the exclusion applicable because all of the claims actually asserted against the insured require a showing of knowledge of falsity.

This type of rationale was recently embraced in *Sletten & Brettin Orthodontics, LLC v. Continental Casualty Co.*, No. 13-2918 (8th Cir., Mar. 19, 2015). In that case the insured was sued for malicious defamation and intent to injure was specifically alleged. The insured argued that a Minnesota defamation claim does not require proof of intent to injure and, therefore, it was possible that the insured would be held liable on a theory that would not be excluded by the policy. The Court rejected this argument because even though such a showing was not required of the claimant, the court's interpretation was subject to the pleadings as they were made.

C. Prior Publication Exclusion

Many of the claims involving infringement of intellectual property rights and other unfair business practices involve conduct that continues for a substantial period of time. For that reason, the exclusion for "publication of material whose first publication took place before the beginning of the policy period" can be a significant exclusion. For example, an underlying patent infringement lawsuit was at issue in *Transportation Ins. Co. v. Pennsylvania Mfrs Assn. Ins. Co.*, Case No. 08-4815, 2009 U.S. App. LEXIS 21126 (3d Cir. Sept. 23, 2009) (applying Pennsylvania law) (unpublished). The suit contained allegations that the insured disparaged the plaintiff's product to customers of the plaintiff, which the court found to be covered under the disparagement offense. Ultimately, however, the "prior publication" exclusion was found to preclude any defense obligation.

Some attention has been focused on whether the prior publication exclusion applies where the materials at issue were published as part of an "ongoing tort," even though the first publication was before the beginning of the policy period. Courts have applied this exclusion to bar coverage where the first publication was made prior to the inception of any insurance coverage, despite the fact that the activity continued over a number of years and into the insurer's policy periods. *See*, *e.g.*, *Sam Z. Scandaliato & Associates, Inc. v. First Eastern Bank & Trust Co.*, 589 So. 2d 1196 (La. Ct. App. 1991), *appeal after remand*, 629 So. 2d 1347 (La. Ct. App. 1993), *writ denied*, 634 So. 2d 391 (La. 1994) (court held that where the underlying action for defamation was brought in 1984, prior to the inception of the insurer's initial insurance policy in 1985 and the renewals thereafter, the exclusion barred coverage under all policies although the defamatory conduct continued through 1988).

The insurer is required only to prove that the first publication occurred before the policy inception, not the exact date of the first publication in order for the exclusion to apply. In *Maxtech Holding, Inc. v. Federal Ins. Co.*, 202 F.3d 278 (9th Cir. 1999), Federal issued an insurance policy to Maxtech on October 31, 1996. Maxtech was sued by Maximum for infringement of the name "Maxtech." The court held that the first publication exclusion barred coverage for Maxtech. First, the underlying complaint alleged that Maxtech began using the infringing name in 1994. Additionally, Maxtech's marketing director admitted that it had spent substantial amount of money in 1994 to promote and advertise the name "Maxtech." Maxtech also received hundreds of e-mails dated January, February, and September 1996 complaining about "Maxtech" computer products, which were not sold by Maxtech. On September 25, 1996, Maxtech received a letter from Maximum demanding that it stop using the infringing mark. Though the evidence clearly demonstrated that the first publication occurred prior to policy inception, Maxtech argued that because Maximum failed to allege a specific date of infringement, Federal could not conclude with certainty that the first activity occurred before Federal issued the policy. The court disagreed, finding that the insurer is required only to prove that the first publication occurred before policy inception, not the specific date on which it occurred.

Other courts have considered whether the first published material must be the same as material published during the policy period. For example, in *Maddox* *v. St. Paul Fire & Marine Ins. Co.*, 179 F. Supp. 2d 527 (W.D. Pa. 2001), the court held that the first publication exclusion is only applicable where the injury caused by the prior publication is identical to the injury caused by the publication within the policy period. The underlying plaintiff, Sunny James Cvetnic, sued Maddox and his musical group for performing under his trademarked name the "Marcels." Cvetnic obtained a trademark registration number for the mark on June 25, 1996 and claimed first use of the mark on February 6, 1961. Maddox requested coverage under his CGL policy, which the insurer denied. In the declaratory action the insurer argued that the first publication exclusion applies if the material was first published prior to policy inception even if the prior publication did not cause injury. The court concluded that the exclusion language was ambiguous, alternatively providing that the prior publication must cause the same injury as the later publication for the exclusion to apply. Additionally, the court determined that a reasonable person would interpret the exclusion to mean that coverage does not exist for an injury only when there is wrongful publication before issuance of the policy. The court also noted that because other courts have held that the prior publication must cause the same injury as the later publication to preclude coverage, Maddox could reasonably believe that this interpretation was correct. Accordingly, the court held that the first publication exclusion precludes coverage only where the prior publication causes injuries identical to those of the later publication.

The insured in *Taco Bell Corp. v. Continental Cas. Co.*, 388 F.3d 1069 (7th Cir. 2004) (applying Illinois law), was alleged to have misappropriated the claimant's marketing gimmick referred to as the "Psycho Chihuahua" and used this idea in television commercials and in a national advertising campaign. The insured was also alleged to have used several specific commercial ideas provided by the claimant in its campaign. The insured sought coverage from two of its carriers, which issued coverage for successive policy periods. Without discussion, the court concluded that "it is apparent" that the underlying complaint alleges "advertising injury" defined in both policies at issue, in part, as "injury arising out of paid announcements in the…broadcast media resulting from …misappropriation of advertising ideals or style of doing business." However, the later carrier argued that the exclusion in its policy for "advertising injury" "arising out of oral or written publication of material whose first publication took place before the beginning of the policy period" precluded coverage under its policy because the insured's first advertisement using the "Psycho Chihuahua" idea ran before coverage under its policy began. In discussing the application of the prior publication exclusion, the *Taco Bell* court noted that had the insured merely rebroadcast during the insurer's policy period a commercial first broadcast prior to the inception of the policy, the exclusion would apply. However, this was not the case with respect to the commercials at issue.

The insurer in *Taco Bell* argued that while the commercials broadcast during its policy period may be different from the earlier ones, they used the same misappropriated design, namely the idea of the Chihuahua with attitude. That later commercials were different from earlier ones is not, in itself, decisive with respect to the prior publication exclusion, explained the court. At some point a difference between the republished version of an unlawful work and the original version would be so slight as to be immaterial. This, however, cannot save the insurer when the republication contains new matter that the claimant alleges as fresh wrongs, which is what was alleged in the underlying suit. The insured was alleged to have stolen the "basic idea" of the "Psycho Chihuahua" prior to the inception of the later policy at issue and used it in its earliest commercials. It was also alleged, however, that the insured stole additional, subordinate but still protected, ideas as well and incorporated them into the later commercials. The complaint charges the misappropriation of these subordinate ideas as separate torts, which the court stated occurred during the later policy period. Therefore, the prior publication exclusion was not applicable and did not preclude a defense or indemnity obligation by the later insurer.

The insured in *C.R. Bard, Inc. v. Liberty Mut. Ins. Co.*, 437 Fed. Appx. 128 (3d Cir. 2012) (unpublished) (applying New Jersey law), sought coverage for claims that it disparaged its competitor's hospital catheter products by telling prospective customers the catheters could foster the spread of antibiotic-resistant pathogens. At issue was whether coverage under the "disparagement" offense was barred by the "prior publication" exclusion due to the fact that the insured began making statements concerning the catheters in 1997, while the policies at issue incepted in 2003. The Third Circuit predicted that the New Jersey Supreme Court would interpret the "prior publication" exclusion as requiring the insured to publish material during the policy period that is substantively similar, but not identical, to material published prior to the policy period. Because the disparaging statements allegedly made by the insured prior to 2003 and after 2003 both referred to the lack of effectiveness of the competitor's catheter in preventing the spreading of disease, the court found that the statements were substantively similar. The exclusion thus precluded both a defense and indemnity.

In *Hanover Ins. Co. v. Urban Outfitters*, No. 12-cv-3961, 2013 U.S. Dist. Lexis 116889 (E.D. Pa. Aug. 19, 2013) (applying Pennsylvania law), the insured was sued for trademark infringement and disparagement of the claimant's products, based on the insured's unauthorized use of the trademarked "Navajo" and "Navaho" names in the insured's sale of its products in its catalogs and in its stores. The underlying claim alleged that the insured's first use of the trademarked names occurred in March 2009, which was prior to the July 7, 2010 inception date of the subject policy. The court determined that the "prior publication" exclusion applied to preclude "personal and advertising injury" liability coverage, as the complained of publication first took place before the inception of the policy. The court additionally determined that it was immaterial that the insured advertised other products using the "Navajo" and "Navaho" names during the policy period, because such later publications did not contain any “new matter” or substantively different content. Therefore, the court held that the insurer did not owe any defense or indemnity obligation.

The prior publication exclusion has also been applied to a claim for slander of a claimant’s title. In *Prolink Holdings Corp. v. Federal Ins. Co*., No. 11 C 300, 2011 U.S.Dist.LEXIS 119222 (N.D. Ill. Oct. 14, 2011) (applying Illinois law) the insured allegedly engaged in unfair competition and slander of the claimant’s title to a patent by falsely claiming that it owned the patent and assigning security interests in it to various lenders. Without determining whether the insured’s claims of ownership over the patent constituted defamatory statements that implicated the policy’s personal injury coverage, the court found that the prior publication exclusion applied. The insured’s assertions of patent ownership allegedly began a year before the start of the policy period.

The prior publication exclusion was held to preclude coverage for the underlying patent infringement lawsuit at issue in *Transportation Ins. Co. v. Pennsylvania Mfrs Assn. Ins. Co.*, Case No. 08-4815, 2009 U.S. App. LEXIS 21126 (3d Cir. Sept. 23, 2009) (applying Pennsylvania law) (unpublished) The complaint there alleged that the insured disparaged the plaintiff’s product to customers of the plaintiff beginning in 1999. The liability policy at issue in the coverage action incepted in April of 2000. There was no indication in the underlying complaint that the insured’s alleged misrepresentations changed in substance between when they were first made in 1999 and the filing of the underlying complaint. The court thus found the complaint’s allegations as falling squarely within the policy exclusion for “personal and advertising injury” arising out of “oral or written publication of material whose first publication took place before the beginning of the policy period.” In doing so, it noted that it was irrelevant that publications made after the inception of the policy may have also caused injury or increased damages unless such publications contained substantially different content such that they were “fresh wrongs” during the policy period.

Trade dress infringement claims can also be precluded from coverage by the prior publication exclusion. The insured in *United National Ins. Co. v. Spectrum Worldwide*, 555 F.3d 772 (9th Cir. 2009) (applying California law), was alleged to have engaged in trade dress infringement by deliberately making its product’s packaging and labeling so similar to the plaintiff’s product that it confused consumers and damaged the Plaintiff’s reputation. The insured sought indemnity for settlement of the trade dress claim. Without discussing whether the trade dress claim fell within the policy’s enumerated “misappropriation” and “infringement of copyright, title or slogan” “advertising injury” offenses, the court found any indemnity obligation precluded by the “prior publication” exclusion. The court affirmed the district court’s finding that the substance of the “advertising injury” claimed by the claimant were those elements found on the insured’s label in 1999 - prior to the policy’s effective date. The court precluded the insured from arguing otherwise on appeal based upon the doctrine of judicial estoppel as a result of its arguments in the district court.

D. Criminal Act Exclusion

Prior to the 1998 policy form, the typical CGL policy form excluded coverage for "'personal injury' and 'advertising injury' arising out of the willful violation of a penal statute committed by or at the direction of the insured." The 1998 policy form revised the exclusion to exclude coverage for "'personal and advertising injury' arising out of a criminal act committed by or at the direction of *any* insured." In the 2001 policy form, the criminal act exclusion was revised to exclude coverage for "'personal and advertising injury' arising out of a criminal act committed by or at the direction of *the* insured."

The criminal acts exclusion was applied in *Marvisi v. Greenwich Ins. Co.*, No. 04 CV 6733 (TPG), 2006 WL 1422693 (S.D.N.Y. May 23, 2006) (applying New York law). There, the claims against the insured building owner included allegations that he created a criminal nuisance by knowingly conducting and maintaining his premises as an illegal establishment where persons gathered to sell, purchase and possesses merchandise bearing counterfeit trademarks. Because such claims allege the insured created a criminal nuisance pursuant to New York Penal Law, the court found the "criminal acts" exclusion to preclude any defense or indemnity obligation owing by the insurer.

The criminal acts exclusion was also applied in *Rose Acre Farms, Inc. v. Columbia Cas. Co.*, 662 F.3d 765 (7th Cir. 2011) (applying Indiana law). There, the insured was alleged to have been engaged in an antitrust conspiracy to restrict supply and artificially inflate the price of eggs in violation of the Sherman Act and state law. Among other things, the conspirators allegedly artificially inflated egg prices by creating a certification program of "animal husbandry guidelines" under which only eggs produced in compliance with these guidelines were permitted to be marked as "certified." The Seventh Circuit held that a conspiracy to violate federal antitrust laws is a criminal act and, thus, is excluded from the policies' advertising injury coverage by the "criminal acts" exclusion.

However, even where the violation is willful, the exclusion does not bar coverage for violation of a statute for which there exists no criminal penalty. For example, in *Hyman v. Nationwide Mut. Fire Ins. Co.*, 304 F.3d 1179 (11th Cir. 2002), the underlying complaint alleged unfair competition in violation of §43(a) of the Lanham Act, 15 U.S.C. §1125(a). The Lanham Act claim alleged that the insured used artwork from the underlying plaintiff's brochures in its advertisements and designated its products using model numbers similar to those used by the plaintiff. The jury found for plaintiffs on the Lanham Act claim. The jury also found that the insured acted willfully. In the coverage action, the insurer argued that the exclusion in the policy for advertising injury "arising out of the willful violation of a penal statute or ordinance committed by or with the consent of the insured" applied to bar coverage. According to the court, however, the Lanham Act is not a penal statute. Thus, even a willful violation would not give rise to a criminal prosecution. Accordingly, the court held that coverage for the trade dress infringement claim was not precluded by this exclusion.

E. Breach Of Contract Exclusion

The breach of contract exclusion states:

This insurance does not apply to "personal and advertising injury":

> arising out of a breach of contract, except an implied contract to use another's advertising idea in your "advertisement."

Many courts have applied this exclusion to preclude coverage, where it was clear that liability was based on a breach of a pre-existing contractual relationship. For example, in *Callas Enterprises, Inc. v. Travelers Indem. Co. of America*, 193 F.3d 952 (8th Cir. Oct. 15, 1999) (applying Minnesota law), the complaint included causes of action for breach of contract, unfair competition, Lanham Act violation, defamation, and tortious interference with a business relationship and the policy excluded coverage for "advertising injury" "arising out of [b]reach of contract, other than misappropriation of advertising ideas under an implied contract." The court held that the phrase "arising out of" was clear and unambiguous and broadly barred coverage for "advertising injury" "originating from," "having its origins in," "growing out of," or "flowing from" a breach of contract and, as all the counts flowed from the breach of contract, coverage was barred by the exclusion. *See also, Perdue Farms, Inc. v. National Union Fire Ins. Co. of Pittsburgh, P.A.*, 197 F. Supp. 2d 370 (D. Md. 2002) (applying Maryland law) (finding the exclusion applicable where insured disclosed claimant's process for preparing, storing and reheating rotisserie style chicken, in violation of two confidentiality agreements); *Custom Machinery Design, Inc. v. West Bend Mut. Ins. Co.*, 182 Wis. 2d 511, 514 N.W.2d 879 (1994) (unpublished) (court applied the breach of contract exclusion to an insured's alleged breach of a license agreement, because "Our review of the pleadings leads us to conclude that FMC's [claims] had their genesis in the parties' contractual relationship, i.e., the 1985 license agreement and amendments thereto. In both suits, FMC sought to vindicate rights under the parties' licensing agreement. West Bend's insurance policies exclude coverage for injuries arising out of CMD's failure to perform a contract"); *Capitol Specialty Ins. v. Industrial Electronics, LLC*, No. 09-6368 (6th Cir. Jan. 12, 2011) (unpublished) (applying Kentucky law); *Looney Ricks Kiss Architects, Inc. v. Bryan*, 761 F. Supp. 2d 399 (W.D. La. 2010) (applying Louisiana law to a consolidated action); and *Advance Watch Co., Ltd. v. Travelers Prop. Cas. Co. of Am.*, No. 10 Civ. 3305, 2010 U.S. Dist. LEXIS 10974 (S.D.N.Y. Jan. 21, 2011).

However, in some cases, notwithstanding the contractual relationship between the parties, the court concluded that the "breach of contract" exclusion did not apply, because, in the court's view, the allegations against the insured did not arise out of a breach of contract. In other words, if the claim exists independently of the contract, the exclusion will not apply to preclude a defense obligation. For example, in *Hugo Boss Fashions, Inc. v. Federal Ins. Co.,* 1999 U.S. Dist. LEXIS 17016 (S.D.N.Y. 1999), Hugo Boss entered into an agreement with an unrelated company, Boss Manufacturing Company ("BMC"), in order to avoid customer confusion as to the origin of the products. Hugo Boss agreed not to sell gloves, mittens, and boots with the word "Boss." BMC later filed suit against Hugo Boss, alleging that Hugo Boss breached the agreement by selling these particular products with the word "Boss." The complaint also contained trademark infringement, unfair competition, and trademark dilution claims. After Federal denied Hugo Boss' request for a defense and indemnification in the underlying suit, Hugo Boss filed suit. Federal maintained that coverage was precluded by the breach of contract exclusion. Specifically, Federal argued that the trademark claims would not exist absent the agreement. Accordingly, these claims were "inextricably intertwined" with the breach of contract claim. The court rejected Federal's argument, noting that to determine whether the exclusion applies, the "arising out of" language in the exclusion is to be applied in the form of a "but for" test. In other words, for the exclusion to apply the claims may not exist "but for" the existence of the contract. In the underlying case, BMC's trademark claims did exist even absent the agreement or breach of that agreement.

Courts have also refused to apply the exclusion where the causal connection to the breach of contract was too remote. *See, e.g.*, *Assurance Co. of America v. J.P. Structures, Inc.*, 132 F.3d 32, 1997 WL 764498 (6th Cir. 1997) (unpublished) (finding the causal connection between the claims of trademark infringement and breach of licensing agreement too remote to apply the exclusion where the insurer argued, "but for" the breach of contract, the license agreement would not have terminated and the insured would not have lost the authority to use the trademark); *see also Zurich Ins. Co. v. Killer Music Inc.*, 998 F.2d 674 (9th Cir. 1993) (court disagreed with insurer's assertion that the "breach of contract" exclusion precluded its defense obligation relative to allegations that the insured's alleged infringement of copyrighted songs in contravention of a previously executed contract fell within the exclusion, because, in the court's view, the alleged copyright infringement sounded in tort and not necessarily in contract).

The court in *Bridge Metal Indus., L.L.C. v. Travelers Indem. Co.,* Case No. 10-CV-5235 (KMK), 2011 U.S. Dist. LEXIS 101093 (S.D.N.Y. Sept. 7, 2011) (applying New York law), found that the breach of contract exclusion did not preclude coverage under the facts alleged in the complaint. In that case, the insured was sued by National Lighting Company, Inc. ("National") for, among other things, trade dress infringement, false advertising and labeling, and breach of contract. The claim arose out of a relationship in which the insured manufactured and assembled lighting fixtures exclusively for National, pursuant to a confidentiality agreement. When the relationship ended, the insured was obligated to destroy or return the confidential information. However, instead, the insured allegedly used the confidential information to manufacture, market, and sell products identical to National's. The insured argued that such claims alleged the "advertising injury" offense of "infringement of copyright, title or slogan." Specifically, the insured argued that the underlying claims for trade dress infringement and unfair competition constitute infringement of title, and that such infringement was committed in the course of advertising the insured's goods, products or services.

The insurer argued, in part, that the breach of contract exclusion applied to preclude coverage, because the trade dress claims arose out of the insured's breach of its confidentiality agreement with the plaintiff. The court, however, disagreed with the insurer's argument and determined that the breach of contract exclusion did not preclude coverage for the trade dress claims. The court reasoned that the trade dress claims are independent of any contract and that such trade dress claims would exist even if the insured never entered into, or breached, the confidentiality agreement.

In *Liberty Corp. Capital Ltd. v. Security Safe Outlet, Inc.*, No. 5:12-cv-178, 2013 U.S. Dist. Lexis 42975 (E.D. Ky. Mar. 27, 2013) (applying Kentucky law), the insured sought coverage for misappropriation of trade secrets, breach of contract, violations of the Lanham Act, and other claims. The misappropriation claim alleged that a former employee of the claimant stole the claimant's client lists and went to work for the insured. The insured then allegedly began to e-mail the claimant's customers using the claimant's confidential client information. The court held that the "breach of contract" exclusion precluded coverage for the misappropriation claim because the claimant's former employee was alleged to have breached a non-compete agreement by working for the insured. The court noted that it did not matter that the insured was not a party to the contract and that a breach of contract claim was not filed against the employee.

The Lanham Act claim was based on the insured's alleged use of the claimant's "Buds Gun Shop" trademark in conjunction with its online sale of firearms. The insured and the claimant had entered into a licensing agreement under which the insured was allowed to use the mark, but only with respect to the sale of guns at a single retail store. The court held that the Lanham Act claim was also precluded from coverage by the "breach of contract" exclusion because the infringement was alleged to have arisen out of the breach of the parties' licensing agreement.

F. Quality Of Goods Exclusion

The "personal and advertising injury" coverage also contains an exclusion, which states that this insurance does not apply to "'personal and advertising injury' arising out of the failure of goods, products or services to conform with any statement of quality or performance made in your 'advertisement.'" The "quality exclusion" comes up most frequently where the insured is charged with false advertising. For example, in *Superformance International, Inc. v. Hartford Cas. Ins. Co.*, 203 F. Supp. 2d 587 (E.D. Va. 2002), Superformance was sued by defendants for infringing their Cobra trademark for kit cars, accessories, and automotive parts. In the underlying action, defendants alleged that Superformance made "misleading statements" that led consumers to believe that Superformance products were affiliated with the defendants. Though the court determined that the complaint supported a claim for false advertising, the court found that the quality exclusion included claims for false advertising. *See also Skylink Technologies v. Assurance Co.*, 400 F.3d 982 (7th Cir. 2005) (applying Illinois law) (Seventh Circuit applied exclusion where underlying complaint alleged the insured's advertisements were false or misleading in that Skylink's product was not "compatible" with Chamberlain's product, as claimed on Skylink's packaging, because Chamberlain's allegations were essentially that Skylink's product failed to conform with the "statement of performance" on its package, and thus squarely fell within the policy's quality exclusion); *Jarrow Formulas, Inc. v. Steadfast Ins. Co.*, Case No. 2:10-Cv-801-JST (SSx), 2011 U.S. Dist. LEXIS 40200 (C.D. Apr. 12, 2011) (applying California law)(court found that the complaint only alleged that the insured falsely advertised the benefits of the insured's own products and as such, fell within the quality of goods exclusion); *Dollar Phone Corp. v. St. Paul Fire and Marine Ins. Co.*, 12-cv-1770, 2013 U.S. App. Lexis 5065 (2d Cir. Mar. 14, 2013) (applying New York law)(insured was alleged to have advertised calling cards that offered fewer minutes than advertised; such allegations were found to clearly fell within the quality of goods exclusion); *Harleysville Ins. Co. v. Buzz Off, L.L.C.*, 690 S.E.2d 694, decision without published opinion No. 272A08 (N.C. S. Ct. Apr. 15, 2010) (applying North Carolina law); *AMCO Ins. Co. v. Inspired Techs., Inc.*, No. 08-5748, 2012 U.S. Dist. Lexis 87683 (D. Minn. June 25, 2012), *on remand from* 648 F.3d 875 (8th Cir. 2011) (applying Minnesota law).

The quality of goods exclusion was rejected in *Flodine v. State Farm Ins. Co.*, 2001 U.S. Dist. LEXIS 2204 (N.D. Ill. 2001). In that case, Flodine manufactured Native American products, which she in turn sold to J.C. Penney. Native American Arts and the Ho-Chunk Nation sued Penney's for violating the Indian Arts and Crafts Act of 1990, which prohibits the sale of products that suggest, falsely, that the products are Indian made. Penney's subsequently sued Flodine, alleging that she misrepresented the nature and origin of her goods. After State Farm denied Flodine's request to defend her in the action, Flodine filed a declaratory action. State Farm argued that Flodine's action fell within the quality exclusion to coverage. Specifically, State Farm maintained that the term "quality" included the meaning "attribute." In turn, "the representation that a product is an authentic Native American product is a 'quality' of that product." The court disagreed, noting that when the term "quality" is read in context, it's meaning is "excellence." Accordingly, the exclusion applies only to claims for failure of a product to "perform as well as advertised." The court recognized that trademarks and designations of authenticity may signify "excellence." However, both principally identify the source of the goods, rather than how the goods will perform.

Infringement of Copyright, Patent, Trademark or Trade Secret

The ISO intellectual property exclusion (referred to herein as the "IP exclusion") provides that the insurance does not apply to:

i. "Personal and advertising injury" arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights.

However, this exclusion does not apply to infringement, in your "advertisement," of copyright, trade dress or slogan.

There is no question that Coverage B of the CGL policy provides limited coverage for certain intellectual property offenses. Those offenses, listed in the definition of "personal and advertising injury," include the following:

- the use of another's advertising idea in your "advertisement"

- infringing upon another's copyright, trade dress or slogan in your "advertisement"

The IP exclusion first excludes coverage entirely for infringement of copyright and other intellectual property rights, then creates an exception to the exclusion for infringement of copyright, trade dress or slogan ***in the named insured's "advertisement."*** Those "excepted" intellectual property claims are, in fact, the offenses set forth in the definition of "personal and advertising injury."

More significant, from an insurer's point of view, is the fact that infringement of trademark, patent and trade secrets are specifically identified by name as risks that are excluded from the "personal and advertising injury" coverage.

Policyholders need to pay special attention to the wording of the IP exclusion set forth in the policy. Some insurers have started using more expansive versions of the IP exclusion that preclude coverage not only for IP claims, but also for any other claims that are contained in a suit which seeks damages arising, in whole or in part, out of any allegation of infringement or violation of copyright, patent, trademark or other intellectual property law. See *Comprehensive Microfilm and Scanning Services, Inc. v. The Main Street Am.*

Group, No. 3:11-cv-498, 2012 U.S. Dist. Lexis 54741 (M.D. Penn. Apr. 18, 2012). See also *Ventana Medical Systems, Inc. v. St. Paul Fire & Marine Ins. Co.*, No. CIV 09-102, 2010 U.S. Dist. LEXIS 42074 (D. Az. Apr. 28, 2010), aff'd in non-published opinion (Oct. 20, 2011, 9th Cir.) (applying Arizona law)(policy did not cover any injury arising from an infringement or violation of a patent, or any of the claims in a suit if the suit also contained a claim of patent infringement).

The court applied the IP exclusion to preclude coverage for a copyright infringement claim in *Hartford Cas. Ins. Co. v. EEE Business Inc.*, Case No. C 09-018888 JSW, 2009 U.S. Dist LEXIS 104994 (N.D.Cal. Nov. 10, 2009) (applying California law). In that case, judgment was entered against the insured for copyright infringement based upon its importing and selling of software in the United States that was only licensed for sale abroad and to educational institutions. The judgment was premised entirely on violations of intellectual property rights which were not committed in "advertisement." Thus, the court found, the intellectual property exclusion precluded any duty to indemnify the judgment. That exclusion precludes coverage for any alleged intellectual property right violations unless the infringement of copyright, slogan or title of literary or artistic works is "in your advertisement."

The court applied the IP exclusion to preclude coverage for an unfair competition and trademark dilution claim in *Marvin J. Perry, Inc. v. Hartford Cas. Ins. Co.*, No. 09-1639, 2011 U.S. App. LEXIS 4237 (4th Cir. Feb. 25, 2011) (applying Maryland law). The insured allegedly accessed the claimant's website to make it appear as if it was doing business under the claimant's trade name and that it was the owner of the website. The court held that the "IP exclusion" precluded coverage for both counts and that there was no duty to defend. The insured conceded that the trademark claim was precluded by the broad "IP Exclusion," but contended that the unfair competition claim was not because it alleged that the insured wrongfully usurped the claimant's style of advertising through use of different categories and images on the site, which was independent of any trademark infringement. The court disagreed, noting that there were no such allegations in the unfair competition count and it was clear that it was based entirely upon the insured's alleged use of the claimant's trademarked name. The fact that a bulk of the settlement agreement concerned the allocation of rights to the trade name supported the court's conclusion.

In *Citizen's Ins. Co. v. Uncommon LLC*, No. 10 C 7764, 2011 WL 3876936 (N.D. Ill. Aug. 31 2011) (applying Illinois law) the court found that the IP exclusion precluded coverage for infringement of its trademarked phrases "Uncommon Gifts" and "Uncommon Goods" in relation to its sale of customizable, mobile phone cases. The court concluded that the unfair competition and unjust enrichment claims would not have arisen but for the trademark infringement allegations and, thus, were precluded by the IP exclusion. The court also rejected the insured's argument that the exception to the exclusion for the infringement of another's slogan applied, finding that "Uncommon" was not a mere slogan or catchphrase but, rather, was the central component of the company name and brand.

Trade secret claims were found to be excluded by the IP exclusion in *S.B.C.C. v. St. Paul Fire & Marine Ins. Co.*, H034211 (Cal. App. 6th July 1, 2010) (applying California law). There, the claimant's former employee allegedly stole confidential client information, including project proposals and vendor preferences, to lure his former clients to do business with his new employer, the insured.

Not all courts read the IP exclusion broadly. In *Burgett, Inc. v. American Zurich Ins. Co.*, No. 2:11-cv-01554, 2011 U.S.Dist.LEXIS 135449 (E.D. Cal. Nov. 23, 2011) (applying California law), the insured was accused of trademark infringement and unfair competition. The insured held itself out as the rightful owner of the claimant's trademark, which the insured purported to license to its co-defendant. The co-defendant then used the trademark in conjunction with the sale of pianos. The insurer argued that the causes of action either alleged or were dependent on trademark infringement and, thus, were precluded from coverage by the IP exclusion. The court found that the exclusion did not apply because, while the complaint did not state an explicit claim for disparagement, based on its factual allegations, it could be amended to raise an indirect disparagement claim.

The IP exclusion contains an exception for "infringing upon another's copyright, trade dress or slogan in your 'advertisement'" or "use of another's advertising idea in your 'advertisement.'" If the allegations of the complaint fall within the exception to the IP exclusion, the exclusion will not apply. *See, e.g., Houbigant, Inc. v. Federal Ins. Co.*, 374 F.3d 192 (3d Cir. 2004) (applying New Jersey law); *AMCO Ins. Co. v. Lauren-Spencer, Inc.*, 500 F. Supp. 2d 721 (S.D. Ohio 2007) (applying Ohio law).

In *Hudson Ins. Co. v. Colony Ins. Co.*, 624 F.3d 1264 (9th Cir. 2010) (applying California law), exemplifies a suit where the court found the claims fell entirely within the exception to the IP exclusion. There, the insured was sued for trademark infringement, trademark counterfeiting, trademark dilution, unfair competition and deceptive acts and practices. It was alleged that the insured sold counterfeit National Football League jerseys. The complaint specifically alleged that the insured sold a "Steel Curtain Limited Edition Steelers Jersey" on its website, which read "Steel Curtain" across the back of the jersey and listed the numbers of four Pittsburgh Steelers players. The insurer denied owing a defense obligation to the insured, on the basis that the policy contained an IP exclusion and that the underlying suit did not expressly allege a claim for slogan infringement. The court disagreed. The court reasoned that because the term "steel curtain" constitutes a slogan, the underlying suit alleged facts potentially supporting a slogan infringement claim, and therefore, the insurer owed a defense obligation to the insured. The court added that the insurer owed a defense obligation despite the fact that the underlying suit did not expressly allege that the claimant had ownership rights or otherwise had standing to enforce slogan rights for "steel curtain."

Sanderson v. Zurich American Ins. Co., 2010 U.S. Dist. LEXIS 128360 (M.D. Fla. Dec. 6, 2010) (applying Florida law), involved some claims that were precluded by the IP exclusion and others that fell within the exception. There, the insured was sued for false designation of origin, cyber piracy, trademark dilution, copyright infringement, violation of the Digital Millennium Copyright Act, injury to business reputation, deceptive and unfair trade practices, unfair competition, misappropriation, and conversion. The suit alleged that the insured wrongfully used the domain names of a former employer for the insured's own competing practice. Additionally, using the same domain names, the insured launched websites nearly identical in appearance to the websites used by his former employer. In denying that it owed an indemnity obligation to the insured, Zurich asserted that the IP exclusion applied to preclude coverage. The court found the IP exclusion did not preclude liability coverage for the copyright and DCMA claims because the exception to the IP exclusion applied, in that the insured's alleged copyright infringement (*i.e.*, the insured's copying and distributing of the employer's copyrighted website) occurred in an "advertisement" (*i.e.*, through a website available to the general public). However, the court found that the IP exclusion applied to preclude coverage for the remaining claims against the insured, because each of the remaining claims was predicated on the insured's deceptive use of a registered trademark.

G. Publishing, Media, and Internet Business Exclusion

The 1998 ISO Form contains the following exclusion applicable to "personal and advertising injury":

> This insurance does not apply to:
>
> a. Personal and Advertising Injury
>
> Committed by an insured whose business is advertising, broadcasting, publishing or telecasting. However, this exclusion does not apply to Paragraphs 14.a., b. and c. of "personal and advertising injury" under the Definitions Section.

This exclusion was expanded in the 2001 ISO CGL form to state:

> This insurance does not apply to:
>
> j. Insureds in Media and Internet Type Businesses

"Personal and advertising injury" committed by an insured whose business is:

(1) Advertising, broadcasting, publishing or telecasting;

(2) Designing or determining content of websites for others; or

(3) An Internet search, access, content or service provider.

However, this exclusion does not apply to Paragraphs 14.a., b. and c. of "personal and advertising injury" under the Definitions Section.

For the purposes of this exclusion, the placing of frames, borders or links, or advertising, for you or others anywhere on the Internet, is not by itself, considered the business of advertising, broadcasting, publishing or telecasting.

The 1998 CGL policy form included paragraph (1) of Exclusion j. in the 2001 policy form, relating to insureds whose business involved advertising, broadcasting, publishing or telecasting. The insureds in that line of business should procure media, broadcasters or publishers liability policies to cover their enhanced risk in the media-related marketplace. The media exclusion was expanded in the 2001 form to include web-site designers and Internet search, access, content or service providers. This addition recognizes that these types of insureds also present a heightened risk of "personal and advertising injury," which should be addressed by separate insurance products. Accordingly, like those policyholders in the business of advertising, broadcasting, publishing or telecasting, those in the website and internet businesses are excluded from coverage under Exclusion j. and must obtain publishers or internet liability coverage for these risks, if they so choose.

ISO added an exception to exclusion j. for those placing frames, borders or links, or advertising on the Internet, specifying that these types of activities are *not* regarded as media-related for the purposes of the exclusion.

In addition, like the 1998 ISO form, the media and internet business exclusion does not apply to the following offenses set forth in the definition of "personal and advertising injury":

a. False arrest, detention or imprisonment;

b. Malicious prosecution;

c. The wrongful eviction from, wrongful entry into, or invasion of the right of private occupancy of a room, dwelling or premises that a person occupies, committed by or on behalf of its owner, landlord or lessor.

Litigation surrounding this exclusion has centered on the scope of the definition of "business," as part of the exclusionary language, "whose *business* is advertising, broadcasting, etc." For example, in *American Employers Ins. Co. v. DeLorme Publishing Co., Inc*., 39 F. Supp. 2d 64 (D. Me. 1999), the underlying complaint alleged that the insured, DeLorme Publishing Co., Inc. ("DeLorme"), is a company that "principally engages in the design, printing, and sale of atlases and maps, in the development and sale of computer mapping software and databases, and, recently, in the design and sale of hardware that can be used in conjunction with its computer mapping software." DeLorme argued that, for purposes of the exclusion, the court should draw a distinction between an insured who is "in the publishing business" and an insured "whose business is publishing." DeLorme contended that the exclusion was ambiguous because it was unclear whether the language applied to an insured whose sole business fell within the four areas, or whether the exclusion also encompassed insureds whose business, in part, included one of the four areas. Though DeLorme admitted it was in the business of publishing, it argued that the exclusion did not apply to bar coverage for an underlying complaint that alleged trademark infringement because publishing is not its sole business. Though the court acknowledged that contract rules of construction require the court to construe an ambiguous provision in favor of the insured, the court held the language in the exclusion was not ambiguous. Therefore, the language would be construed in accordance with its plain and commonly accepted meaning.

The court held that the phrase "insured whose business is ... publishing" clearly applied to "insureds whose primary, essential, chief or principal business is publishing." The court gave the following illustrative example:

> Most, if not all, businesses are engaged in multiple areas of business even if they primarily practice in one area. For instance, a company that primarily manufactures goods likely advertises those goods and perhaps even publishes a catalog featuring those goods. A person of ordinary intelligence would still accurately describe this company as a company that is in the business of manufacturing.
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> * * *
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> By not qualifying the phrase "in the business" to include even "in the business in part," the parties did not broaden the reach of the exclusion to include insureds whose ancillary activities include one of the four listed areas. Hence, in this context, to be "in the

> business" of one of the four listed areas plainly means to be more than merely engaged in part and clearly means to be at least primarily engaged in that activity.

The court held that its interpretation was in accordance with the exclusion's purpose which is "to avoid the significantly greater risk of the misappropriation and infringement subsets of 'advertising injury' liability incurred by insureds who are in the advertising business, and with respect to the defamation and privacy subsets of advertising injury, incurred by insureds who are in the publishing business."

The court rejected the insured's argument that the exclusion did not apply to the particular facts at issue because the claim did not arise out of DeLorme's publishing activities, but rather, out of its hardware which is manufactured. Though the court disputed DeLorme's characterization of its activities, it also found that the exclusion differentiated between insureds, and not between advertising injuries that arise out of publishing activities and those that do not.

The court held that, in a given case, it may be possible that a question of fact exists as to whether the insured is primarily engaged in the business of one of the four listed areas. In this case, however, the court found no question of fact existed because DeLorme admitted it was principally engaged in the design, printing, and sale of atlases and maps and in the development of computer mapping software and databases and that all such activity constituted "publishing." The court held that "publication" means "[t]he act of publishing a book, periodical, map, piece of music, engraving, or the like." Therefore, the court held that DeLorme admitted it was principally engaged in the business of "publishing," its name further attested to its business, and the insurer did not have a duty to defend.

In *Dish Network Corp. v. Arch Specialty Ins. Co.*, 989 F. Supp. 2d 1137 (D. Colo. Oct. 22, 2013) (applying Colorado law), the insureds were sued for patent infringement of certain telephone technology. The insureds were primarily engaged in the business of providing satellite television programming. The court found that even if the underlying claims alleged "personal and advertising injury," the exclusion for "personal and advertising injury" arising out of an offense committed "by an insured whose business is advertising, broadcasting, publishing or telecasting" would apply to preclude coverage. Specifically, the court found that the insureds' business constituted "broadcasting" and "telecasting" as used in the exclusion. The court noted that the exclusion applies to limit an insurer's exposure to mass media-type injuries.

a. Electronic Chatrooms or Bulletin Boards

The 2001 ISO form, under Paragraph 2.k., also excludes coverage for:

k. "Personal and advertising injury" arising out of an electronic chatroom or bulletin board the insured hosts, owns, or over which the insured exercises control.

Where policyholders host a chatroom or bulletin board, they open themselves up to liability for any disparaging, defamatory or derogatory comments made by third parties over whom they have no control. This exclusion was added as a separate category in the new ISO form in light of recent case law imposing liability on hosts of chatrooms or bulletin boards where they are responsible for the contents published within the chatroom or bulletin board.

j. Unauthorized Use of Another's Name or Product

Under Paragraph 2. l., the 2001 policy does not provide insurance for:

l. Unauthorized Use Of Another's Name Or Product

"Personal and advertising injury" 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.

This exclusion was added to the CGL policy as a result of growing concern about individuals using the Internet to divert others' business. These particular types of tactics are plainly intentional in nature.

This exclusion was applied in *Sanderson v. Zurich American Ins. Co.*, 2010 U.S. Dist. LEXIS 128360 (M.D. Fla. Dec. 6, 2010) (applying Florida law). There, the insured was sued for false designation of origin, cyber piracy, trademark dilution, copyright infringement, violation of the Digital Millennium Copyright Act, injury to business reputation, deceptive and unfair trade practices, and unfair competition, misappropriation, and conversion. It was alleged that the insured wrongfully used the domain names of a former employer for the insured's own competing practice. Additionally, using the same domain names, the insured launched websites nearly identical in appearance to the websites used by his former employer. In denying that it owed an indemnity obligation to the insured, the insurer asserted that the "Unauthorized Use Of Another's Name" exclusion applied to preclude coverage. The court found that this exclusion applies to the unauthorized use of another's domain name, and therefore, held that the exclusion applied to preclude coverage for the copyright infringement and DCMA claims asserted against the insured. *Accord*, *Collegesource, Inc. v. Travelers Indem. Co.*, 507 Fed. Appx. 718 (9th Cir. Feb. 11, 2013) (unpublished) (applying California law).

In *St. Luke's Cataract and Laser Institute v. Zurich American Ins. Co.*, 506 Fed. Appx. 970 (11th Cir. Feb. 7, 2013) (applying Florida law), the insured was sued for false designation of origin, cyber piracy, trademark dilution, copyright infringement, violation of the Digital Millennium Copyright Act, and injury to business reputation, among other claims. The insured was alleged to have wrongfully used the domain names of his former employer for the websites of his own competing practice. The websites were also alleged to have almost the same appearance, content, layout, and design as the former employer's website. Reversing the lower court, the Eleventh Circuit held that the exclusion for injury "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" did not preclude a duty to defend. The court reasoned that the use of the claimant's website content was not the same as the "use of another's name or product" and, further, the infringing conduct was found not just on the insured's "e-mail address, domain name or metatag," but on the website itself. The court also rejected the insurer's argument that the "other similar tactics to mislead another's potential customers" language incorporates copyright infringement on a website because, if it did, it would "swallow" the preceding, narrower language.

k. Recording or Distribution of Material Exclusions

In the last decade, hundreds of cases have been filed across the country alleging violations of the Telephone Consumer Protection Act ("TCPA") based upon defendants' faxing unsolicited advertisements to businesses and consumers. These claims were tendered by policyholders to their insurers, seeking coverage under the "personal and advertising injury" coverage. Policyholders claimed that the "fax blasting" claims fell within the offense of "oral or written publication of material that violates a person's right of privacy." Courts took conflicting views on this issue. However, as the insurers never intended that such claims would be covered, insurers began widespread use of a "TCPA exclusion" which was endorsed onto policy forms. In 2007, the "TCPA" exclusion became a part of the policy form itself. That exclusion states:

> **p. Distribution Of Material In Violation Of Statutes**
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> "Personal and advertising injury" arising directly or indirectly out of any action or omission that violates or is alleged to violate:
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> **(1)** The Telephone Consumer Protection Act (TCPA), including any amendment of or addition to such law; or
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> **(2)** The CAN-SPAM Act of 2003, including any amendment of or addition to such law; or
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> **(3)** Any statute, ordinance or regulation, other than the TCPA or CAN-SPAM Act of 2003, that prohibits or limits the

sending, transmitting, communicating or distribution of material or information.

In 2013, the exclusion was broadened to include Fair Credit Reporting Act (FRCA), and the Fair and Accurate Credit Transactions Act (FACTA). In that policy form the exclusion provides:

p. Recording And Distribution Of Material Or Information In Violation Of Law

"Personal and advertising injury" arising directly or indirectly out of any action or omission that violates or is alleged to violate:

(1) The Telephone Consumer Protection Act (TCPA), including any amendment of or addition to such law; or

(2) The CAN-SPAM Act of 2003, including any amendment of or addition to such law; or

(3) The Fair Credit Reporting Act (FRCA), and any amendment of or addition to such law, including the Fair and Accurate Credit Transactions Act (FACTA); or

(4) Any statute, ordinance or regulation, other than the TCPA CAN-SPAM Act of 2003, or FCRA and their amendments and additions, that addresses, prohibits or limits the printing, dissemination, disposal, collecting, recording, sending, transmitting, communicating or distribution of material or information.

This exclusion has been effective in precluding coverage for claims seeking damages or injunctive relief based on violations of the Telephone Consumer Protection Act (TCPA). See, e.g., *Collective Brands, Inc. v. National Union Fire Ins. Co. of Pittsburgh, P.A.*, No. 11-4097-JTM, 2013 U.S. Dist. Lexis 1338 (D. Kan. Jan. 4, 2013) (applying Kansas law); *MDC Acquisition Co. v. North River Ins. Co.*, No. 5:10-cv-2855, 2012 U.S. Dist. Lexis 144876 (N.D. Ohio May 15, 2012) (Magistrate's report and recommendations), *adopted by* 2012 U.S. Dist. Lexis 139229 (Sept. 27, 2012) (applying Ohio law); *Collective Brands, Inc. v. National Union Fire Ins. Co. of Pittsburgh, Pa.*, No. 11-4097-JTM, 2013 U.S. Dist. Lexis 1338 (D. Kan. Jan. 4, 2013) (applying Kansas law),

Courts have also been called upon to test the exclusion's applicability to other statutory claims before it was expanded in 2013. For example, in *Creative Hospitality Ventures, Inc. v. United States Liab. Ins. Co.*, 655 F.Supp.2d 1316 (S.D.Fla. 2009) (applying Florida law), the insured was alleged to have violated the Fair and Accurate Transaction Act ("FACTA") by providing to a credit card holder a receipt bearing the card's expiration date and more than five digits of the account number. The court found that a duty to defend was precluded under one of the policies at issue by an exclusion for "personal and advertising injury" arising "directly or indirectly out of any act or omission that violates or is alleged to violate…any statute, ordinance or regulation, other than the TCPA or CAN-SPAM Act of 2003, that prohibits or limits the sending, transmitting or communicating of material or information." The FACTA, the court explained, is a statute that limits information that can be printed on a receipt and, therefore, falls within the scope of this exclusion.

The court distinguished the applicable exclusion from that which was contained in another policy at issue which precluded coverage for "personal and advertising injury" arising out of "any actions or omission that violates or is alleged to violate the TCPA or CAN-SPAM Act of 2003…or any analogous locate, state or federal statute, ordinance or regulation…" The FACTA was intended to protect an interest in secrecy of cardholder information, the court explained. In contrast, the TCPA and CAN-SPAM Act protect an interest in seclusion or the right to avoid intrusions into private domain. Thus, FACTA is not "analogous" to the TCPA and/or CAN-SPAM Act and, therefore, the claim for violation of FACTA does not fall within the scope of this other exclusion.

Courts have also been asked to test the exclusion's application to non-statutory claims involving the same conduct as the TCPA. In *Axiom Ins. Managers, LLC v. Capitol Specialty Ins. Corp.*, No. 11-cv-4736, 2012 U.S. Dist. Lexis 87972 (N.D. Ill. June 21, 2012) (applying Illinois law), the insured, an insurance program administrator, was sued several times by one of its competitors for allegedly disseminating false information about the competitor's financial condition in an attempt to siphon the competitor's business. The complaints alleged claims of defamation, tortious interference with business relationships, disparagement, civil conspiracy, and violations of the Texas Insurance Code. The court held that the policy's exclusion for "personal and advertising injury" arising out of a violation of "any statute, ordinance or regulation . . . that prohibits the sending, transmitting, communicating or distribution of material information," applied to the Texas Insurance Code claims but not the defamation claim. While the defamation claim was based on the same conduct as the Texas Insurance Code claim, the court stated that it was not aware of any case law supporting the proposition that the exclusion may apply to non-statutory claims based on conduct which violates a statute concerning the transmission of material information. The court concluded the insurer had a duty to defend the underlying suits.

However, in *GM Sign, Inc. v. Auto-Owners Ins. Co.*, No. 301742, 2012 Mich. App. Lexis 1983 (Mich. App. Oct. 11, 2012) (applying Michigan and Illinois law), the insured was alleged to have sent unsolicited fax advertisements and was sued for conversion, violation of the Telephone Consumer Protection Act, and violation of the Illinois Consumer Fraud and Deceptive Trade Practices Act. The court found that the policy's exclusion for the "personal and advertising injury" arising out of the "distribution of material that violates the Telephone

Consumer Protection Act or… any statute ordinance or regulation … that prohibits or limits the sending, transmitting, communicating or distribution of material or information" applied to preclude coverage for all claims, not just the TCPA cause of action. The court explained that the conversion and consumer fraud claims arose from the same conduct that underlies the TCPA claim and, therefore, the exclusion applied to also preclude coverage for those claims. Accord, G. M. Sign, Inc. v. Schane (State Farm Fire & Cas. Co.,), 985 N.E.2d 685 (2nd Dist. 2013), *review denied.*

In *Oregon Mut. Ins. Co. v. Rain City Pizza, LLC*, No. 67471-4-1, 2013 Wash. App. Lexis 46 (Wash. App. Jan. 14, 2013), the insured was sued for violation of the Telephone Consumer Protection Act, violation of Washington statutes relating to unsolicited text messages, and negligence. The insured was in the business of operating various Papa John's pizza stores. The insured allegedly hired a third-party marketing company, which compiled the names and phone numbers of the insured's customers and then sent text messages to those customers advertising the insured's Papa John's stores. The underlying suit alleged that the insured was responsible for the claimants' injuries because the insured negligently allowed the text messages to be sent and/or were vicariously liable for their transmission. The court agreed with the insurer's argument that the exclusion for "personal and advertising injury" arising out of "any act or omission that violates or is alleged to violate the Telephone Consumer Protection Act or… any statute, ordinance or regulation … that prohibits or limits the sending, transmitting, communicating or distribution of material or information," applied to any act or omission that violates the foregoing laws, regardless of whether the insured actually committed such act or omission. In other words, although the insured was not alleged to have actually sent the text messages, the court construed the exclusion as applying to the underlying claims for negligent supervision and vicarious liability. Therefore, the court found that the insurer did not owe any duty to defend or indemnify the insured.

In *Big 5 Sporting Goods Corp. v. Zurich Am. Ins. Co.*, 2013 U.S. Dist. Lexis 100757 (C.D. Cal. July 10, 2013) (applying California law), the insured was sued in multiple class actions for infringing customers' privacy rights by requesting, recording and publishing customers' zip codes in connection with credit card transactions in violation of the Song-Beverly Act of 1991. The underlying suits included claims for common law negligence and invasion of privacy. The court initially found that the underlying claims implicated the "personal and advertising injury" offense of "oral or written publication … of material that violates a person's right of privacy." However, the court found that the "statutory violations" exclusions applied to preclude any "personal and advertising injury" liability coverage because all of the underlying claims related to the alleged violation of the claimants' privacy rights that were created by statute, and which were not based on common law. Accordingly, the court determined that the insurers did not owe any duty to defend or indemnify the insured.

In *Encore Receivable Management, Inc. v. ACE Prop. & Cas. Ins. Co.*, No. 1:12-cv-297, 2013 U.S. Dist. Lexis 93516 (S.D. Ohio July 3, 2013) (applying Ohio law), the insureds were sued for recording the claimants' telephone conversations without their consent. The claimants were various Hyundai customers. The insureds were in the business of operating customer call centers for clients. The court found that the distribution of material in violation of statute exclusion did not apply to preclude "personal and advertising injury" liability coverage because the claimants did not receive any unsolicited communications, but instead, specifically made calls to the insureds' customer call centers. Therefore, the court found that the insurer owed a duty to defend.

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