Featured Article

Insurance Coverage For Intellectual Property Infringement. Part 3 of 4 in a Series

Contributed by:
Robert D. Chesler and Cindy Tzvi Sonenblick, Lowenstein Sandler PC

The insurance industry introduced "advertising injury coverage" in 1976, providing significant coverage for intellectual property infringement. In 2002, after repeated revisions to the advertising injury provision, the insurance industry introduced an almost absolute intellectual property infringement exclusion. The history of the insurance industry's failure successfully to offer IP infringement coverage in the commercial general liability policy is symptomatic of that policy's general failure to adapt to new risks during the past 30 years. Instead, the insurance industry has introduced niche policies to fill the gaps created by new exclusions in the general liability policy, including the new cyber-policies. The challenge now for the insurance industry is to offer meaningful IP infringement coverage in these new policies while avoiding another flood of coverage litigation.

The key coverage grant of the 1976 advertising injury provision provided coverage for "infringement of copyright, title, slogan, trademark, service mark or trade name," and "unfair competition or piracy . . . in the course of advertising." This coverage had one overall problem: the insurance industry left all of the key terms undefined. "Advertising" itself was undefined, and soon became the subject of litigation. While terms such as "copyright" and "trademark" had settled meanings, the term "unfair competition or piracy" did not, leading to substantial litigation over the breadth of that coverage, including over whether it encompassed patent infringement.

For example, the insurance policy in *John Deere Insurance Company v. Shamrock Industries*, 696 F.Supp. 434 (D. Minn. 1988) required that the injury for which the insured sought coverage resulted from "advertising injury." In this case, the insured had sent three letters to a potential buyer describing the strength of its machine, and also held demonstrations of the machine on the premises of the potential purchaser. The insurer argued that advertising injury required "public or widespread distribution of the alleged [advertising] material" and that the demonstrations and letters were selling activities that did not constitute "advertising" to the public at large. *Id.* at 439 (citations omitted). The court disagreed. It looked at dictionaries and other sources that gave very broad definitions of advertising. The court found the term "advertising activity" ambiguous, and applied the rules of insurance contract construction. The court stated that if the insurer had wanted to narrow the definition of advertising to widespread public dissemination, that it would have explicitly done so. In the absence of such a restriction, the court held that advertising could reasonably be interpreted to include letters sent to a single customer.

In 1986, the insurance industry introduced a new version of advertising injury coverage, providing coverage for "copyright, slogan, or title infringement;" "misappropriation of advertising ideas or style of doing business . . . in the course of advertising." Once again, the insurance industry made the same mistake of failing to define key terms. "Advertising" still remained undefined. While the insurance industry deleted "trademark, service mark or trade name" from the coverage, it did not include an exclusion for those categories of infringement. The policy continued to contain very broad undefined terms. Despite the deletion of trademark, insureds claimed with significant success that 'misappropriation of advertising ideas or style of doing business' included trademark infringement.

In *Lebas Fashion Imports of USA, Inc. v. ITT Hartford Insurance Group,* 50 Cal. App.4th 548 (1997), the insured, Lebas, was sued for trademark infringement. The insurance policy provided coverage for "the misappropriation of advertising ideas or style of doing business." *Id.* at 554. The policy did not contain an intellectual property exclusion. The insurer denied coverage. Lebas filed

suit, and Hartford moved for summary judgment. The court granted Hartford's motion, and the appellate court reversed.

The appellate court first took notice of the prior definition of advertising injury, which included piracy and unfair competition and expressly excluded trademark infringement. The court noted that not only had the terms been changed, but the insurer had deleted the exclusion for trademark infringement. The court also noted that the key terms of "misappropriation," "advertising idea" and "style of doing business" were not defined in the policy.

Hartford argued that the term "misappropriation" referred only to the common law tort and not to federal statutory issues. Lebas argued that the lack of a definition made the terms ambiguous. The court found that there was no evidence that the parties intended to use the policy terms in a technical way, and that these terms were subject to multiple reasonable meanings and connotations, and were therefore ambiguous. However, the court ultimately found coverage, concluding that:

> When read in light of the fact that a trademark infringement could reasonably be considered as one example of *a* misappropriation, and taking into account that a trademark could reasonably be considered to be part of either an advertising idea or a style of doing business, it would appear objectively reasonable that "advertising injury" coverage could now extend to the infringement of a trademark. *Id.* at 565.

In the succeeding years, the insurance industry introduced newer versions of advertising injury coverage that had mixed success in reducing coverage. In *Villa Enterprises Management, Ltd. v. Fed. Insurance Co,* 360 N.J. Super. 166, 175 (App. Div. 2005), the policy limited IP coverage to "infringement of copyrighted advertising materials or infringement of trade-marked or service marked titles or slogans." The policy specifically excluded coverage for "trademark, or service mark or certification mark or collective mark or trade name, other than trademarked or service marked titles or slogans." *Id.* The problem for the insurance industry here was again lack of definition: apparently, no one knew what a 'trademarked or service marked title or slogan' was. At summary judgment, the insurer's attorney opined that it referred to trademarked titles of books.

The suggestion did not sit well with the court in *Villa Enterprises*, which concerned infringement of the 'Villa Pizza' trademark and service mark.

> Federal urges that the word "title" means, exclusively, the name of a literary work and that its duty to defend and indemnify extends only to trademarked and service-marked names of literary works. Thus, Federal argues that the underlying dispute over the trademarked and service-marked name VILLA PIZZA(R) is excluded from coverage. Presumably, it would concede that an infringement of "DANTE'S INFERNO PIZZA(R)" would be covered. Federal's tortured definition of "title" in the context of this comprehensive general liability policy and New Jersey law governing construction of insurance policies cannot be sustained.

Id. at 172.

Finally the insurance industry introduced sharply curtailed coverage, coupled with a restrictive definition of advertising and a detailed intellectual property exclusion for "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." The combination of the sharply curtailed advertising injury coverage with the new IP exclusion meant that, except for a tiny number of cases, the commercial general liability no longer provided coverage for IP infringement.

The reduction and consequent removal of intellectual property infringement coverage from the commercial general liability policy was often unannounced by the insurer and unnoticed by the insurance broker. In both cases, this could lead to redress by the policy holder left without coverage. Generally, an insurer cannot reduce coverage on a renewal without giving notice to the insured. *See*, *Bauman v. Royal Indem. Co.,* 36 N.J. 12, 25 (1961) ("[I]nsurer must call attention to any change in the terms and, if it does not, the change cannot be a part of the contract, and the renewal is subject to reformation."); *Skeete v. Dorvius*, 184 N.J. 5, 9 (2005) ("[P]olicy changes must be conveyed fairly to the policyholder."); *McClellan v. Feit,* 376 N.J. Super. 305, 315 (App. Div. 2005) ("[W]hen the insured is not specifically and clearly informed of the change, the renewal will be ineffective.").

Insurance brokers who fail to advise their clients of these changes are also at risk, as some states, including New Jersey, have held that a broker has a duty to advise the insured of any reduction in coverage. *See, e.g.*, *Wasserman v. Wharton*, 223 N.J. Super. 394, 407 (App. Div. 1998) (Broker has duty to advise "client that critical coverage which he already has is not only being unilaterally withdrawn but is replaceable at nominal charge.") Thus, insureds without intellectual property infringement coverage should investigate whether the loss of coverage resulted from omissions by their insurers or brokers.

Moreover, insurance carriers are now inserting their own ad hoc, individual exclusions into policies. These have the effect of barring coverage for certain categories of claims or intellectual property risk altogether, such as absolute IP exclusions and absolute website/Internet exclusions. Indeed, some general liability policies do not contain advertising injury coverage at all. Most policyholders, and many of their brokers, do not know which form of advertising injury coverage their policy contains. Based upon the above discussion, it is safe to assume that many companies now have essentially no coverage for intellectual property infringement.

Moreover, the insurance industry has been slow to develop new intellectual property infringement policies. One of the newest cyber policies in the marketplace that addresses these issues is the Corporate Expression insurance policy of Media/Professional Insurance. This is a claims-made policy, with claims expense within the limit of insurance. It provides coverage for four broad areas of corporate expression activities, including (1) any type of advertising activity, broadly defined; (2) gathering, maintaining or disseminating data or information regarding customers; (3) design, manufacture, labeling, sale and distribution of products; and (4) the development, creation or use of any computer code, software or system. The policy provides coverage for eight types of Wrongful Acts arising out of these corporate expression activities. Generally, the wrongful acts are broadly defined. They include: (1) invasion or infringement of privacy; (2) wrongful entry; (3) any type of defamation or disparagement; (4) trademark infringement; (5) copyright infringement; (6) errors or omissions in advertising; (7) transmission of a computer virus; and (8) unfair competition, conspiracy, and infliction of emotional distress, if based upon one of the previous seven defined Wrongful Acts.

Every company has insurance coverage for fire loss and auto collision, and for slip and fall accidents. Yet those same companies usually do not have coverage for intellectual property infringement. Indeed, many companies do not even know that those assets are uninsured, or that insurance for them might be available. Every company should conduct an audit of its intellectual property, and examine the insurance marketplace to see if appropriate products are available.

Robert D. Chesler, Esq., is a Member and Chair of the Insurance Practice Group of Lowenstein Sandler PC. Cindy Tzvi Sonenblick, Esq. is an associate in the Litigation and Insurance Practice Group of Lowenstein Sandler PC.

© Bloomberg 2008. Originally published by Bloomberg Finance L.P. Reprinted by permission.