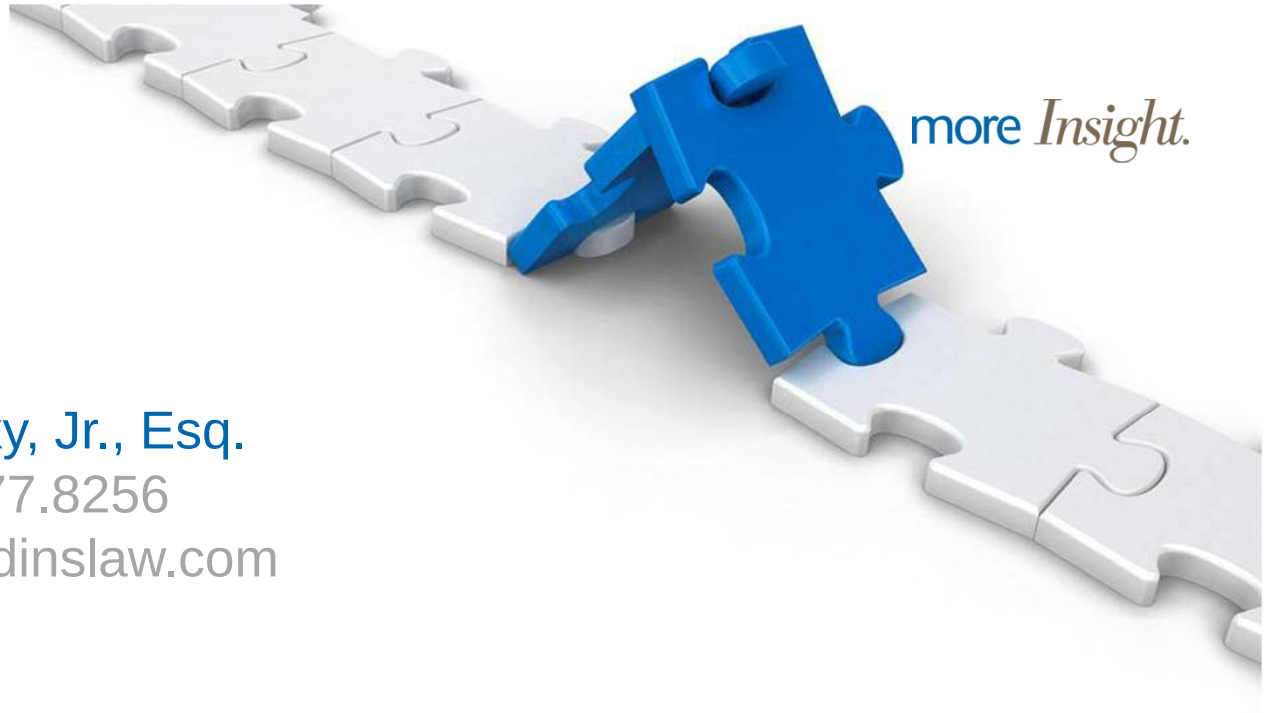
Insurance Coverage for IP Claims under CGL Advertising Injury Provisions

July 24, 2012

Dinsmore



Presenter

Richard D. Porotsky, Jr., Esq.
Cincinnati ^ 513.977.8256
richard.porotsky@dinslaw.com

Dinsmore

CGL Insurance Coverage for IP Claims

- Possible duty to defend as "advertising injury"
  - patent, trademark, trade dress, copyright, misappropriation trade secrets
- "litigation explosion"
- "Riddle wrapped up in a mystery inside an enigma"
  - *Hartford Cas. v. SoftwareMedia.com*, 2012 U.S. Dist LEXIS 38731*30 (D. Utah, Mar. 20, 2012) (citing W. Churchill)

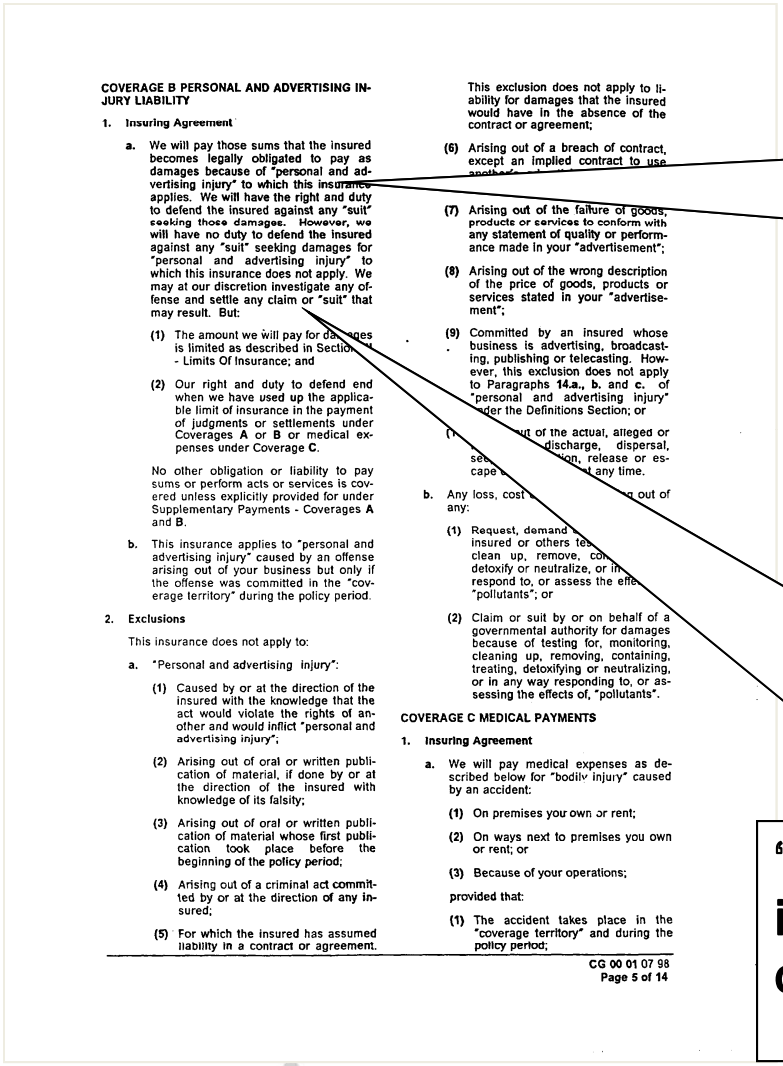
CGL Coverage for Intellectual Property (IP) Claims

- Which types of IP cases covered by CGL policies?
  - as opposed to separate IP insurance
  - *always* send to the insurer!
- What facts and allegations are important?
- What is the impact of rules on duty to defend?
- What is the effect of recent policy revisions?

Brief Overview of the Duty to Defend

- Duty to Defend Suits -- Very Broad
  - Defend under reservation of rights if need investigation
  - One claim-all claims rule
  - Scope of the pleadings rule

Duty to Defend '98 ISO Form: Coverage B Personal and Advertising Injury Liability



COVERAGE B PERSONAL AND ADVERTISING INJURY LIABILITY

1. Insuring Agreement

a. We will pay those sums that the insured becomes legally obligated to pay as damages because of "personal and advertising injury" to which this insurance applies. We will have the right and duty to defend the insured against any "suit" seeking those damages. However, we will have no duty to defend the insured against any "suit" seeking damages for "personal and advertising injury" to which this insurance does not apply. We may at our discretion investigate any offense and settle any claim or "suit" that may result. But:

(1) The amount we will pay for da[illegible] is limited as described in Section [illegible] - Limits Of Insurance; and

(2) Our right and duty to defend end when we have used up the applicable limit of insurance in the payment of judgments or settlements under Coverages **A** or **B** or medical expenses under Coverage **C**.

No other obligation or liability to pay sums or perform acts or services is covered unless explicitly provided for under Supplementary Payments - Coverages **A** and **B**.

b. This insurance applies to "personal and advertising injury" caused by an offense arising out of your business but only if the offense was committed in the "coverage territory" during the policy period.

2. Exclusions

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 [illegible]

(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" [illegible]der the Definitions Section; or

(1) [illegible]ut of the actual, alleged or [illegible] discharge, dispersal, se[illegible]ion, release or escape [illegible] at any time.

b. Any loss, cost [illegible] out of any:

(1) Request, demand [illegible] insured or others to [illegible] clean up, remove, co[illegible] detoxify or neutralize, or in[illegible] respond to, or assess the effe[illegible] "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 in any way responding to, or assessing the effects of, "pollutants".

COVERAGE C MEDICAL PAYMENTS

1. Insuring Agreement

a. We will pay medical expenses as described below for "bodily injury" caused by an accident:

(1) On premises you own or rent;

(2) On ways next to premises you own or rent; or

(3) Because of your operations;

provided that:

(1) The accident takes place in the "coverage territory" and during the policy period;

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" We will pay those sums that the insured becomes legally obligated to pay as damages because of 'personal and advertising injury' to which this insurance applies."

"We will have the right and duty to defend the insured against any 'suit' seeking those damages."

Details of the Duty to Defend

- One claim-all claims rule:
  - insurer required to defend "both" a covered negligence claim and noncovered intentional tort claim
  - *Preferred Mutual Ins. Co. v. Thompson* (1986), 23 Ohio St.3d 78
- Applied to recent IP case
  - Trade dress, unfair competition, and breach of contract
  - *Bridge Metal Industries, LLC, et al. v. The Travelers*, 812 F. Supp.2d 527, 535 (S.D.N.Y. 2011)

Details of the Duty to Defend

- "Scope of the pleadings" rule:
  - "Where . . . the allegations do state a claim which is potentially or arguably within the policy coverage, or there is some doubt . . ., the insurer must [defend]."
    - *City of Willoughby Hills v. Cinti Ins. Co.* (1984), 9 Ohio St.3d 177, 459 N.E.2d 555, syl. (intentional defamation).
- Applied to recent IP case
  - Complaint "Liberally construed"
  - Defend unless "no possible factual or legal basis"
    - *Bridge Metal*, 812 F.Supp.2d at 535 (trade dress, unfair comp).

Details of Duty to Defend

- But the duty is not limitless
  - No duty if allegations "indisputably outside" scope of coverage
    - *Cincinnati Ins. Co. v. Anders*, 99 Ohio St.3d 156, 2003-Ohio-3048, ¶¶ 21 & 51 (homeowner's negligent failure to disclose defect).
- *Applied to recent IP case:*
  - No duty where allegations show no coverage exists
  - "Conclusory 'buzz words' . . . Insufficient"
    - *James River Ins. Co. v. Bodywell Nutrition*, 2012 U.S. Dist. LEXIS 16402, *6 (S.D. Fla., Feb. 1, 2012) (excluding trade mark; no slogan)

Coverage Content -- ISO Form -- 1986 Terms

"Advertising injury" means injury arising out of one of more of the following offenses:

a. Oral or written publication…that slanders or libels …

b. …that violates a person's right of privacy

c. **Misappropriation of advertising ideas or style of doing business**; or

d. Infringement of **copyright, title or slogan**.

CGL Insurance Coverage for Patent Infringement?

- Early Boundaries Drawn – Patent Infringement
  - *Synergystex Internat'l, Inc. v. Motorist's Mut. Ins.*, Medina Ohio App. No. 2290-M (1994 WL 395626)
    - 1986 ISO form – no patent
    - Patent infringement = "make, use, or sell," not advertising
    - No duty to defend
  - *Weiss v. St. Paul Fire & Marine Ins. Co.* (6th Cir. 2002), 283 F.3d 790, 797-98
    - Follows *Synergystex*
    - No duty to defend

Creative, Newer Arguments re Patent Claims

- *Hyundai Motor Am. v. Nat'l Union Fire Ins. Co.*, 600 F.3d 1092, 1101 (9th Cir. 2010):
  - "infringement of a patented advertising method could constitute a misappropriation of advertising ideas“
  - Unique case -- Duty to defend patent claim
- *Dish Network Corp. et al. v. Arch Speciality Ins., et al.*, 659 F.3d 1010 (10th Cir. 2011)
  - Same – requires a defense

Proving Coverage as Advertising Injury

Elements required for coverage as “Advertising Injury”

(1) an enumerated offense
(2) advertising activity
(3) causal connection / nexus
(4) no applicable exclusions

-*Westfield Cos. v. OKL Can Line* (1st Dist.), 155 Ohio App.3d 747, 804 N.E.2d 45, 2003-Ohio-7151, ¶ 12; *SoftwareMedia.com,* 2012 U.S. Dist LEXIS 38731,*30; *Bridge Metal*, 812 F.Supp. 2d at 536

Case Study: Westfield v. OKL

COMPLAINT

(in the underlying matter)

Plaintiff Alcoa alleges:

1. This is an action for patent infringement arising under the Patent Laws of the United States, 35 U.S.C. §§ 271 *et seq.*; for federal unfair competition arising under the Trademark (Lanham) Act of 1946, as amended, 15 U.S.C. §§ 1121 and 1125; and for unfair competition under the common law…

***

3. Defendant . . . ("OKL") . . . is engaged in the business of manufacturing, marketing, servicing, and selling equipment for use with machinery used in the production of aluminum cans. . .

9. By about 1993, Alcoa had developed and was manufacturing, marketing, and selling retrofit products, including the ribbed, swept-box shaped, liquid bearing ram support . . .

10. Alcoa's can bodymaking machines containing the ribbed swept-box shaped fluid bearing ram support and its retrofit and remanufactured products were and are appropriately marked with the '167 and '131 patent numbers pursuant to 35 U.S.C. § 287.

12. OKL has manufactured and sold . . . retrofit products, and particularly the ribbed swept-box shaped liquid bearing ram support, without license . . .

***

13. The retrofit and remanufactured liquid bearing ram supports marketed and sold by OKL and Palmer-Tech are not marked with any OKL insignia or other marking identifying OKL as the source of the products. The OKL liquid bearing ram supports are confusingly similar in appearance, shape, and design to the liquid bearing ram support marketed by Alcoa . . .

COUNT I

PATENT INFRINGEMENT -- ‘167 PATENT

14. Alcoa realleges and incorporates by reference ach of the allegations of Paragraphs 1-13 above as if fully set forth herein.

***

COUNT III

FEDERAL UNFAIR COMPETITION

24. Alcoa realleges and incorporates by reference ach of the allegations of Paragraphs 1-13 above as if fully set forth herein.

27. The OKL . . . products, by reason of their identical distinctive features and similar overall configuration, create a false description, representation, or designation of origin, and results in either actual confusion or a likelihood of confusion among members of the purchasing public . . .

28. Aware of Alcoa's trade dress rights and in willful disregard thereof, OKL intentionally and illegally copied the distinctive features and configuration of Alcoa's [product].

29. As a result of OKL's and Palmer-Tech's wrongful acts, Alcoa has been damaged by loss of sales, revenues, and profits, and loss of business reputation and diminished goodwill among the purchasers and potential purchasers of OKL [products]. . .

Prong #1 – Enumeration under OKL's 1998 ISO Form

"14. "Personal and advertising injury" means injury . . . arising out of:

* * *

d. Oral or written publication of material that slanders or libels

e. . . . that violates a person's right of privacy;

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

g. Infringing upon another's copyright, trade dress or slogan in your 'advertisement'."

Prong #2 -- Advertisement / Advertising in OKL case

- Allegations of advertising ?
  - "marketing" and customer "confusion"
  - "Trade-dress infringement necessarily involves advertising"
    - *Westfield v. OKL*, at ¶ ¶ 15-17; *see also Bridge Metal*, at 542.
- Allegation of "Advertisement" required by some policies
  - web page or traditional print/broadcast "notice"
- *Westfield v. OKL* result:
  - duty to defend patent and trade dress claims in the suit

Prong #2 – further policyholder arguments

- *NGK Metals Corp. v. National Union Fire Ins. Co.* (Apr. 29, 2005), E.D. Tenn. No. 1:04-CV-56 (2005 WL 1115925)
  - trademark merely appearing on a product is advertisement
  - product itself is effectively the advertisement
  - Defense required

Prong #3 -- Causation

- Any “limit” to “inherently advertising”?
  - all trade dress and trademark claims covered?

- “Causal connection" or "nexus“ requirement
  - often insufficient to preclude duty to defend
  - *OKL*, ¶ 18.
    - “Arising out of" does not require proximate cause
    - Confusion caused by the policyholder was enough

Attempts to Limit Coverage for IP Claims

- Limiting Court Decisions
  - Focus on Prong #3 – causation
  - Or on non-advertising factual “gravamen”
- New Exclusionary Language in Policy

Prong #3 – limits -- cases finding no causation

- *Advance Watch*. *Co., Ltd. v. Kemper Nati'l Ins. Co.*, 99 F.3d 795, 806-07 (6th Cir. 1996) (Michigan law)
  - No duty to defend trademark and trade dress claims
  - alleged harm from "infringement, not advertising"
  - Now discredited in Ohio and Michigan

- *Premier Pet Products, LLC v. Travelers Prop. Cas. Co.*, 678 F.Supp.2d 409, 419-21 (E.D. Va. 2010)
  - Rejected that trademark inherently involves advertising
  - Complaint focused on "use" and "sale" of offending products

Prong #2 & 3: New Exclusionary Language

- New Restricted Definitions of Advertisement
  - Requires a "paid" notice
    - *Feldman Law Group, P.C., et al. v. Liberty Mutual Ins., 2012 U.S. App. LEXIS 7787, *3-7 (2nd Cir. April. 18, 2012)*
      - *Copyright and trade dress claims re jewelry*
    - *May change the result in OKL case & NGK Metals* cases?
  - *Def'n requires items "other than a website"*
    - *SoftwareMedia.com,* at*9 & n.13 & *32

New exclusion added – 2001 ISO Form

- 2001 Form Now Excludes:
  - "'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."

Cases under new exclusion – 2001 ISO Form

- *Capital Specialty Ins. v. Indus. Elecs, LLC,* 2009 U.S. Dist. LEXIS 95830, at *7-8 (W.D. Ky., Oct. 14, 2009).
  - misuse of customer lists and pricing
  - no allegations about advertising in the Complaint
  - exclusion applied
- *James River Ins. Co. v. Bodywell Nutrition LLC*, 2012 U.S. Dist. LEXIS 16402 (S.D. Fla., Feb. 1, 2012)
  - No allegations removed this beyond mere trademark infringement
  - No advertising involved

Case Study: Hartford Cas. Ins. v. Softwaremedia.com

Underlying Complaint Allegations

Microsoft v. SoftwareMedia.com

- "This is an action by Microsoft Corporation to obtain injunctive relief and recover damages arising from ***infringements of Microsoft's copyrights and other violations*** by SoftwareMedia.com . . . "
- "From at least 2007 to the present, Defendants have actively engaged in a ***fraudulent bait-and-switch scheme in connection with their sale of Microsoft products***."
- Involves sales of Microsoft software licenses and sales of Microsoft "Software Assurance," a less expensive separate software maintenance support product "which is not a license and creates no license rights."
- Upon information and belief . . . intent to deceive Microsoft and Defendants' customers, and to retain for Defendants the significant price difference between licenses and Software Assurance.

Microsoft v. Softwaremedia.com

First Claim – Copyright Infringement

- Repeats and incorporates allegations above
  - By this conduct, ***including advertising activities*** and unauthorized use of Microsoft's software … ***Defendants misappropriated Microsoft's advertising ideas and style of doing business and infringed Microsoft's copyrights, titles, slogans and trademarks***
- "Defendants' have infringed the copyrights in Microsoft's software "
- Caused or contributed to infringement by customers who believed they had purchased valid licenses after "***being misled or deceived by Defendants.***"

Microsoft v. Softwaremedia.com

Second Claim – Trademark Infringement

- Defendants had a license to use certain Microsoft marks per Agreement
- By engaging in bait-and-switch fraud and other practices in this Complaint, SoftwareMedia ***failed to satisfy conditions for use of Microsoft's marks***
- ***Yet, SoftwareMedia continued use of Microsoft's marks included the stylized 'Microsoft Gold Certified Partner' logo*** . . . in connection with its deceptive sales practices with the willful and calculated purposes of misleading customers . . .

Microsoft v. Softwaremedia.com

Fourth Claim – Fraud

- . . . Incorportating allegations above, referencing the bait-and-switch fraud

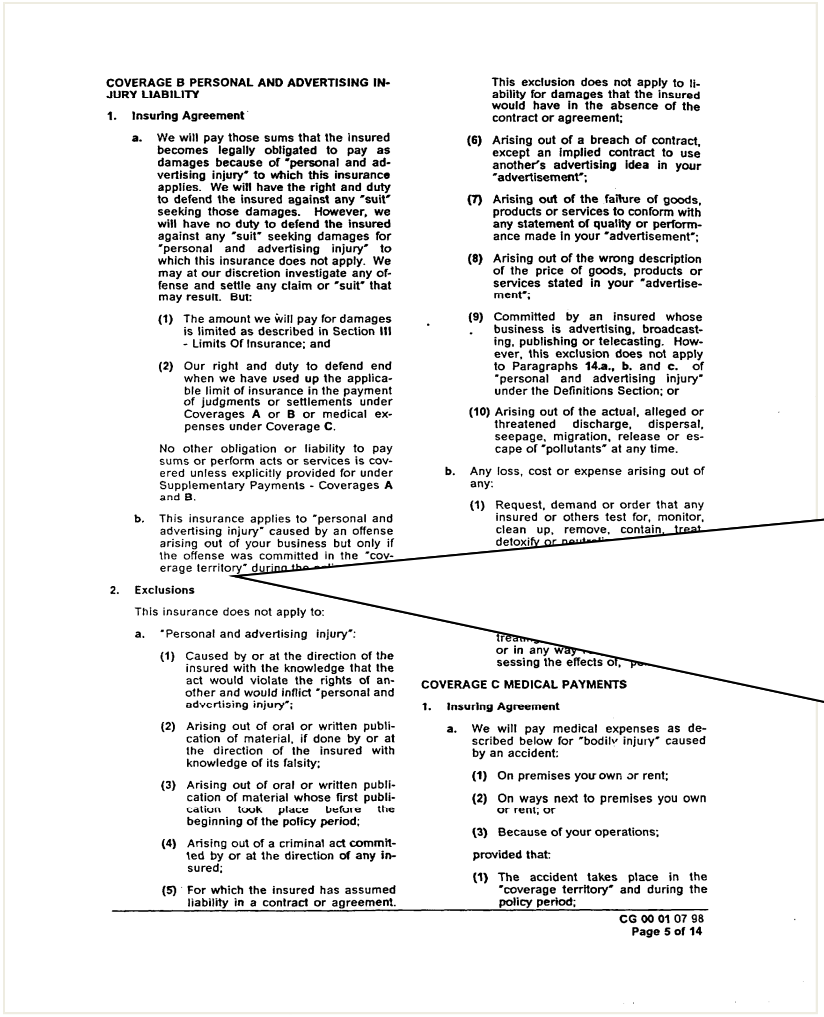
Fifth Claim – Breach of Contract

- . . . Incorportating allegations above, referencing the bait-and-switch fraud

Duty to Defend Ruling: Hartford v. SoftwareMedia.com

- "Gravamen of the 2010 Microsoft Complaint"
  - Tied to "Fraudulent bait and switch scheme"
- No duty to defend
  - "Fraudulent schemes" not listed
  - Internet advertisement excluded
    - All on-line with no reference to print ads
- *Hartford Cas. Ins. v. SoftwareMedia.com*, 2012 U.S. Dist LEXIS 38731 (D. Utah, Mar. 20, 2012)

Prong #4 – Key traditional exclusion: knowledge / intent



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(1) The amount we will pay for damages is limited as described in Section III - Limits Of Insurance; and

(2) Our right and duty to defend end when we have used up the applicable limit of insurance in the payment of judgments or settlements under Coverages **A** or **B** or medical expenses under Coverage **C**.

No other obligation or liability to pay sums or perform acts or services is covered unless explicitly provided for under Supplementary Payments - Coverages **A** and **B**.

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

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(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

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COVERAGE C MEDICAL PAYMENTS

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(2) On ways next to premises you own or rent; or

(3) Because of your operations;

provided that:

(1) The accident takes place in the "coverage territory" and during the policy period;

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This insurance does not apply to:

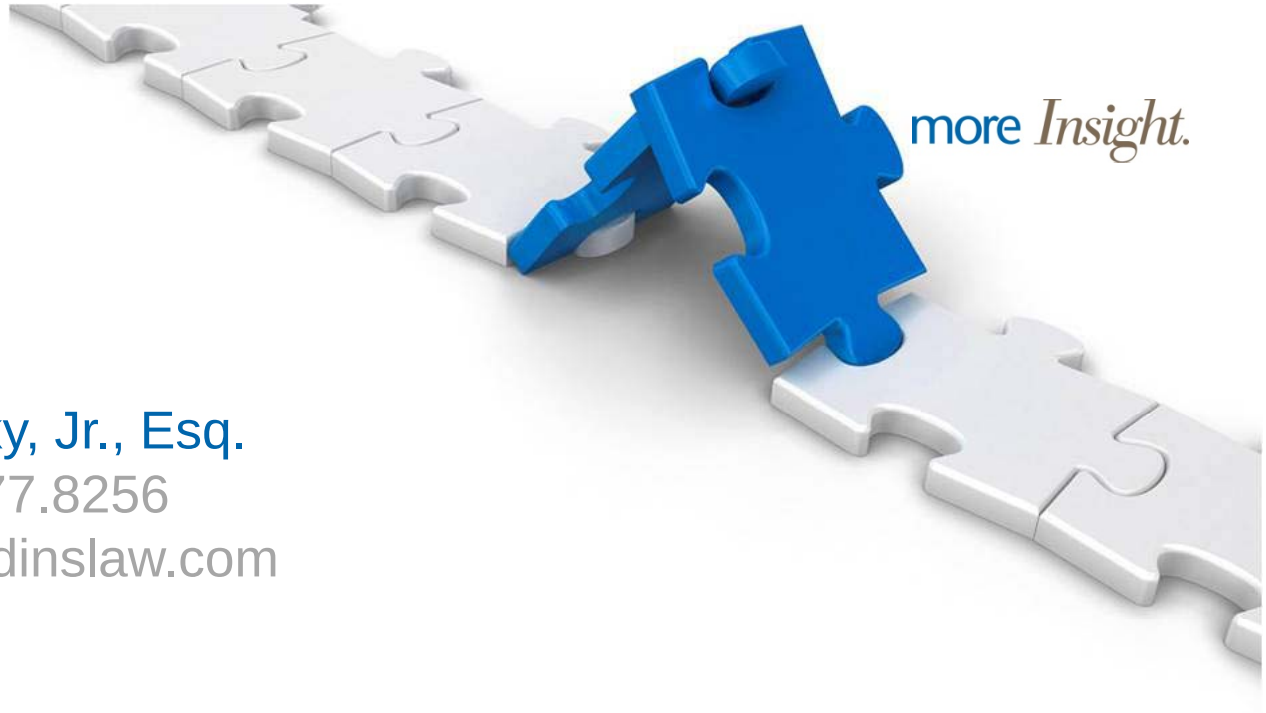
a. "Personal and advertising injury":

(1) . . . Caused by . . . the insured . . . with the knowledge that the act would violate the rights of another and would inflict [injury].

***

Prong #4 – Key traditional exclusion: breach of contract

- Policies Exclude Claims Arising From Breach of Contract
  - *Ohio Disc. Merch., Inc. v. Westfield Ins. Co.* (Ohio App. 5th Dist.), 2006 Ohio 4999, ¶ 57
    - "copyrighted photographs on the bobblehead boxes arguably constitutes 'advertisement,' as defined in the policy"
    - no duty to defend because it was contractual
  - But see *Looney Ricks Kiss Architects, Inc. v. State Farm Fire & Cas.*, 677 F.3d 250, 256 (5th Cir. 2012)
    - defense required despite contract claim
    - The IP claim could have existed independent of contract



Questions?

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