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Blowing the Cobwebs Off Trademark Infringement Insurance

Barry Werbin, Herrick, Feinstein LLP, New York, New York, USA, INTA Bulletin Features–Policy & Practice Subcommittee. The author gratefully acknowledges James Westerlind, insurance associate at Herrick, Feinstein LLP, for his contributions to the article

Late one afternoon you get a frantic call from your client, whose business has been sued for trademark and trade dress infringement in a complaint alleging the sale of infringing products over the Internet and through newspaper advertisements. After calming down your client, you advise her to immediately notify her insurance carrier and send you a copy of her company's commercial general liability (CGL) insurance policy to review. Your client is incredulous about any coverage for claims like this, but upon your review of the policy you see it contains an "advertising injury" clause, and you again urge her to notify the carrier.

Will the policy cover the alleged infringement claims? The answer likely will depend on the U.S. state in which the client is located and the version of the CGL policy that is in force. If, for example, the business is based in Missouri, chances are your client will receive a curt declination letter and, possibly, face a declaratory judgment action by the carrier confirming its denial of the claim. If your client is in Illinois or New York, however, her company will likely receive the defense to which you believe it is entitled.

Why the difference in results? And in this day and age, with every business advertising products on the Internet, wouldn't one expect such claims to be covered under the "advertising injury" clause common to CGL policies? The answer will depend on the wording of that clause and related exceptions and on their interpretation by numerous U.S. federal and state courts. (The interpretation of CGL policies and coverage is one of state law; however, many federal court decisions have analyzed these provisions under applicable state law in the context of federal infringement litigation or under federal diversity jurisdiction.)

The Duty to Defend

Initially, it is important to recognize that the duty of a carrier to defend its insured, as distinct from a carrier's ultimate liability for a claim, often is interpreted very broadly by the courts. Where allegations in a complaint fall within the scope of risks undertaken by the insurer, there is a duty to defend regardless of how false or groundless the allegations might be. Many courts will initially compel a defense until it is established that a claim is not covered by an advertising injury clause because of its wording or specified exclusions.

Therefore, it is important to always advise your client to inform its carrier of a claim, even if the carrier initially balks at its defense obligation. Failure to give timely notice may bar coverage under the terms of most policies. An overview of the evolution of the "advertising injury" clause is essential to

understanding whether coverage may be applicable.

Evolution of the “Advertising Injury” Clause

Standard policy forms drafted by Insurance Services Office, Inc. (ISO), a private entity, are widely used throughout the insurance industry. Before the early 1970s, claims arising from advertising activities were not covered under the standard ISO-issued CGL policy form. In 1973, “advertising injury” coverage, including claims for unfair competition, was first offered within a Broad Form Endorsement to CGLs. Later, however, this Endorsement included various *exclusions* from coverage, such as “failure to perform a contract” and—significantly—claims for “infringement of trademark, service mark or trade name, other than titles or slogans.”

In 1986, “advertising injury” coverage was moved into the body of the standard CGL policy and redefined to *delete* unfair competition but *include* injury arising out of “misappropriation of advertising ideas or style of doing business” and “infringement of copyright, title or slogan.” The 1986 revision also deleted the exclusion in the 1973 form for “infringement of trademark, service mark or trade name, other than titles or slogans.” Thus, while the 1986 revision included claims for “infringement of copyright, title or slogan,” it did not include coverage for trademark infringement claims.

Other exclusions in the 1986 form denied coverage for “advertising injury” arising out of breach of contract and offenses committed by an insured whose business is advertising, broadcasting, publication or telecasting. Significantly, the removal of “unfair competition”—a concept covering a broad variety of infringement claims and unfair business practices—limited the scope of coverage available under the resulting definition of “advertising injury” to “misappropriation” claims and infringement of “title or slogan.”

In 1998, ISO again revised the CGL policy, and this version remains in widespread use today. It deleted the stand-alone term “advertising injury” and substituted “personal and advertising injury,” defined in pertinent part as “the use of another’s advertising idea in your ‘advertisement’” or “infringing upon another’s copyright, trade dress or slogan in your ‘advertisement.’” Excluded claims included those from the 1986 version.

“Advertising” was separately defined in the 1998 form as “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 1998 form also substituted the term “trade dress” for “title” in the definition of “advertising injury.” This change may have indicated an intent to limit the scope of coverage, as many courts had recognized the term “title” as including trademark infringement claims.

Another notable difference is the word “use” in the phrase “[t]he use of another’s advertising idea” in the 1998 form, as opposed to the word “misappropriation” in the phrase “misappropriation of advertising ideas” in the earlier CGL form. A minority of courts interpreting the pre-1998 CGL form have limited coverage based on a narrow reading of the word “misappropriation.” The word “use,” however, arguably broadens the scope of coverage or, at the least, narrows the potential for disagreement among the courts as to the meaning of “misappropriation.”

Further ISO modifications in 2001 and 2007 added exclusions relating to advertising injury claims. The exclusions included claims for “personal and advertising injury” arising out of the infringement of trademark and other intellectual property rights, except with respect to the “advertisement” of “trade dress or slogan.” Because coverage for “trade dress or slogan” was also covered in the 1998 version, this was not a radical departure, except that “trademark” infringement was added back into the coverage

exclusions, perhaps with the idea of having courts read the word “slogan” in a more limiting manner.

Exclusions were also added for “new media,” including “designing or determining content of websites” and “an Internet search, access, content or service provider,” as well as for claims relating to “unauthorized use of another’s name or product in [the insured’s] e-mail address, domain name or metatags...” Finally, in 2007, a revision was made to make it clear that “use of another’s advertising idea in [an insured’s] advertisement” was covered.

Decisional Interpretations

As a general rule, in order to find coverage under the “advertising injury” section of a CGL policy, the following criteria must be satisfied: (1) the underlying complaint must allege facts constituting one of the enumerated “advertising injury” offenses; (2) there must be a causal connection between the alleged advertising activities and the damages claimed; and (3) no exclusions to bar coverage may be applicable.

The vagueness of the term “misappropriation of advertising ideas or style of doing business” and infringement of “title or slogan” from the 1986 ISO form, has resulted in considerable litigation and inconsistent decisions by courts as to which claims, if any, are included within this definition of “advertising injury.”

There has been some split among the federal courts as to whether trademark or trade dress claims fall within “misappropriation of advertising ideas or style of doing business.” The Sixth and Eighth Circuits have held they do not, but this represents the minority view. In contrast to this position, most courts have determined that trademark and trade dress claims fall within the concept of “misappropriation of style of doing business” under the 1986 ISO form because they relate to a proprietor’s efforts to distinguish and protect its products or services and a company’s comprehensive manner of operating its business. These courts often use the dictionary definition of “misappropriation,” finding that word to be broad enough in its plain meaning to include trademark and trade dress infringement, as well as misappropriation of trade secrets.

Several courts in New York and Michigan, for example, have held that trademark and trade dress infringement inherently involves advertising injury. Other courts, including the Eleventh Circuit, have taken a middle-of-the-road approach, finding that such claims can involve advertising injury depending on the circumstances of the case.

Whether a trademark claim falls within the meaning of “title” or “slogan” requires a bit more analysis. “Title” and “slogan” are not defined in the policy forms. Courts have therefore been forced to interpret their meanings. In one 1993 New York case, the court relied on *Black’s Law Dictionary* in concluding that trademark or trade name infringement falls within the definition of infringement of “title” or “slogan.” In 1999, the Sixth Circuit concluded that the word “title” in the phrase “infringement of copyright, title or slogan” unambiguously referred only “to the non-copyrighable title of a book, film, or other literary or artistic work.” Three years later, the Seventh Circuit found that the “infringement of title” language might be broad enough to include a trademark infringement claim. In 2004, the Third Circuit held that under New Jersey law, where a CGL policy excluded “trademark” claims except for claims involving “trademark titles,” this would be interpreted to include product titles or names.

Thus, while the focus appears to be more definitional than conceptual when courts analyze coverage under “infringement of copyright, title or slogan” as opposed to “misappropriation of advertising ideas or style of doing business,” the answer will depend largely upon the specific allegations of the complaint and the jurisdiction of the case. The uncertainty of policy interpretation makes it more difficult for

insurers to estimate exposure and proper reserves and to calculate appropriate premium commensurate with the risk, and of course creates uncertainty for insureds.

As to causation, some courts have found this requirement to be satisfied if the infringement resulted from the insured's marketing activities, while others have ruled that simply selling an allegedly infringing product is not enough to satisfy the causal connection requirement. Another line of cases has found that infringement claims inherently involve advertising activities. New York courts, for example, have not made a distinction between injury arising from marketing activities and injury arising from manufacturing and sale activities, and either type of activity would be covered.

For example, in *Century 21, Inc. v. Diamond State Insurance Co.*, 442 F.3d 79 (2d Cir. 2006), the Second Circuit concluded that the "marketing" of allegedly infringing goods was covered under a policy as a "misappropriation of advertising ideas or style of doing business." Applying New York law, the court emphasized that "marketing," when pleaded in a complaint, could be construed to include activities other than just selling and distributing goods that were "within the embrace" of "advertising" as that term was used in the underlying policy. Many courts, however, have also taken the view that "advertising" conceptually requires some type of widespread promotion directed to the public, as opposed to solicitations targeting only selected persons.

There also has been disagreement as to whether the "cause" of an alleged trade dress advertising injury is only the initial replication of the trade dress or the subsequent advertisement of a knockoff. Some courts, for example, have determined that the display of allegedly infringing products within a catalog satisfies the causation requirement.

These are just some examples of how courts have sought to interpret the language of the various ISO policy forms. As is now apparent, it is essential that you review your client's policy to see which ISO version applies. Many insureds will still carry policies based on the 1986 ISO form; however, eventually the 1986 form will cease to be relevant, being supplanted by the 1998 and later forms. As carriers seek to progressively limit their exposure, particularly as technology creates new challenges (such as with domain cybersquatting and metatag infringement claims, which were addressed in the 2001 form), we will undoubtedly see further form changes that will create new interpretation issues for both the courts and insureds. While case law must be assessed in the context of the ISO form at issue, attorneys opining on coverage issues arising under policies purchased today cannot necessarily rely on prior decisions that addressed provisions that were perhaps more pro insured.

In all cases, always have the client notify its carrier promptly. There is nothing lost if the claim is denied; indeed, you may still have a basis on which to compel the carrier to at least defend the claim under a broad interpretation of the "advertising injury" clause. In addition, insureds should have their policies reviewed periodically to assess whether they have adequate coverage for infringement claims in the context of the potential commercial risks they face in their particular lines of business.

Although every effort has been made to verify the accuracy of items carried in the INTA Bulletin, readers are urged to check independently on matters of specific concern or interest.

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phone +1-212-642-1700 | fax +1-212-768-7796 | www.inta.org | bulletin@inta.org