EMERGING TRENDS IN INTELLECTUAL PROPERTY LITIGATION

Will The Insurance Industry Keep Up?

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I. COVERAGE FOR INTELLECTUAL PROPERTY RELATED ACTIONS

A. Introduction

One of the most fertile areas of litigation in recent years has involved the alleged theft or misappropriation of trade secrets, usually by former employees of the policyholder plaintiff. Rapidly gaining, however, are claims for infringement of copyrights, trademarks, patents and trade dress. One thing is clear, intellectual property litigation and regulation relating to such litigation will continue to be a focus for companies in 2016.

Technology companies have traditionally pressed lawmakers for measures limiting patent rights, while pharmaceutical companies, which spend significant sums and years on research and development, have generally pressed to strengthen patent protections. In response, lawmakers have recently introduced a number of patent and intellectual property-related bills. The Innovation Act introduced in 2015, for example, seeks to curb abusive litigation by “patent trolls.” It seeks revision to patent litigation, including raising the pleading standards for patent complaints, limiting discovery, limiting the venues in which patent suits can be brought and requiring fee-shifting. The Support Technology and Research for Our Nation’s Growth, or STRONG, Patents Act, also was introduced in 2014. It is geared toward concerns that America Invents Act reviews have made it too easy to invalidate patents. It seeks modifications to review and reexamination proceedings, and offers measures making it easier to show willful infringement. What legislation will develop, and what impact it will have on litigation, remains to be seen.

Parties accused of misappropriation of trade secrets, false advertising, patent or copyright infringement, contributory and vicarious copyright infringement, disparagement, and trade dress or trademark infringement often turn to their insurers seeking at least a defense, if not indemnity for any liability or loss. This paper discusses intellectual property law claims, and coverage under standard form general liability policies and some of the more specialized policies that policyholders with significant intellectual property exposures may opt to purchase.

B. Overview of Intellectual Property Law Claims

1. Trade Secrets

Broadly speaking, a trade secret is secret information that confers a competitive business advantage on its owner by virtue of not being known to competitors. Trade secret laws protect against competitors improperly obtaining a trade secret (such as by breach of a

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1 This paper has been jointly submitted by Andrew B. Downs, Sherilyn Pastor, and David Olson in connection with their ACCCE presentation. It is for general educational purposes and therefore the views expressed are not necessarily those of its authors, their firms or organizations, or their current or future clients.
confidentiality agreement or theft), and/or improperly publishing them. To make out a trade secret claim, one must demonstrate:

- The subject matter qualifies as a trade secret, either because the information is not generally known, or not readily ascertainable (if the information is readily ascertainable, this may provide an affirmative defense in jurisdictions such as California);
- Reasonable efforts were made under the circumstances to maintain the secret, and the secret has commercial value; and
- The secret was misappropriated by improper means, or a breach of confidence.

The breach of confidence can be express, where the person made an express promise of confidentiality prior to the disclosure of the trade secret, or implied. Where implied, the trade secret need be disclosed to another under circumstances in which the relationship between the parties to the disclosure or the other facts surrounding the disclosure justify the conclusions that, at the time of disclosure, the other person knew or had reason to know that the disclosure was intended to be in confidence, and the party making the disclosure reasonably inferred that the person consented to an obligation of confidentiality.

2. **Patent Infringement**

A patent is an exclusive right given by law to inventors to make use of their inventions for a limited period of time. The U.S. Patent Act, 35 U.S.C. §271 (a), provides that except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

3. **Copyright Infringement**

A copyright is a form of protection, provided by title 17 U.S.C. §106, to the authors of “original works of authorship,” including literary, dramatic, musical, artistic, and certain other intellectual works. Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and/or authorize any of the following:

- to reproduce the copyrighted work in copies or phonorecords;
- to prepare derivative works based upon the copyrighted work;
- to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
- in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
- in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

Copyright infringement, broadly speaking, is the use of works protected by copyright law without permission, infringing those exclusive rights granted to a copyright holder.

4. **Trademark Infringement**

   A trademark is a recognizable design, sign, or expression that identifies products or services of a particular source from those of others. Trademarks used to identify services are often referred to as service marks. Trademark infringement involves the unauthorized use of a trademark or service mark on or in connection with goods or services in a manner that is likely to cause confusion, deception, or mistake about the source of the goods and/or services. Section 32(1) of the Lanham Act provides that any person who shall, without the consent of the registrant:

   - use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or
   - reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction . . . to labels, signs, prints, packages, . . . or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive,

shall be liable in a civil action by the registrant.

C. **Commercial General Liability Policies**

Advertising injury coverage first appeared in early umbrella insurance policies developed by Lloyd’s of London. The London umbrella insurance policy, which was marketed as the broadest coverage available in the marketplace, provided complete coverage for a policyholder’s business tort liabilities. The Insurance Services Office, Inc. (“ISO”) added advertising injury coverage to its standard CGL policies in the 1970s. See, e.g., *Hartford Ins. Co. v. California*, 509 U.S. 764, 771 (1993); *Great Central Ins. Co. v. Insurance Serv. Office, Inc.*, 74 F.3d 778, 780 (7th Cir. 1996). The scope of such coverage has changed over time.

The ISO general liability policies have, since the mid-1980s, included both advertising injury and personal injury coverage alongside the coverage grants for bodily injury and property damage. Advertising injury coverage is offered in sub-part B of the CGL
policy, in the section entitled “Personal and Advertising Injury Liability.” Coverage is afforded for injury caused by various enumerated “offenses.” Coverage is therefore dependent upon their being a triggering “offense.”

1. **Applicable Policy Provisions**

Under the 2001 edition of the CG 00 01 form (there are several more recent editions, but their use varies), an offense includes:

- f. The use of another's advertising idea in your "advertisement"; or
- g. Infringing upon another's copyright, trade dress or slogan in your "advertisement".

“Advertisement” is defined 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. For the purposes of this definition:

- a. Notices that are published include material placed on the Internet or on similar electronic means of communication; and
- b. Regarding web-sites, only that part of a web-site that is about your goods, products or services for the purposes of attracting customers or supporters is considered an advertisement.

*Id.*

The ISO form also contains the following exclusions:²

a. **Knowing Violation Of Rights Of Another**

"Personal and advertising injury" 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".

b. **Material Published With Knowledge Of Falsity**

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² Except as noted, all quotes are from the 2001 edition.
"Personal and 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.

c. **Material Published Prior To Policy Period**

"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.

. . .

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. [2001 Ed.]

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. [2013 Ed.]

. . .

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.
ISO’s CGL policies also traditionally excluded advertising injury coverage for policyholders in advertising, publishing, telecasting and broadcasting businesses. The 2001 ISO policy, for example, excludes advertising injury coverage to policyholders: (1) in the business of designing or determining the content of others’ web sites; (2) in the business of acting as an Internet search, access, content or service provider; and (3) who own, host or exercise control over an electronic chatroom or bulletin board.

2. **Coverage Issues and Decisions**

The Personal Injury and Advertising injury coverage grants in the ISO general liability policy expressly include infringements of copyrights, trade dress and slogans, but the policy form then excludes all claims of infringements except for those occurring in the policyholder’s advertising.

To obtain advertising injury coverage, a policyholder generally is required to demonstrate that:

- it engaged in advertising activity;
- the underlying claim falls or arguably falls within one of the policy’s enumerated offenses; and
- a nexus exists between the underlying claim and its advertising activity.


Courts analyzing advertising injury coverage provisions generally have approached them in a relatively direct fashion, with there being a strong correlation between how well the facts of the case fit within the policy language and the result. Cases finding no coverage include:

- *Citizens Ins. Co. of America v. Uncommon, LLC, 812 F.Supp.2d 905 (N.D. Ill. 2011)* [no coverage for Lanham Act claims because of “IP Exclusion” (the equivalent of Exclusion i. quoted above)].


• *America’s Recommended Mailers v. Maryland Cas. Co.*, 579 F.Supp.2d 791 (E.D. Tex. 2008) [particular Lanham Act claims found to be outside advertising injury coverage grant].

Cases finding some coverage include:


• *Hudson Ins. Co. v. Colony Ins. Co.*, 624 F.3d 1264 (9th Cir. 2010) [possibility of claim for slogan infringement in underlying action created duty to defend].

• *Super Duper, Inc. v. Pennsylvania NationalMut. Cas. Ins. Co.*, 385 S.C. 201, 663 S.E.2d 792 (2009) [Court answers certified questions finding trademark infringement arises out of offense of misappropriation of advertising ideas or style of doing business as well as infringement of copyright, etc.].

• *Foliar Nutrients, Inc. v. Nationwide Agribusiness Ins. Co.*, --- F.Supp.3d ---, 2015 WL 5595523 (M.D. Ga. 2015) [court concludes claims are advertising injury or personal injury claims but not IP claims within scope of exclusion, for duty to defend purposes].

• *Atlapac Trading Co., Inc. v. Am. Motorists Ins. Co.*, 1997 WL 1941512, at *1, 6-7 (C.D.Cal. Sept. 19, 1997) [court finds “misappropriation of advertising ideas” is an ambiguous term, and interpreted it to require defense of false advertising claims by rival distributor claiming injuries resulting from improper use of slogan “pure olive oil”].


• *Western Am. Ins. Co. v. Moonlight Design, Inc.*, 95 F. Supp.2d 838, 844-45 (N.D. Ill. 2000) [court holds duty to defend policyholder sued for, among other things, advertising “knock-off” bridal dresses that infringed a competitor’s copyrighted design].

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3 A case involving the product “Buckyballs,” withdrawn from the market at the insistence of the Consumer Product Safety Commission.
• **Ryland Group, Inc. v. Travelers Indem. Co. of Ill.,** 2000 WL 33544086, *5 (W.D. Tex. Oct. 25, 2000) [court upholds duty to defend policyholder that allegedly constructed and sold houses based on another’s copyrighted architectural plans, where underlying complaint avers that the policyholder’s promotional materials, containing depictions of the plans, infringed its copyrights].

D. **Specialty Policies**

Certain industries in the technology and media sectors of the economy face significant risks of intellectual property litigation and buy policies specifically designed to cover selected IP risks. These policies are not drafted by the Insurance Services Office. While the insurance marketplace imposes a degree of uniformity upon the insurers who write in this sector (often in multiple layer “tower” programs), there is no standard policy.

Many of these policies are structured similarly to professional liability and Directors & Officers policies in that they are written on a claims made and reported basis and seek to define the scope of policyholder activities for which coverage will be provided. There are relatively few published decisions involving these policies.

E. **Conclusion**

Insurance coverage for intellectual property claims will continue to be significant as intellectual property law develops and expands potential liabilities. Recent developments include the U.S. Court of Appeals for the Federal Circuit’s 2015 ruling that divided infringement can constitute direct infringement of a patent. *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, No. 2009-1372, at *5 (Fed. Cir. Aug. 13, 2015) (en banc) (finding that a defendant can be liable for direct infringement when it “conditions participation in an activity or receipt of a benefit upon performance of a step or steps of a patented method and establishes the manner or timing of that performance”). Also, laws relating to vicarious liability for copyright infringement continued to evolve. In March 2015, the United States District Court for the Southern District of New York in *Capitol Records LLC v. Escape Media Group, Inc.*, No. 12-CV-6646(AJN), 2015 WL 1402049 (S.D.N.Y. Mar. 25, 2015), held that a streaming music service did not qualify under the safe harbor immunity of the Digital Millennium Copyright Act because it had an insufficient “repeat infringer policy,” which failed to terminate users accused repeatedly of uploading infringing works. The Patent and Trademark Office also continued to strike down patent claims under *Alice Corp. v. CLS Bank International*, 573 U.S. __, 134 S. Ct. 2347 (2014), for being too abstract.