

RECENT DEVELOPMENTS IN INSURANCE COVERAGE  
FOR INTELLECTUAL PROPERTY CLAIMS

*Randolph S. Sergent and Alex J. Brown*

I. General Background.....	446
II. Scope of Coverage for Intellectual Property Claims	
Under CGL Policies.....	447
A. What Constitutes an “Advertisement”? .....	447
B. Coverage for Trademark Claims as “Infringement of Title” .....	450
C. Coverage for Trade Dress as “Advertising Injury” .....	452
D. Coverage for Copyright Claims as “Advertising Injury” .....	454
III. Exclusions Applied to Intellectual Property Claims	
Under CGL Policies.....	456
A. Intellectual Property Exclusions.....	456
B. Exclusions for Intentional Conduct .....	460
C. Exclusion on Account of Prior Publication.....	463

This article surveys cases in the past year that address insurance coverage for intellectual property claims. While specialized intellectual property insurance is available, there are very few cases that address insurance specifically intended to cover intellectual property claims. Litigation over coverage for intellectual property claims generally focuses on the efforts of an insured to obtain coverage under its comprehensive general liability (CGL) policy after an intellectual property suit has been filed. Litigation arises when the insurer asserts that the intellectual property claims at issue fall outside of the scope of coverage, or that coverage for the claim is extinguished under one or more policy exclusions.

---

---

*Randolph S. Sergent is a partner and Alex J. Brown is an associate at the Baltimore office of Venable LLP.*

---

---

---

---

## I. GENERAL BACKGROUND

The majority of these cases involve efforts to prove that the allegations in a complaint involve “advertising injury,” for which most CGL policies provide some form of coverage, although the wording and definitions vary from policy to policy. Substantially fewer cases involve efforts to obtain coverage in an intellectual property dispute by recasting the claims against the insured as “property damage” or “personal injury.”

Most CGL policies provide coverage for an insured’s liability for “advertising injury,” which generally includes advertising that infringes a copyright or trademark. The coverage provided for “advertising injury,” and the meaning of the terms used to define that coverage, such as “advertising,” can vary greatly from one CGL policy to the next. A good example of one set of such policy terms is set out by the U.S. District Court for the Southern District of New York in *Technaoro, Inc. v. United States Fidelity & Guaranty Co.*<sup>1</sup> The CGL policy in that case provided coverage for “[a]dvertising injury” caused by an offense committed in the course of advertising your goods, products, or services that . . . was committed during the policy period.<sup>2</sup> The term “advertising” was defined as “attracting the attention of others by any means for the purpose of seeking customers or supporters or increasing sales or business.”<sup>3</sup> The policy described four commonly used categories of “advertising injury”:

“Advertising Injury” means injury arising out of one or more of the following offenses:

- a. Oral or written publication of material that slanders or libels a person or disparages a person or organization’s goods, products, or services;
- b. Oral or written publication of material that violates a person’s right to privacy;
- c. The use of another’s advertising idea in your “advertising”;
- d. Infringement of another’s copyright, trade dress, or slogan in your advertising.<sup>4</sup>

Based on this definition, and similar ones in other CGL policies, an insured who is sued for infringement, to obtain coverage or a defense under the “advertising injury” sections of its CGL policy, may seek to cast its alleged actions as taken in the course of “advertising,” and the claims in the case as falling within one of the “advertising injury” categories set forth above.

---

1. 2006 WL 3230299 (S.D.N.Y. Nov. 7, 2006).

2. *Id.* at \*1.

3. *Id.*

4. *Id.*

---

---

## II. SCOPE OF COVERAGE FOR INTELLECTUAL PROPERTY CLAIMS UNDER CGL POLICIES

Cases in the past year addressed whether an e-mail list could be a published “advertisement” under a CGL policy; whether trademark infringement claims could be covered under CGL coverage for “infringement of title”; whether or when trade dress infringement, by means of misappropriation of a product’s look and feel, fell within the scope of “advertising injury”; and whether an allegedly infringing compact disc could constitute an “advertisement.”

### A. *What Constitutes an “Advertisement”?*

In *Toffler Associates, Inc. v. Hartford Fire Insurance Co.*,<sup>5</sup> the U.S. District Court for the Eastern District of Pennsylvania had to determine what constituted “widespread publication” of a document, for purposes of determining whether that document could be considered “advertising.” Toffler Associates was a consulting firm, and one of its employees published a daily e-mail called “Morning Brew.”<sup>6</sup> Morning Brew contained a compilation of news reports of potential interest to Toffler’s clients and potential clients, and was distributed to a selected list of individuals who Toffler employees determined should receive the daily e-mail.<sup>7</sup> A publisher who held the copyrights to some of the articles used in Morning Brew filed suit against Toffler Associates for copyright infringement, and Toffler sought a defense under its CGL policy.<sup>8</sup>

After the Hartford denied both a defense and indemnity, Toffler filed a declaratory action in the U.S. District Court for the Eastern District of Pennsylvania. Both the insurer and the consultant filed cross-motions for summary judgment.<sup>9</sup> The court reached contrary conclusions with respect to Hartford’s duty to defend and its duty to indemnify the consultant, concluding that Hartford was required to defend the case but that there ultimately was no coverage under the policy.<sup>10</sup>

Noting that the duty to defend arises as long as there is “potential” coverage, the court found that the copyright claims potentially could be considered “advertising injury.”<sup>11</sup> “Advertisement” was defined in the policy as “the widespread public dissemination of information or images that has

---

5. 651 F. Supp. 2d 332 (E.D. Pa. 2009).

6. *Id.* at 335.

7. *Id.* at 336.

8. *Id.* at 335.

9. *Id.* at 339.

10. *Id.*

11. *Id.* at 341.

the purpose of inducing the sale of goods, products or services.”<sup>12</sup> Dissemination had to be accomplished through certain specified media or “[a]ny other publication that is given widespread public distribution.”<sup>13</sup> In the complaint, the daily Morning Brew e-mail was alleged to be a “serial” containing articles that were sent to “many recipients,” which “supports that the Publication had widespread distribution, as required by the Policy’s definition of advertising injury.”<sup>14</sup> The court also found it important that the complaint did not “allege any facts that would cause the reader to believe that the distribution was not public.”<sup>15</sup> Having concluded that there were sufficient allegations of public dissemination, the court also held that there were sufficient allegations that the e-mails were intended to “induc[e] the sale of goods, products or services” because the copies of Morning Brew e-mails attached to the complaint included the consultant’s name, references to its books, and its trademark.<sup>16</sup> Concluding that potential coverage must be based solely on the complaint under Pennsylvania law, the court held that Hartford had a duty to defend Toffler.<sup>17</sup>

Going beyond the complaint, however, the court also held that Hartford had no duty to indemnify Toffler, based on the facts of the case. The court did maintain its earlier conclusion that Morning Brew had been distributed for “the purpose of inducing the sale of goods, products, or services” because Toffler had plainly made an effort to include the company’s name and the company’s themes throughout Morning Brew, the news articles were organized under the headings of books published by Toffler, and the e-mail was distributed to clients and potential clients.<sup>18</sup> This conclusion, however, was not enough, unless the advertising material had been disseminated through the media specified in the policy (such as radio or television), or otherwise widely and publicly distributed.

On a fuller record, the court concluded that the Morning Brew e-mail was not advertising within the definition used in the policy because the e-mail was not publicly distributed, and because its distribution was not widespread.<sup>19</sup> The Morning Brew e-mail was distributed to “approximately 300 persons in the defense industry, the intelligence community, and corporate America.”<sup>20</sup> The court concluded that “[e]ven with the arguably

---

12. *Id.* at 345.

13. *Id.* at 346.

14. *Id.* at 335.

15. *Id.* at 342.

16. *Id.* at 343.

17. *Id.* at 348.

18. *Id.* at 343.

19. *Id.*

20. *Id.* at 345.

small market for Toffler's services, the court finds that the Publication's distribution was not 'widespread.'<sup>21</sup> Morning Brew also was not publicly disseminated because it "was not made available to the public at large or even Toffler's market as a whole."<sup>22</sup> The court contrasted small-circulation magazines or newspapers, noting that "usually magazines and newspapers are also available for purchase by the public at large," while "Toffler did not provide a means by which other members of the public could even become aware of the Publication, never mind access a copy of it if they were inclined to do so."<sup>23</sup> In short, the e-mail was too targeted to be considered to have widespread or public distribution, and therefore was not "advertising" under the CGL Policy.

New York's Supreme Court addressed an unusual claim seeking coverage for the sale of counterfeit toothpaste in *Sarin v. CNA Financial Corp.*<sup>24</sup> In that case, the makers of Colgate toothpaste sued various "dollar stores," accusing them of selling sham Colgate toothpastes.<sup>25</sup> The stores were accused of selling "Colddate" toothpaste in a box that was similar, but not identical, to Colgate's boxes.<sup>26</sup> The Colddate box had a blue globe design with the phrase "Cavity Fighter," while the Colgate boxes had a blue ribbon swirl design with the phrase "Cavity Protection," and the phrases "Helps Strengthen Teeth" and "Great Regular Flavor" on the Colgate Box had been changed to "Strengthen Teeth" and "Great Original Taste" on the Colddate package.<sup>27</sup> The holder of the Colgate marks brought an action for federal trademark infringement and counterfeiting, federal trade dress infringement, federal false designation of origin, unfair competition and passing off, federal dilution, New York state common law trademark infringement and trade dress infringement, New York state dilution, and deceptive trade practices.<sup>28</sup> The stores sought coverage and a defense under their CGL policies, which was denied.<sup>29</sup>

While one insurer was dismissed on an unopposed summary judgment motion, the court held that the three remaining insurers were required to provide a defense.<sup>30</sup> The court rejected the argument by the insurers that the complaint did not allege any "advertising injury" because no

---

21. *Id.*

22. *Id.*

23. *Id.* at 346.

24. 2008 WL 4302951 (N.Y. Sup. Ct. Sept. 12, 2008).

25. *Id.* at \*1.

26. *Id.*

27. *Id.*

28. *Id.* at \*1-3.

29. *Id.*

30. *Id.* at \*2.

advertisements of Colddate had been run.<sup>31</sup> Instead, the court held that the complaint alleged “advertising” by the insureds because they were alleged to have put up window displays that permitted the allegedly infringing products to be seen from the street, and to have hand flyers showing pictures of the products.<sup>32</sup>

B. *Coverage for Trademark Claims as “Infringement of Title”*

In *General Casualty Co. of Wisconsin v. Wozniak Travel, Inc.*,<sup>33</sup> the Minnesota Supreme Court held that trademark claims fell within coverage for “infringement of title,” and therefore constituted “advertising injury” covered by a CGL policy. The owner of numerous trademarks relating to the fictional novels *The Hobbit* and *The Lord of the Rings* trilogy filed suit against a travel agency called “Hobbit Travel” in the U.S. District Court for the District of Minnesota, alleging that Hobbit Travel had wrongfully used the trademarked term “hobbit” in conducting its business.<sup>34</sup> Hobbit Travel used the name “hobbit” both in the name of its business and in connection with special travel offers and several domain names for web pages relating to its business.<sup>35</sup> Hobbit Travel was sued for trademark infringement, trademark dilution, and unfair competition, and sought a defense and indemnity under its CGL policy and a commercial umbrella policy, both issued by General Casualty Company of Wisconsin.<sup>36</sup> General Casualty agreed to provide Hobbit Travel a defense under a reservation of rights, but also filed suit seeking a declaratory judgment that the underlying allegations did not fall within the “advertising injury” coverage of either the CGL or umbrella policies.<sup>37</sup> The U.S. District Court for the District of Minnesota certified to the Minnesota Supreme Court the question of whether the trademark claims would be covered under the “advertising injury” coverage in the CGL and umbrella policies.

The Minnesota Supreme Court held that General Casualty had a duty to defend Hobbit Travel under the CGL policy because trademark infringement claims constituted claims for “[i]nfringement of title,” which was one of the types of “advertising injury” claims set forth in the CGL policy.<sup>38</sup> First, the court rejected the insurer’s argument that trademark infringement was not covered because the definition of “advertising injury” expressly included only “[i]nfringement of copyright, title or slogan” and

31. *Id.* at \*3.

32. *Id.* at \*5 n.3.

33. 762 N.W.2d 572 (Minn. 2009).

34. *Id.* at 573–74.

35. *Id.* at 574.

36. *Id.*

37. *Id.* at 574–75.

38. *Id.* at 578.

did not refer to “infringement of trademarks.”<sup>39</sup> In support of this argument, the insurer cited two cases from the U.S. Courts of Appeals for the Sixth and Eighth Circuits, in which those courts had concluded that if CGL policies had been intended to cover claims for trademark infringement, they would have expressly referenced “trademark infringement” with the other, listed types of infringement.<sup>40</sup> Rejecting this argument, the court concluded that the absence of any explicit reference to trademark infringement was not fatal to an insured’s right to a defense.<sup>41</sup> The court reached this conclusion because the CGL policy provided coverage for claims “arising out of” the categories defined as “advertising injury,” and the Minnesota courts construe the term “arising out of” broadly, and because insurance policy provisions must be read in favor of finding coverage under Minnesota law.<sup>42</sup>

The Minnesota Supreme Court then turned to the meaning of “infringement of title,” and held that the alleged trademark infringement fell within the plain meaning of that term.<sup>43</sup> The court relied upon a prior analysis by the Supreme Court of Wisconsin, which concluded that the definitions of “title” and “trademark” had significant overlap, and that “title” was a broader term that included “trademark.”<sup>44</sup> Thus, applying a broad interpretation of the term “title” in the policy, trademark infringement would be a subset of “infringement of title,” and within coverage.<sup>45</sup>

The court reviewed, and rejected, a minority view that “closely examined the scope of ‘misappropriation of advertising ideas,’ and held that each word’s unambiguous definition in tort or common law would be too stretched by including the extensive body of law protecting trademarks.”<sup>46</sup> Under this reading, where “misappropriation of advertising ideas” was defined to include “infringement of copyright, title or slogan,” each of these terms was considered to be unambiguous, “with ‘title’ having an ordinary meaning of ‘the non-copyrightable title of a book, film, or other history or artistic work.’”<sup>47</sup> The Minnesota Supreme Court rejected this view as providing “unduly narrow” interpretations of the policy terms.<sup>48</sup>

---

39. *Id.* at 576.

40. *Id.* (citing *Callas Enters., Inc. v. Travelers Indem. Co.*, 193 F.3d 952, 956–57 (8th Cir. 1999), and *ShoLodge, Inc. v. Travelers Indem. Co.*, 168 F.3d 256, 260 (6th 1999)).

41. *Id.*

42. *Id.*

43. *Id.* at 578.

44. *Id.* at 577 (citing *Acuity v. Bagadia*, 750 N.W.2d 817, 827 (Wis. 2008)).

45. *Id.*

46. *Id.* at 578 (citing *Advance Watch Co. v. Kemper Nat’l Ins. Co.*, 99 F.3d 795, 803 (6th Cir. 1996)).

47. *Id.* (citing *ShoLodge, Inc. v. Travelers Indem. Co.*, 168 F.3d 256, 259 (6th 1999)).

48. *Id.*

The court also concluded that the underlying trademark infringement claims fell within the umbrella policy's definition of "advertising injury," although for a different reason.<sup>49</sup> The umbrella policy defined "advertising injury," in part, as injury arising out of the "use of another's advertising idea in your 'advertisement.'"<sup>50</sup> The court interpreted the term "advertising," which was not defined in the policy, "in favor of finding coverage," and applied a "standard broad" definition of advertising as "any oral, written, or graphic statement made by the seller in any manner in connection with the solicitation of business."<sup>51</sup> Based on this definition, the court held that Hobbit Travel's uses of the "hobbit" mark were made in connection with the solicitation of travel business, and thus constituted advertising injury covered under the umbrella policy.<sup>52</sup>

The conclusion that trademark infringement could be covered under "infringement of title" was not unanimous. One concurring justice disagreed and instead would have held that the alleged trademark infringement constitutes "advertising injury" under the alternate definition of the term applicable to the "misappropriation of advertising ideas."<sup>53</sup> A dissenting justice would have found no coverage under the CGL policy under the theory that "if the policy was meant to cover trademark infringement, the policy would have said so."<sup>54</sup> The dissent concluded that the word "title" in the CGL policy phrase "infringement of title" did not refer to trademarks, but referred to noncopyrightable titles of books, films, or other artistic works.<sup>55</sup> The dissent also argued that the term "advertising" in each of the two policies referred to the solicitation of business, "and trademarks, which only protect the identity of the product, are not solicitations of business."<sup>56</sup>

### C. Coverage for Trade Dress as "Advertising Injury"

Insureds frequently seek to extend CGL coverage to intellectual property claims by seeking to recast claims of direct infringement as related to "advertising." The Washington State intermediate appellate court found potential coverage for trade dress infringement as "advertising injury" in *Australia Unlimited, Inc. v. Hartford Casualty Insurance Co.*,<sup>57</sup> even though the advertising itself was at best peripheral to the infringement claims. In

49. *Id.* at 579–80.

50. *Id.* at 579.

51. *Id.*

52. *Id.* at 580.

53. *Id.* at 580–81 (Gildea, J., concurring).

54. *Id.* at 581–82 (Magnuson, C.J., dissenting).

55. *Id.*

56. *Id.* at 582.

57. 198 P.3d 514 (Wash. Ct. App. 2008).

that case, Australia Unlimited (“AU”) was a producer and distributor of shoes. A competitor, Crocs, filed a complaint with the International Trade Commission and a lawsuit in federal court against AU and others, alleging claims for patent and trade dress infringement. AU sought indemnity and a defense from its umbrella CGL insurer, which denied coverage.<sup>58</sup> The court held that the umbrella insurer was required to contribute to the defense of the federal court proceedings.<sup>59</sup>

The umbrella policy provided for payment of sums that AU was legally obligated to pay in excess of the underlying insurance because of “personal and advertising injury.”<sup>60</sup> The court concluded that the complaint provided notice pleading of an “advertising injury,” based upon a three-part test that included “(1) whether the insured was engaged in advertising, (2) whether the insured’s alleged conduct was one of the offenses enumerated by the policy as giving rise to an advertising injury, and (3) whether the injury arose from an offense committed during the policy period and in the course of the advertising activity.”<sup>61</sup> With respect to the first step, the court concluded that the insured was engaged in “advertising,” based on the allegations in the complaints that AU was alleged to “market, import, and/or sell footwear that infringes Crocs Trade Dress”; that AU sold its brands of shoes through its website; and that AU’s footwear infringed Crocs’ trade dress.<sup>62</sup>

The court next concluded that AU’s conduct was an enumerated offense in the policy because the complaint alleged that Crocs’ trade dress had been infringed.<sup>63</sup> The policy included “[c]opying in your ‘advertisement[,]’ a person’s or organization’s ‘advertising idea’ or style of ‘advertisement,’” and defined “advertising idea” as “any idea for an advertisement.”<sup>64</sup> “‘Trade dress’ is a technical term that refers to ‘the total image of a product and may include features such as size, shape, color or color combinations, textures, graphics, or even particular sales techniques.’”<sup>65</sup> The court observed that “[w]hile the classic trade dress infringement action involved the packaging or labeling of goods, it may extend to marketing techniques and can include certain sales techniques designed to make the product readily identifiable to consumers and unique in the marketplace.”<sup>66</sup>

---

58. *Id.*

59. The court agreed with the insurer that it did not need to defend the ITC proceedings, which sought injunctive relief and not damages. *Id.* at 518.

60. *Id.* at 515.

61. *Id.*

62. *Id.*

63. *Id.*

64. *Id.*

65. *Id.* at 516 (quoting *Hyman v. Nationwide Mut. Fire Ins. Co.*, 304 F.3d 1179, 1189 (11th Cir. 2002)).

66. *Id.* at 516.

Third, the court concluded that allegations of trade dress infringement could include claims that “advertising ideas” or “style of advertisement” had been stolen.<sup>67</sup> “Here, Crocs not only made general allegations of trade dress infringement, it also specifically included in its trade dress description its ‘marketing and sales materials’ that ‘share an overall unique look and feel’ that serve to identify Crocs as the origin”; Crocs specifically identified AU’s website as a source of infringing activities, and sought damages for AU’s profits from its “‘marketing’ of products bearing any ‘copy or colorable imitation’ of the Crocs Trade Dress.”<sup>68</sup> Based on these factors, the insurer had a duty to defend the lawsuit filed in federal court.

Finally, the court rejected the insurer’s effort to apply an exception to umbrella coverage that stated that “[t]his policy does not apply to ‘personal and advertising injury,’” but also stated that “[t]his exclusion does not apply if ‘underlying insurance’ is applicable to ‘personal and advertising injury’ and to claims arising out of that ‘personal and advertising injury.’”<sup>69</sup> There was no dispute that the underlying coverage applied to “personal and advertising injury,” but the insurer contended that the specific claims in this case were excluded in the underlying policy by an “intellectual property” exclusion. Thus, the insurer argued, if there was no coverage for these specific claims in the underlying CGL policy, then they were excluded under the umbrella policy as well. The court held that it was sufficient if the underlying insurance covered *some* claims arising from personal or advertising injury—the underlying insurance did not have to cover the specific claims in the case.<sup>70</sup>

#### D. Coverage for Copyright Claims as “Advertising Injury”

The U.S. Court of Appeals for the Ninth Circuit found that a CGL insurer had no duty to provide a defense to copyright claims in *UMG Recordings, Inc. v. American Home Assurance Co.*<sup>71</sup> In that case, TVT Records, Inc. and TVT Music, Inc. (“TVT”) sued Def Jam Music Group, a division of UMG Recordings, Inc., concerning the right to produce and market recorded music performances by a rap group known as Cash Money Click.<sup>72</sup> TVT alleged claims for breach of contract and copyright infringement against Def Jam arising out of Def Jam’s alleged intentional interference with TVT’s release of a Cash Money Click album, after Def Jam allegedly induced two members of the group to withhold the master recording of the album from

---

67. *Id.*

68. *Id.*

69. *Id.*

70. *Id.* at 517.

71. 2008 U.S. App. LEXIS 18990 (Sept. 2, 2008).

72. *Id.* at \*2.

TVT.<sup>73</sup> UMG (Def Jam's parent) sought a defense and indemnity from its CGL insurer, and filed suit against the insurer after UMG's claim was denied. The trial court held that UMG was not entitled to coverage under the applicable CGL policies because no "personal and advertising injury" was alleged, and the Ninth Circuit affirmed the decision.<sup>74</sup>

To obtain coverage under the "personal and advertising injury" terms of its CGL policy, UMG sought to recast a previously released CD as an "advertisement."<sup>75</sup> TVT had alleged that this previously released CD also infringed its copyrights and, according to UMG, this CD also announced the upcoming release of the Cash Money Click album that formed the basis of TVT's main claims.<sup>76</sup> UMG asserted that the previously released CD therefore constituted an "advertisement" of the Cash Money Click album, and the claims that the CD infringed TVT's copyright gave rise to "advertising injury."<sup>77</sup> In rejecting this argument, the court noted that "advertisement" is defined in the relevant policies as notice regarding "your goods, products or services," and that "advertising injury" is defined as infringement in "your" advertisement.<sup>78</sup> As TVT maintained ownership rights in the Cash Money Click album, the allegations of copyright infringement did not concern Def Jam's good, but instead referred to TVT's product.<sup>79</sup> As the underlying allegations did not concern Def Jam's product, there was no potential coverage under the advertising injury clauses of its policies.<sup>80</sup>

The underlying suit also contained allegations that Def Jam misrepresented TVT's efforts to protect its rights to release the Cash Money Click album.<sup>81</sup> Def Jam characterized TVT's claims of misrepresentation as allegations of "disparagement of goods, products or services," which fell within

---

73. *Id.*

74. *Id.* at \*2-3. The Ninth Circuit also rejected UMG's attempt to claim coverage under the CGL policy's "property damage" terms. The Ninth Circuit held that, under California law, there is no "occurrence," and coverage is not triggered, unless the cause, as well as the result, of the insured's actions is "unexpected, unusual and unforeseen." *Id.* at \*4-5. The master recording was alleged to have been intentionally withheld, and the court rejected Def Jam's argument that, even if it intentionally withheld the master recording, it did not intend to harm TVT, but instead to benefit itself. *Id.* at \*5. The court found Def Jam's motive to be irrelevant, where the harm to TVT was reasonably expected as the result of the act of withholding the recording. *Id.* There was no "occurrence" to trigger property coverage, where the damage to TVT was a direct and immediate result of an intended and expected act. *Id.*

75. *Id.* at \*6.

76. *Id.*

77. *Id.*

78. *Id.* at \*6-7 (emphases in original).

79. *Id.*

80. *Id.* at \*7.

81. *Id.*

the definition of “personal injuries” covered by the subject policies.<sup>82</sup> The court, however, found that the policy’s coverage for “disparagement” only included those claims that constituted trade libel and resulted in pecuniary injury.<sup>83</sup> The underlying allegations that Def Jam mischaracterized TVT’s efforts to protect TVT’s own rights were not “disparagement” under this definition.<sup>84</sup> One dissenting judge, however, would have found that the CGL policy provided potential coverage for the disparagement claim, and that there was therefore a duty to defend it. The dissent concluded that an allegation that TVT would not stand up for its own rights, or those of its artists, could have the effect of disparaging TVT’s services to artists, who “put themselves in [TVT’s] hands” when they rely on TVT to release their albums.<sup>85</sup> False statements that may influence an artist not to use TVT’s services cause financial damage and, this judge would hold, trigger the duty to defend a claim of disparagement of services.<sup>86</sup>

### III. EXCLUSIONS APPLIED TO INTELLECTUAL PROPERTY CLAIMS UNDER CGL POLICIES

Courts in the past year have addressed efforts by insureds to avoid or overcome intellectual property exclusions in CGL policies, exclusions for intentional conduct, and exclusions based upon prior publication of an allegedly infringing advertisement prior to the inception of policy coverage.

#### A. *Intellectual Property Exclusions*

The Massachusetts Supreme Court interpreted an intellectual property exclusion broadly to preclude coverage or a defense in *Finn v. National Union Fire Insurance Co. of Pittsburgh, PA*.<sup>87</sup> In that case, plaintiff “Uniscribe provided records management, document imaging and electronic printing services to law firms and corporations.”<sup>88</sup> A nephew of a Uniscribe employee was paid cash to work on a rush project, and he stole documents relating to DirectTV from a law firm client and posted the documents on the Internet “to help the ‘hacker’ community.”<sup>89</sup> The law firm threatened to file suit against Uniscribe, and Uniscribe sought coverage under its CGL policy. After the insurer denied coverage or a defense, Uniscribe and the law firm settled the dispute.<sup>90</sup> Uniscribe assigned its rights under

82. *Id.*

83. *Id.* at \*7–8.

84. *Id.*

85. *Id.* at \*11 (Graber, J., concurring in part, dissenting in part).

86. *Id.*

87. 896 N.E.2d 1272 (Mass. 2008).

88. *Id.* at 1275.

89. *Id.* at 1276.

90. *Id.*

---

---

its CGL policy, and the assignee filed suit against the CGL insurer seeking coverage.<sup>91</sup>

The policy contained an exclusion stating that coverage did not apply to “any claim arising out of any misappropriation of trade secret or infringement of patent, copyright, trademark, trade dress or any other intellectual property right.”<sup>92</sup> The assignee argued that this exclusion did not apply to conduct by a third party, in this case the nephew, who was not employed by Uniscribe, and also argued that the claim did not “arise” from any misappropriation of a trade secret.<sup>93</sup> The court rejected both claims, and found that the exclusion applied.

First, the court held that the exclusion could apply to the actions of the nephew. “The phrase ‘arising out of’ must be read expansively, incorporating a greater range of causation than that encompassed by proximate cause under tort law.”<sup>94</sup> According to the court, “[t]he breadth of the phrase ‘arising out of,’ in conjunction with the words ‘any claim,’ unambiguously encompasses claims based on third-party conduct.”<sup>95</sup> Thus, it was not necessary to determine whether or not the conduct of the employee’s nephew could be attributed to Uniscribe.<sup>96</sup>

Second, the court found that the term “arising out of” was broad enough to encompass the misappropriation by the nephew of trade secrets belonging to DirectTV. The law firm in this case was not directly damaged by the theft, but instead it had been forced to write off a large amount of legal fees otherwise due from DirectTV on account of the loss of trade secrets by DirectTV resulting from the breach of security while documents were in the law firm’s possession.<sup>97</sup> Uniscribe argued that “arising out of” connoted “but for” causation, and that forgone legal fees are “not the sort of damages normally sought in a misappropriation claim and therefore the requisite causal connection between the prohibited conduct and injury is lacking.”<sup>98</sup> The court disagreed, however, concluding that “but for” causation did exist: “[T]here is no indication in the record on appeal that Jones Day would have incurred any loss in the absence of the nephew’s misappropriation.”<sup>99</sup> Thus, the exclusion applied to the nephew’s misappropriation from the law firm of DirectTV’s trade secrets.

---

91. *Id.*

92. *Id.*

93. *Id.* at 1278.

94. *Id.*

95. *Id.*

96. *Id.*

97. *Id.*

98. *Id.* at 1279.

99. *Id.*

The U.S. District Court for the District of Maryland rejected a number of efforts to argue around an intellectual property exclusion in *Marvin J. Perry, Inc. v. Hartford Casualty Insurance Co.*<sup>100</sup> Marvin J. Perry, Inc. (MJP) was sued for alleged common law and statutory trademark and trade name infringement by a plaintiff who claimed to have the exclusive use of the trademark and trade name “Marvin J. Perry & Associates.” MJP sought indemnity and a defense from its insurer, Hartford. Hartford rejected both, claiming that there was no potential coverage of the dispute on account of an “Intellectual Property Rights Exclusion” in the underlying policy.<sup>101</sup>

The policy provided that Hartford would pay for liability for “personal and advertising injury,” which would include injury arising out of “infringement of copyright, slogan, or title of any literary or artistic work, in your ‘advertisement.’”<sup>102</sup> At the same time, the policy excluded any claim “[a]rising out of any violation of any intellectual property rights, such as patent, trademark, trade name, trade secret, service mark, or other designation of origin or authenticity.”<sup>103</sup> The court concluded that this exclusion barred coverage, citing a number of cases holding that coverage for advertising injury could be excluded for any injury arising out of violation of intellectual property rights.

MJP argued that it should be covered under a count in the complaint that alleged unfair competition by infringement of common-law rights, and that this claim “involved claims that were separate and distinct from the trademark and trade name contentions, which are subject to the Intellectual Property Rights Exclusion.”<sup>104</sup> MJP also argued that allegations that it improperly registered a website address with the similar-sounding name could be viewed as “disparagement of [plaintiff’s] separate identity from MJP.”<sup>105</sup> The court rejected this argument. Unfair competition, under Maryland law, “springs from the rule that an individual is liable for diverting customers from another to himself by fraudulent misrepresentation.”<sup>106</sup> In this case, however, the use of the trademark and the trade name were the fraudulent acts that diverted customers. Thus, the alleged unfair competition arose only out of the alleged violations of intellectual property rights, and the intellectual property exclusion applied.<sup>107</sup>

The same reasoning was applied to foreclose a claim based upon alleged interference with business relationships, which “requires a showing

---

100. 615 F. Supp. 2d 432 (2009).

101. *Id.* at 434.

102. *Id.* at 435.

103. *Id.*

104. *Id.* at 438.

105. *Id.* at 437.

106. *Id.*

107. *Id.* at 436.

of intentional and willful acts that are calculated to cause damages to the plaintiff's lawful business and done with the unlawful purpose of causing actual damage and loss absent any right of justifiable cause to do so."<sup>108</sup> An important element of this tort is that "improper means" were used to cause the interference, and in this case the only alleged "improper means" were based upon the use of the trade name and trademark. Thus, once again, the tort arises only out of alleged intellectual property violations, and within the scope of the intellectual property exclusion.<sup>109</sup>

The U.S. District Court for the Eastern District of Wisconsin rejected an effort to transform a design misappropriation claim into "advertising injury," so that the claim would fit within an exception to an exclusion for all intellectual property claims. In *Krueger International, Inc. v. Federal Insurance Co.*,<sup>110</sup> the insured was a furniture manufacturer who was accused by another manufacturer of misappropriating a furniture design, and also was accused of allegedly concealing its misappropriation of design. The design owner filed suit, purporting to state claims of fraudulent concealment, breach of fiduciary duty, misrepresentation and fraud, and misappropriation, among others. The insured sought coverage under the "advertising injury" coverage of CGL policies issued by two insurers: St. Paul and Federal.<sup>111</sup> After Krueger filed suit against both insurers, the court concluded that neither insurer had a duty either to defend or to cover the claims against Krueger.<sup>112</sup>

The St. Paul policy contained an exclusion for any injury "that results from any actual or alleged infringement or violation" of any "intellectual property rights or laws."<sup>113</sup> This exclusion, however, did not apply to any "advertising injury that results from unauthorized use of any copyrighted or trademarked advertising material, slogan, style, or title of others in your advertising."<sup>114</sup> Krueger was alleged to have copied a design for furniture and displayed some of that furniture in its showroom without permission. On this basis, Krueger asserted that the furniture, when displayed, should have been treated as advertising materials under the policy.<sup>115</sup> Krueger also contended that the aesthetic nature of the design that was allegedly stolen was an "advertising idea and style because it was designed to appeal to

---

108. *Id.* at 438.

109. *Id.*

110. 637 F. Supp. 2d 604 (E.D. Wis. 2008).

111. *Id.* at 606.

112. *Id.* at 607.

113. *Id.* at 608.

114. *Id.*

115. *Id.* at 612-13.

consumers through unique appearance,” such that the alleged misappropriation and use of the furniture design was itself an advertising injury.<sup>116</sup>

The court rejected both of these arguments, finding that the display of infringing furniture in a showroom does not “amount to a claim KI improperly used S & P advertising materials,” and there was no suggestion in the complaint that the furniture had been created for purposes of “advertising.”<sup>117</sup> The court also rejected the argument that “the product itself by virtue of its design constitutes ‘advertising.’”<sup>118</sup> Instead, “advertising is communication *about* a product, and as such it cannot logically be the product *itself*.”<sup>119</sup> Here, there were no allegations in the complaint about the advertising of the product at issue, or alleging potential consumer confusion between two products. Instead, the plaintiff sought a share of Krueger’s profits as a result of alleged misappropriation of a design.<sup>120</sup> Hence, the “advertising injury” exception to the intellectual property exclusion in the St. Paul policy did not apply.<sup>121</sup>

Federal, the second insurer, had issued a number of policies that potentially could apply.<sup>122</sup> The court concluded that the complaint did not allege any claim that fell within the Federal CGL policies’ definitions of “advertising injury,” for the same reasons articulated with respect to the St. Paul policy.<sup>123</sup>

#### B. *Exclusions for Intentional Conduct*

The Illinois Appellate Court declined to apply an intentional conduct exclusion to a variety of intellectual property claims in *Cincinnati Insurance Co. v. American Hardware Manufacturers Ass’n*.<sup>124</sup> The dispute in that case stemmed from competing hardware shows. The American Hardware Manufacturer’s Association, or AHMA, was a nonprofit trade association serving the hardware and home improvement industries. AHMA filed suit against several entities stemming from a dispute over competing hardware shows, and those entities filed counterclaims against AHMA, alleging defamation per se, libel per se, breach of contract, violation of the Lanham Act, and violation of state deceptive practices statutes.<sup>125</sup> AHMA sought

---

116. *Id.*

117. *Id.* at 613.

118. *Id.* at 618.

119. *Id.*

120. *Id.* at 616.

121. *Id.* at 617.

122. *Id.* at 618.

123. *Id.*

124. 898 N.E.2d 216 (Ill. App. Ct. 2008).

125. *Id.* at 220.

---

---

a defense and indemnity under its CGL policy with Cincinnati Insurance Co., and Cincinnati filed suit seeking a declaration that it was not obligated either to indemnify AHMA or to provide a defense.

The claims at issue in the case alleged that, between July 2003 and April 2004, AHMA and its officers made false statements about the defendants and their trade show, and “exhibited a reckless disregard for the falsity of these statements.”<sup>126</sup> One version of AHMA’s policy provided coverage for personal or advertising injuries, including “[o]ral or written publication of material that slanders or libels a person or organization or disparages a person’s or organization’s goods, products and services,” while a later version covered claims for injury arising out of “[o]ral or written publication, in any manner, of material that slanders or libels a person or organization.”<sup>127</sup> Both versions of the policy, however, excluded coverage for “knowing violation of rights of another” or “material published with knowledge of falsity,” and the definition of “occurrence” under each version “limited coverage only to those claims resulting from unintentional conduct.”<sup>128</sup>

Under Illinois law, the insurer was obligated to provide a defense if the complaint alleged facts “within or potentially within coverage, . . . even if the allegations are groundless.”<sup>129</sup> It is sufficient if any one of several theories of recovery falls within the scope of coverage.<sup>130</sup> Cincinnati contended that it had no duty to defend against intentional torts such as defamation and libel, and was not required to provide coverage because the defamation and libel counts alleged in the counterclaims “do not allege any fortuitous loss” and “all insurance is subject to the limitation that it is only applicable to fortuitous loss.”<sup>131</sup> The court rejected this argument, utilizing the definition of “fortuitous” as “happening by chance or accident, or occurring unexpectedly or without known cause.”<sup>132</sup> The court concluded that defamation could involve fortuitous loss because, under Illinois law, defamation liability could be governed by either a negligence or actual malice standard. Even under actual malice, “[a]ctual malice need not be equated with an intention to do an act from which injury may be expected” because allegations of recklessness or indifference to consequences may suffice.<sup>133</sup> The court held that “alleged deliberate misconduct does not always bring a claim within an intentional conduct exclusion,” and that “an

---

126. *Id.* at 224.

127. *Id.* at 222.

128. *Id.* at 239.

129. *Id.* at 236.

130. *Id.*

131. *Id.*

132. *Id.* at 237.

133. *Id.*

intent to injure or expectation of injury is not an element of the tort of defamation.”<sup>134</sup>

The court also observed that the Cincinnati policy was inconsistent in that it purported to provide coverage for defamation and libel but also defined coverage only to include unintentional conduct. The court held that such policies “contain internal inconsistencies because, ‘on the one hand Cincinnati purports to provide coverage for intentional tort claims, and on the other hand Cincinnati denies coverage for those same claims.’”<sup>135</sup> The court construed this inconsistency in AHMA’s favor as the insured and, since the counterclaims could be interpreted to allege reckless conduct that “may bring a defamation claim within the potential coverage of a policy which covers defamation but excludes knowing falsehoods,” the court found that Cincinnati had a duty to defend.<sup>136</sup> The court did not need to address whether other claims potentially fell within the coverage because the duty to defend “arises even if only one of several theories is within the potential coverage of the policy.”<sup>137</sup>

New York’s Supreme Court rejected an effort to apply an intentional conduct exclusion to forestall an insured’s right to a defense in *Sarin v. CNA Financial Corp.*<sup>138</sup> As discussed above, in *Sarin*, a number of dollar stores were accused of selling “Colddate” toothpaste, in a nearly identical box with nearly identical slogans, and the stores were sued for federal and state trademark infringement, trade dress infringement, and counterfeiting claims.<sup>139</sup> In seeking to avoid any need to provide a defense to the dollar stores, the insurers argued that there was no coverage under the policies’ exclusion for any “advertising injury” that arose out of the oral or written publication of material, by or at the direction of the insured with knowledge of falsity, and arising out of the willful violation of a penal statute or ordinance committed with the consent of the insured.<sup>140</sup> The court rejected this claim because the stores could have been found liable in the underlying action on at least some of the claims without a finding of intentional or knowing conduct on their part.<sup>141</sup> The blatant copying was not enough, by itself, to show that the insured’s conduct had necessarily been intentional.

134. *Id.* at 240.

135. *Id.* at 239 (quoting *Hurst-Rosche Eng’rs, Inc. v. Commercial Union Ins. Co.*, 51 F.3d 1336 (7th Cir. 1995)).

136. *Id.*

137. *Id.*

138. 2008 WL 4302951 (N.Y. Sup. Ct. Sept. 12, 2008).

139. *See supra* notes 24–32.

140. *Sarin*, 2008 WL 4302951, at \*6–7.

141. *Id.*

---

---

### C. Exclusion on Account of Prior Publication

In *Capitol Indemnity Corp. v. Elston Self Service Wholesale Groceries, Inc.*,<sup>142</sup> the Seventh Circuit affirmed a partial grant of summary judgment in favor of an insured, finding that a “prior publication” exclusion did not extinguish an insurer’s duty to defend against underlying trademark claims. In that case, Lorillard Tobacco Co., the owner of a federal trademark registration for “Newport” cigarettes, sued Elston, a distributor of wholesale merchandise, as well as its owner and certain employees, alleging that Elston was selling counterfeit “Newport” cigarettes.<sup>143</sup> Lorillard asserted claims for trademark infringement, false designation of goods, dilution, unfair competition, statutory deceptive trade practices, common law fraud, and inducing third parties to commit fraud.<sup>144</sup>

Elston tendered a claim to its CGL insurer, who denied coverage and filed suit in federal court against Elston, its owner, and the employees, seeking a declaration that it had no duty to defend or indemnify.<sup>145</sup> On cross-motions for summary judgment, the trial court held that the insurer had no duty to defend under the CGL policy’s coverage for “personal injury,” but found that the insurer was required to provide a defense under the policy’s “advertising injury” coverage.<sup>146</sup> The trial court held that infringement of “copyright, title or slogan” includes coverage for trademark infringement, and further found that trademark infringement falls within advertising injury coverage for the “misappropriation of advertising ideas.”<sup>147</sup>

On appeal, the insurer did not challenge the district court’s finding that the underlying complaint alleged “advertising injury.”<sup>148</sup> Instead, the insurer focused on its contention, also rejected below, that coverage was barred by the “prior publication” exclusion, which stated that the “insurance does not apply to . . . ‘advertising injury’ [a]rising out of oral or written publication of material whose first publication took place before the beginning of the policy period.”<sup>149</sup> The underlying complaint, however, did not allege that the insureds sold counterfeit cigarettes prior to the inception of the policy.<sup>150</sup> Instead, the insureds had (or arguably had) previously sold genuine Newport cigarettes that contained the same marks and packaging as the later fakes.<sup>151</sup> The court thus addressed the narrow issue of whether the

---

142. 559 F.3d 616 (7th Cir. 2009).

143. *Id.* at 617.

144. *Id.*

145. *Id.*

146. *Id.* at 618.

147. *Id.* at 618–19.

148. *Id.* at 619.

149. *Id.*

150. *Id.*

151. *Id.*

prior publication exclusion abrogated the insurer's duty to defend because, prior to the issuance of the policy, the insureds "sold genuine Newport cigarettes that contained packaging and wrapping displaying the Newport marks in a manner that appeared identical to the alleged counterfeits."<sup>152</sup>

The court rejected the insurer's argument, after concluding that the term "material" in the phrase "material whose first publication took place before the beginning of the policy period" was intended "to refer to 'injurious' material."<sup>153</sup> According to the court, therefore, "the prior publication exclusion abrogates the insurer's duty to defend only where it can prove that the insured's prior publication of the same actionable, injurious material alleged in the underlying complaint occurred prior to the beginning of its policy."<sup>154</sup> It is "the wrongful act that triggers the prior publication exclusion," and therefore the noninfringing publication, even if identical to the later infringing ones, could not constitute a "prior publication" sufficient to avoid coverage.<sup>155</sup>

---

152. *Id.* at 620.

153. *Id.*

154. *Id.*

155. *Id.*