GAUNTLETT & ASSOCIATES

ATTORNEYS AT LAW

GLOBAL POLICYHOLDER INSURANCE RECOVERY & COMPLEX LITIGATION

Presented by
David A. Gauntlett
Principal
Gauntlett & Associates
18400 Von Karman, Suite 300
Irvine, CA 92612
(949) 553-1010
DAG@gauntletlaw.com
www.GauntlettLaw.com

Presented to:
WBASNY

April 21, 2023

Insurance Coverage for Intellectual Property Infringement Lawsuits Under CGL

AGENDA: Five Issues

1. Recurring Issues in Insurance Coverage
2. Intellectual Property Coverage as “Injury” in CGL Policies
3. The Three Part Test for CGL Policies
4. Personal and Advertising Injury Exclusions
5. Issues That Require Coverage Counsel’s Assistance

1. Recurring Issues in Insurance Coverage

First, What Are The Facts In Analyzing Insurance Coverage?

***Those Certain Underwriters at Lloyd's, London v. DVO, Inc.*,** 473 F. Supp. 3d 236, 259–60 (W.D.N.Y. 2020) (Duty to defend is triggered whenever there is possibility of amendment to complaint that would trigger coverage).

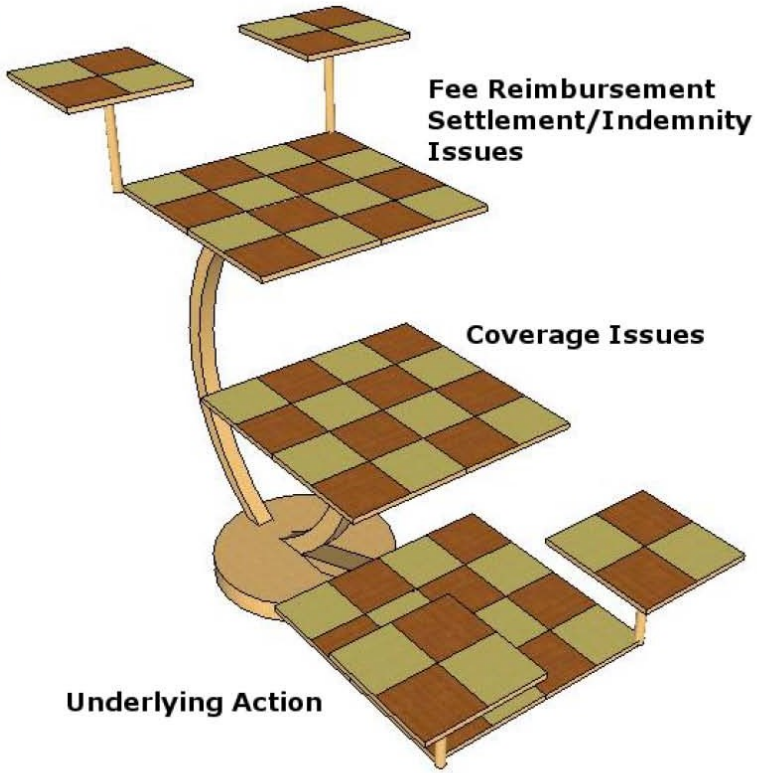
Syversten v. Great Am. Ins. Co., 700 N.Y.S. 2d 289, 291-292 (App. Div. 1999) ("A party's characterization of the causes of action alleged…are not controlling…we…determine the nature of the claims based upon the facts alleged and not the conclusion which the pleader draws there from.")

Pension Trust Fund v. Federal Ins. Co., 307 F.3d 944, 951 (9th. Cir. (Cal.) 2002) ("[R]emote facts buried within causes of action that may potentially give rise to coverage are sufficient to invoke the defense duty … [and the] law does not require that the insured's conduct proximately cause the third party claim in order to trigger the defense duty.")

Second, A Strategic Approach to Finding Coverage

FAIR USE. Images For Educational Purposes Only

Each movement must be triangulated as the impact in each of the three dimensions must be calibrated, analyzed, integrated into the strategy of the party moving the chess piece

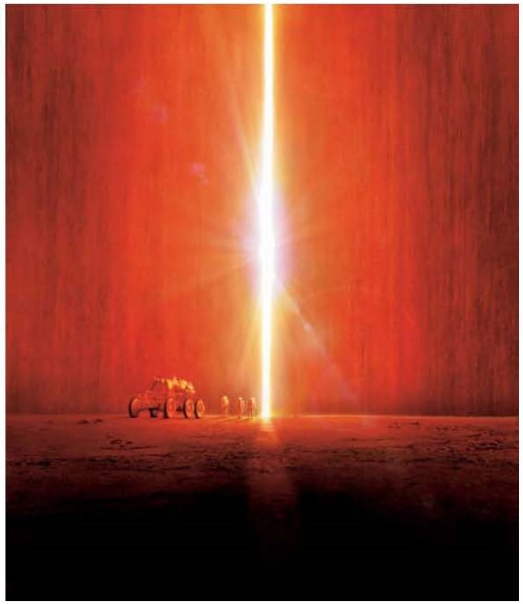


Third, The Paucity of Coverage Case Law Does Not Mean That Coverage Opportunities Do Not Exist.

Just because it hasn't been discovered, doesn't mean

IT DOESN'T EXIST

FAIR USE. For Educational Purposes Only



2. Intellectual Property Coverage as "Injury" in CGL Policies

"Personal and Advertising Injury" Coverage

Two Non-Offense Qualifications for "Personal and Advertising Injury"

- "1. a. We will pay those sums that the insured becomes obligated to pay **as damages**."
- because of "personal and advertising injury" . . . "injury . . . arising out of one or more of the following offenses. . ."

"Injury Arising Out Of"

Injury need only "arise out of" (be connected with) an "advertising injury" offense evidencing a causal relationship, but not one of proximate causation.

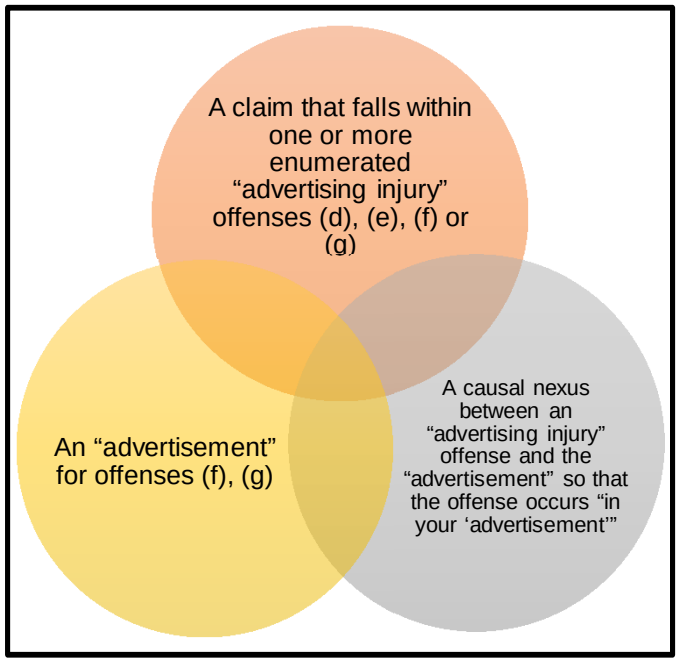
"As Damages"

"Damages because of 'personal and advertising injury . . ..."

Attorneys' fees awardable against the claimant are "damages."

3. The Three Part Test for CGL Policies

The Three Part Test



Applying The Three Part Test

Offense

- **Offense (d)** – "oral or written publication in any manner, of material that slanders or libels a person or organization or disparages a person or organization's goods, products or services"
- **Offense (e)** – "oral or written publication of material that violates a person's right of privacy"
- **Offense (f)** "use of another's advertising idea in your 'advertisement'"
- **Offense (g)** "infringing upon another's copyright, trade dress or slogan in your 'advertisement'"

Advertisement

- " 'Advertisement' means 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."

Causal Nexus

- Causal nexus between "offense" and "advertising activities."

a. “Advertising Injury” Coverage For IP Claims

Malicious Prosecution
Offense (b) – “malicious prosecution”

- ***St. Paul Mercury Ins. Co. v. Tessera, Inc.***, Case No. 12-cv-01827-RMW, 2016 U.S. Dist. LEXIS 81464, *14 (N.D. Cal. San Jose Div. June 21, 2019) **(Yes)** *(*“[T]he intellectual property exclusion clause is not triggered because…there "is no intellectual property right to be free from patent misuse." [citing *Aurafin-OroAmerica, LLC v. Fed. Ins. Co.*, 188 F. App'x 565, 566 (9th Cir. 2006)].)

- ***Travelers Prop. Casualty Co. of Am. v. KLA-Tencor Corp***., 2020 Cal. App. Unpub. LEXIS 340, *12 (6th App. Dist. 1/16/20) **(No)** (No coverage for “malicious prosecution” in “Walker Process” claim. A “Walker Process” claim does not necessarily involve any legal proceedings, it arises from fraud on the PTO, not any court.)

Unfair Competition/False Advertising/Disparagement
Offense (d) – “oral or written publication in any manner, of material that slanders or libels a person or organization or disparages a person or organization’s goods, products or services”

- **Vitamin Energy, LLC v. Evanston Ins. Co.,** 22 F.4th 386, 395–96 (3d Cir. (Penn.) 2022) **(Yes)** (“[T]he term ‘unfair competition’ does not have a singular, unambiguous meaning. . . . In context, ‘unfair competition’ in the Intellectual Property exclusion gains meaning from its neighbors[.] . . . [T]hose terms refer narrowly and consistently to intellectual property rights, and so should "unfair competition.” . . . The term thus does not necessarily bar coverage based on allegations supporting a potential disparagement claim under Michigan law.”)

- **EP&A Envirotac, Inc. v. Great Am. E&S Ins. Co.,** No. 5:21-cv-00145-JWH-SHKx, 2021 U.S. Dist. LEXIS 141283, *10–11 (C.D. Cal. July 27, 2021) **(No)** (“Thus, although the express references to intellectual property infringement are not included in the first or second amended complaint, the second amended complaint still includes allegations regarding the violation of intellectual property rights. . . . [T[he unfair competition exclusion bars coverage . . . because it applies ‘not just to “any claim,” but also to any “suit” that includes [] unfair competition claims.’”)

b. “Advertising Injury” Coverage For IP Claims

Trade Secret Misappropriation
Offense (e) – “Invasion of a person’s right of privacy”

- ***LensCrafters, Inc. v. Liberty Mutual Fire Ins. Co.***, No. C 04-1001 SBA, 2005 WL 146896, *36-37 (N.D. Cal. Jan. 20, 2005) **(Yes)** (LensCrafters’ disclosure of private medical information is a violation of privacy rights fits within the ambiguous language of Liberty’s policy stating that “publication of material that violates a person's right of privacy“, thus Liberty has a duty to defend.)

- ***Tela Bio, Inc. v. Fed. Ins. Co.***, 761 Fed. Appx. 140, 143-144 (3d Cir. (Pa.) Jan. 16, 2019) **(No)** (The court affirms that there was no duty to defend because the underlying case involving Tela’s “misappropria[tion] of its trade secrets and proprietary information” when they allegedly “defam[ed] LifeCell product and reputation” falls within the intellectual property exclusion.)

Patent Infringement
Offense (f) – “use of another’s advertising idea in your ‘advertisement’”

- ***Dish Network Corp. v. Arch Spec. Ins. Co.,*** 659 F.3d 1010, 1022 (10th Cir. (Colo.) 2011) **(Yes)** (“When the technology's patented advertising capabilities are considered . . . the allegations . . . encompass ‘distribution of promotional materials,’ [so as to fall within any variant definition of ‘advertising ideas.’].” (footnote omitted))

- ***Discover Fin. Servs. LLC v. Nat’l Union Fire Ins.,*** 527 F. Supp. 2d 806, 827 (N.D. Ill. E.D. 2007) **(No)** (”[B]ecause the claims in the patent in suit with which RAKTL is concerned are not related to the advertising or promotional capabilities of Discover's automated telephone systems, the patent infringement--Discover's "making, using, offering to sell, and/or selling" of automated telephone systems--could have occurred without Discover's advertising activities.)

c. "Advertising Injury" Coverage For IP Claims

Trademark Infringement/False Advertising
Offense (f) – "Use of another's advertising idea in your 'advertisement'"

- ***Holyoke Mut. Ins. Co. in Salem v. Vibram USA, Inc***., 480 Mass. 480, 489-90 (2018) **(Yes)** ("[A]n advertising idea [does not need] to have secondary meaning or otherwise embody principles of trademark law. Indeed, such an interpretation is unnecessarily narrow given that an advertising idea focuses on how the public's attention is being drawn to a business or product and not necessarily on the business or product itself.")

- ***Land's End at Sunset Beach Cmty. Ass'n v. Aspen Specialty Ins. Co.***, 745 F. App'x 314, 319 (11th Cir. (Fla.) Aug. 9, 2018) **(No)** ("LEAC's amended counterclaims articulates the trademark nature of LEAC's designation of origin claim: '[t]he above-cited acts…constitute false designation of origin…in that [Plaintiff has] used the LAND'S END marks in promoting and marketing their services, thereby falsely designating the source of origin…of such services.'")

Copyright Infringement
Offense (g) – "infringement of copyright . . . in your 'advertisement'"

- ***Acuity v. Bagadia***, 750 N.W.2d 817, 829 (Wis. 2008) **(Yes)** ("UNIK's activity in accepting sample orders from existing customers and then sending those customers samples in unmarked sleeves comports with the broad definition of advertising we adhere to in this context.").

- ***Sunham Home Fashion, LLC v. Diamond State Ins Co.***, 813 F. Supp. 2d 411, 416 (S.D.N.Y. Aug. 29, 2011) *affirmed on other grounds, Sunham Home Fashions, LLC v. Diamond State Ins. Co,* 792 Fed. Appx. 899 (2nd Cir (N.Y.) Feb. 11, 2020) **(No)** ("Display of a copyrighted quilt design in a catalog advertisement email did not constitute copyright protected advertising materials". . . . Another court in this district, however, had previously rejected an insured's nearly identical argument that samples of a product could constitute advertisements. See, *Accessories Biz, Inc. v. Linda & Jay Keane, Inc*., 533 F. Supp. 2d 381, *387 …")

d. “Advertising Injury” Coverage For IP Claims

Slogan Infringement
Offense (g) – “Infringement of . . . Slogan in your ‘advertisement’”

- **AAA Cabinets & Millworks, Inc. v. AMCO Ins. Co.,** No. 2:20-CV-0318-TOR, 2021 U.S. Dist. LEXIS 155029, *17 (E.D. Wash. Aug. 17, 2021) **(Yes)** (“Defendant argues all factual allegations in the Underlying Complaint relate only to trademark infringement. ECF No. 19 at 16. However, the Court determined the KCMA mark could also serve as a slogan. Thus, the exception to the exclusion applies and Defendant cannot rely on the intellectual property exclusion to avoid its duty to defend.”)
- ***Street Surfing, Ltd. Liab. Co. v. Great Am. E&S Ins. Co.,*** 776 F.3d 603, 608 (9th Cir. (Cal.) 2014) **(No)** (“Interpreting a similar provision, the California Supreme Court defined a ‘slogan’ as ‘“a brief attention-getting phrase used in advertising or promotion” or “[a] phrase used repeatedly, as in promotion,”’ but recognized that ‘there may be instances where the name of a business, product or service, by itself, is also used as a slogan.’”)

Trade Dress Infringement
Offense (g) – “Infringement of . . . trade dress in your ‘advertisement’”

- ***E.S.Y., Inc. v. Scottsdale Ins. Co.***, 139 F. Supp. 3d 1341, 1359 (S.D. Fla. 2015) **(Yes)** (“Here, while the alleged infringements happened to take place on hang tags, the hang tags are not just collateral facts — upon a fair reading of the Exist Complaint, they also independently form the basis for a claim of trade dress infringement.”).

- ***State Auto Prop. & Cas. Ins. Co. v. Ward Kraft,*** No. 18-2671-JWL, 2020 U.S. Dist. LEXIS 11059, *11 (D. Kan. Jan. 23, 2020) **(No)** (“The Court strongly disagrees with Ward Kraft's assertion that the "gravamen" of Zebra's complaint is that Zebra was injured by Ward Kraft's advertisements; rather, the complaint focuses on Ward Kraft's manufacture and sale of infringing products. For instance, in Counts IX, X, and XI of its complaint, Zebra alleges trade dress infringement, but those counts refer only to products, not advertisements.”)

4. Personal and Advertising Injury Exclusions

a. Intellectual Property Exclusions

This insurance does not apply to . . . "advertising injury" arising out of . . . infringement, violation or defense of any of the following rights or laws: . . . 2. Patent . . . .

- ***Spandex House v Hartford Life Ins. Co.,*** 816 F. App'x 611, 614 (2d Cir. (N.Y.) 2020), **(Yes)** ("[T]he plain language of the Advertising Exception [of the Intellectual Property Exclusion] … unambiguously applies where the sole allegation pertaining to intellectual property rights in the underlying suit is limited to enumerated types of infringement or copying that are causally linked to the insured's advertising or web site.")
- ***Land's End at Sunset Beach Cmty. Ass'n v. Aspen Specialty Ins. Co.***, 745 F. App'x 314, 319–320 (11th Cir. (Fla.) August 9, 2018) **(No)** (To bar the application of intellectual property exclusion,"[The] LEAC's false designation and unfair competition counterclaims require elements of proof beyond trademark use and that those types of claims may exist absent trademark infringement does not alter the analysis as Plaintiff contends. As alleged, LEAC's false designation and unfair competition counterclaims depend on Plaintiff's use of LEAC's trademark.")

b. “First Publication” Exclusion

This insurance does not apply to: (1) advertising injury: (b) arising out of oral or written publication of material if the first publication took place before the beginning of the policy.

- ***Superior Integrated Solutions v. Mercer Ins Co. of NJ*** 2020 NJ Super. Unpub. LEXIS 1370, *25 (App. Div. July 10, 2020) (“Mercer contends in an advertisement published by Capitalist Period On it’s website in 2009 triggered the ‘prior publication’ exclusion … Reynolds never eluded to the 2009 publication and, in any event, it has no relation to the copyright infringement alleged in Reynolds’ 2012 complaint ... [The] injury alleged in the complaint had to have arisen out of those prior publications. There is no evidence that it did.”) *affirmed Superior Integrated Solutions v. Mercer Ins. Co. of N.J.,* 2020 N.J. Super. Unpublished. LEXIS 2147, *26-*27 (N.J. App. Div. November 10, 2020) (“In order for Mercer's prior publication exclusion to apply, the injury alleged in the complaint had to have arisen out of those prior publications. There is no evidence that it did.”), *cert. denied:* 2021 N.J. LEXIS 573 (N.J. June 15, 2021) **(Yes)**

- ***Street Surfing, Ltd. Liab. Co. v. Great Am. E&S Ins. Co***., 776 F.3d 603, 610-12 (9th Cir. (Cal.) 2014) **(No)** (“The straightforward purpose of this exclusion is to ‘bar coverage’ when the ‘wrongful behavior . . . beg[a]n prior to the effective date of the insurance policy.’ *Taco Bell Corp. v. Cont'l Cas. Co*., 388 F.3d 1069, 1072 (7th Cir. 2004) . . . affixing the Street Surfing logo to the Wave was an advertisement using Street Surfing's brand name and logo. . . . ‘published’ . . . to the general public through displays of the Wave in retail stores. . . . informing the public of the Wave's origin for the purpose of attracting future customers who might like what they saw. . . . [T]he logo advertisement predated coverage and used the term ‘Street Surfing[.]”)

c. “Knowledge of Personal or Advertising Injury”

*This insurance does not apply to “personal or advertising injury” that was 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.”’*

- ***Allied Prop. & Cas. Ins. Co. v. Armadillo Distribution Enter.***, Civil Action No. 4:21-CV-00617-ALM, 2022 U.S. Dist. LEXIS 148232, *31 (E.D. Tex. Aug. 18, 2022) **(Yes)** (“Here, the Court is not persuaded that the Knowing Violation of Rights exclusion would relieve Allied's duty to defend all of the underlying claims brought against Armadillo. First, even if Armadillo had knowledge that it was infringing some of Gibson's trademarks, the record does not show that Armadillo had knowledge that it was infringing all of the trademarks Gibson alleged were violated.”)

- ***Great Am. Ins. Co. v. Beyond Gravity Media, Inc***., 560 F. Supp. 3d 1024, 1036 (S.D. Tex. 2021) **(No)** (“[N]one of Code Ninjas's allegations accuses the defendants of mere negligence. The ‘knowing violation’ exclusion thus excuses Great American from the duty to defend for the bulk of Code Ninjas's claims—for breach of the non-competition and confidentiality covenants, intentional misappropriation of trade secrets, fraudulent rescission of the contract, knowing/malicious/willful/intentional unfair competition, and breach of the agreements and the resulting breach of the personal guaranties.”)

d. “Failure of Goods, Products or Services To Conform”

This insurance does not apply to: "Personal and advertising injury" arising out of the failure of goods, products or services to conform with any statement of quality or performance made in your "advertisement".

- ***Vitamin Energy, LLC v. Evanston Ins. Co.,*** 22 F.4th 386, 396 (3d Cir. (Penn.) 2022) **(Yes)** **(“**Relying on other cases interpreting similar provisions, Evanston asserts that the exclusions pertain to descriptions of the insured's own products. Be that as it may, as discussed above, it is Vitamin Energy's alleged misrepresentation of the ingredients in 5-hour Energy's products, not Vitamin Energy's own products, that creates the possibility of coverage.”)

- ***Basic Research, LLC v. Admiral Ins. Co***., 297 P.3d 578, 582 (2013) **(No)** (“[E]ach of the underlying claims is premised on Akävar's failure to perform as advertised. . . . The underlying claims assert injury and damages resulting from Akävar's failure to live up to the promises of quality and performance expressed by the slogans.”)

5. Issues That Require Coverage Counsel's Assistance

- **Notice**
- **Choice of Forum**
- **Procuring a Duty of Defense**
- **Securing the Right to Independent Counsel**
- **Defense Fee Reimbursement**
- **Adjudicating the Reasonableness of Fees**
- **Recovery of Coverage Fees Incurred in Coverage Action**
- **Recovery of In-House Fees and Investigative Costs**
- **Recovery of Counterclaim Fees**
- **Control of Litigation**
- **Obtaining Significant Insurer Contribution to Settlement**
- **Reimbursement for Monies Payable Following a Judgment**