Looking for IP Coverage: What's In or Out for CGL, Excess & Specialty Policies?

American College of Coverage Counsel

2020 Virtual Meeting

September 25, 2020

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Agenda

I. The CGL Policy – Personal and Advertising Injury

A. Elements required for PAI coverage to exist

B. Enumerated Offenses

C. “Advertisement”

D. “Damages”

E. Exclusions

II. Other Common Policies Potentially Providing Coverage for IP Risks

A. Media Liability Insurance

B. Cyber liability insurance policies

C. Technology Errors and Omissions policies

III. Specialty Forms for IP Risks

A. Infringement Liability Policies

B. “Abatement” or “Enforcement” Policies

PAI Enumerated Offenses Through the Years

1973 ISO FORM	1986 ISO FORM	1998 and 2001 ISO FORM
• Libel • Slander • Defamation	• oral or written publication of material that slanders or libels a person or disparages, goods, products or services	• oral or written publication of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services
• Violation of privacy	• oral or written publication of material that violates a person's right of privacy	• oral or written publication of material that violates a person's right of privacy
• Piracy • Unfair competition	• misappropriation of advertising ideas or style of doing business	• the use of another's advertising ideas in "your advertisement"
• Infringement of copyright, title, or slogan	• infringement of copyright, title, or slogan	• infringing upon another's copyright, trade dress or slogan in "your advertisement"
		• false arrest, detention or imprisonment
		• malicious prosecution
		• wrongful eviction, wrongful entry, or invasion of the right of private occupancy

PAI Coverage Requirements

- The claim must fall within one of the offenses enumerated in the policy.
- Certain offenses must take place in the named insured's "advertisement."
- The offense must be committed during the policy period.
- It must occur in the "coverage territory."
- It must occur in the course of the named insured's business.
- The claim or suit must seek "damages."
- The claim must fall outside the policy's exclusions to coverage.

Infringement in “Advertisements”

- Injury “arising out of”
  - the use of another’s advertising idea in your “advertisement”
  - infringing upon another’s copyright, trade dress or slogan in your “advertisement”
- Both offenses require that the infringement occur in the insured’s “advertisement”

Advertisement

- The use or infringement must take place "in your advertisement"
- "Advertisement" -- "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
    - *Teletronics International, Inc. v. CNA Insurance Co.*, 120 Fed. Appx. 440 (4th Cir. 2005): The court held that posting an infringing user manual on its website constituted advertising because the defendant admitted that it employed the user manual to promote the sale of its product, and because by posting the manual on its website, it distributed the document to a large number of potential customers

Invasion of Privacy

- "Personal and Advertising Injury" is defined to include "injury . . . arising out of one or more of the following offenses: . . ."
  - "[o]ral or written publication, in any manner, of material that violates a person's right of privacy" or
  - "[m]aking known to any person or organization covered material that violates a person's right of privacy"
- What does "publication" mean?
  - *Hartford Casualty Ins. Co. v. Corcino & Associates et al.*, CV 13-3728 GAF (JCx) (Oct. 7, 2013 C.D. Cal.)
  - *Zurich Am. Ins. Co. v. Sony Corp. of Am., et a*l., Case No. 651982/2011 (Sup. Ct. of N.Y., App. Div., 1st Dept)
  - *Recall Total Info. Mngt, Inc. v. Federal Ins. Co.*, 317 Conn. 46 (2015)
  - *Travelers Indem. Co. of Am. v. Portal Healthcare Solutions, L.L.*C., No. 14-1944 (4th Cir. Apr. 11, 2016)
  - *St. Paul Fire & Marine Ins. Co. v. Rosen Millennium Inc.*, No. 6:17-cv-00540 (M. Fl. Sept 28, 2018) (settled after appellate argument)

Invasion of Privacy (cont'd)

- What kind(s) of invasion of privacy are covered?
  - Violation of the right to secrecy only, or also the right to seclusion?
    - *ACS Systems, Inc. v. St. Paul Fire and Marine Ins. Co*., 53 Cal. Rptr. 3d 786 (Cal. App. 2d Dist. 2007) (no coverage for fax blasting claim under TCPA because no disclosure of private information)
    - *State Farm General Ins. Co. v. JT's Frames, Inc*., 181 Cal. App. 4th 429 (2d Dist. 2010) (same)
    - *Los Angeles Lakers, Inc. v. Fed. Ins. Co.*, 869 F.3d 795 (9th Cir. 2017) (TCPA violations are invasion of privacy (seclusion) for purposes of "invasion of privacy" exclusion in D&O policy)
    - *Evanston Insurance Co. v. Versa Cardio, LLC*, 2018 WL 4860176 (C.D. Cal. Mar. 21, 2018) (coverage for claims alleging TCPA violations despite prior cases, and relying Lakers)
    - *Yahoo! Inc. v. National Union Fire Insurance Co. of Pittsburgh*, PA, Case No. S253593 in the CA Supreme Court (question whether TCPA claims covered as invasion of privacy certified from Ninth Circuit Court of Appeals)

Invasion of Privacy (cont'd)

- Right of publicity violations and misappropriation of likeness claims covered?
  - Privacy right or intellectual property right?
    - For example, in Massachusetts, New York, Rhode Island, Utah and Wisconsin, the right to one's likeness is not descendible, which is a key characteristic of a privacy right. See Mass. Gen. Laws ch. 214; N.Y. Civil Rights Law §§50-51; R.I. Gen. Law §9-1-28; Utah Code Ann. §45-3-3; Wis. Stat. §995.50(2)(b). In contrast, intellectual property rights are descendible. See, e.g., 17 U.S.C. § 201(d)(1) ("The ownership of copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.").
  - Does it make a difference whether the plaintiff is a celebrity?
  - Caselaw
    - *Aroa Marketing, Inc. v. Hartford Ins. Co. of the Midwest*, 198 Cal. App. 4th 781 (2011) (IP exclusion barred coverage for misappropriation of likeness claim)
    - *Alterra Excess & Surplus Ins. Co. v. Snyder*, 234 Cal.App.4th 1390 (2015)

Risk Scenario Examples

- An insured's Google ad shows up alongside an offensive YouTube video
- An insured's website or Facebook page which allows public comments
  - The insured may or may not respond to or timely remove inappropriate content
- Social media influencers
  - Influencer is paid by the insured to post positively about its products
  - Insured has little to no control over the content of the post
- Third parties post infringing content on hosted website or page

Claims of Unfair Competition - The Canadian Experience

2020 Annual Meeting

Historical Roots: Tort of "Passing Off"

- As in some US jurisdictions, Canadian common law claims involving unfair business practices were initially limited to tort of "passing off"
- Supreme Court of Canada discusses history of the tort in *Kirkbi AG v. Ritvik Holdings Inc.*, 2005 SCC 65:

> This tort has a long history. At a very early point in its development, the common law became concerned with the honesty and fairness of competition. For that reason, it sought to ensure that buyers knew what they were purchasing and from whom. It also sought to protect the interest of traders in their names and reputation. As far back as the 17th century, the courts started to intervene. Actions based at first on some form of deceit were allowed. The modern doctrine of passing off was built on these foundations and became a part of Canadian law. Its principles now inform both statute law and common law (para 63).

- Common law tort of "passing off" remains distinct from statutory remedy

Expansion of tort: protecting the community from unfair competition

- Tort of "passing off" has expanded "to take into account the changing commercial realities in the present day community": *Atkinson & Yates Boatbuilders Ltd. v. Hanlon*, 2003 NLSCTD 113 (CanLII) at paras 75-76
- No longer addresses solely one trader deceitfully selling goods of another. Now encompasses protecting community from consequential damages of unfair competition and trading: S*harp Electronics of Canada Ltd. v. Continental Electronic Info. Inc*., 1988 CanLII 3340 (BC SC) at para 9
- Sphere of business torts in Canada has grown over time, increasing the number of practices which may constitute "unfair competition"

Statutory claims for Unfair Competition: An Overview

- While “passing off” remains a stand-alone tort at common law, statutory claims for unfair competition can be brought under the federally enacted *Competition Act*, R.S.C., 1985, c. C-34 (as amended)
- Purpose is codified in section 1.1, mirroring rationale for expanding common law tort of “passing off”.

Parliamentary intent focuses on ensuring:

- businesses have an “equitable opportunity” to participate and
- consumers are protected from anti-competitive practices

Statutory claims for Unfair Competition: Offenses and Standing

- Part VI of the *Act* lists and prohibits certain anti-competitive conduct
- harming competitors and/or
- consumers including misleading advertising (s. 52)

The *Act* provides a statutory cause of action (s. 36) allowing

- "any person" suffering loss or damage
- "as a result of" conduct contrary to Part VI
- to sue for damages

Statutory Cause of Action: Further expansion due to class proceedings?

- "Any person" wording in s. 36 has yet to be restricted to competitors
- Section 36 permits damages to be calculated on an aggregated rather than individualized basis… contemplating a consumer class?

Two Canadian decisions have concluded consumer class actions

- involving misleading advertising (s. 52) and seeking damages under the *Act* (s. 36) disclosed a viable cause of action
- See: *Evans v. General Motors of Canada Co.*, 2019 SKQB 98 at paras 41-43 and *Rebuck v. Ford Motor Company*, 2018 ONSC 7405 at para 32-36, 51, 53, 71-72
- Question remains: will s. 36 claims by certified consumer classes further expand scope of unfair competition in Canada?

Broad Interpretation of PAI Coverage Grant Terms

- Recent duty to defend decision supports broad scope of unfair competition: *Blue Mountain Log Sales Ltd. v. Lloyd's Underwriters*, 2019 BCCA 240
- Underlying US action for misappropriation of trade secrets breaching Washington *Uniform Trade Secrets Act.* Court asked to determine whether allegations fell within PAI coverage grant
- CGL "advertising liability" definition included "Piracy or unfair competition or idea misappropriation under an implied contract"
- Was duty to defend engaged by alleged misappropriation of trade secrets in breach of the *UTSA* – was this a species of unfair competition falling within the PAI coverage grant?

Broad Interpretation of PAI Coverage Grant Terms (Cont'd)

- Yes. BC Court of Appeal affirmed trial level decision, concluding suit for misappropriation of trade secrets was species of "unfair competition" triggering PAI coverage
- Panel noted CGL definitions of "advertising liability" and "advertising injury" were broad and referred to forms of conduct rather than "technical elements or legal labels" (para 57)
- For duty to defend purposes, unfair competition was "an aspect of the true nature and substance of the statutory claim", engaging the insurer's duty to defend (paras 59, 65)

Implications for Coverage?

- Gradual expansion of unfair competition claims in realm of both tort and statute under Canadian law
- Broad interpretation of undefined term “unfair competition” in PAI coverage grant (referring to forms of conduct rather than technical elements or legal labels)
- A Canadian court could conclude a class proceeding under s. 36 of the *Competition Act* falls within the PAI coverage grant given the undefined term “unfair competition” – which is likely construed more narrowly in US

Covered Damages?

- GL policies cover amounts the insured becomes legally obligated to pay as "damages"
- Does the plaintiff seek damages?
  - Is there a monetary demand or only a demand for injunctive relief?
    - *Feed Store v. Reliance Ins. Co.*, 774 S.W.2d 73 (Tex. App. 1989) (carrier had no duty to defend underlying service mark infringement action because complaint sought only injunctive relief, not damages).
    - *Certain Underwriters at Lloyd's London, Subscribing to Certificate No. LPK 0848 v. 2-Up, Inc.*, 2000 WL 245862 (E.D. La. Mar. 3, 2000) (policyholder could not recover for expenses incurred to comply with injunction in underlying action alleging, in part, violations of the Lanham Act because such costs were not damages the policyholder was obligated to pay).

Covered Damages? (cont.)

- Are amounts sought restitution/disgorgement?
  - Claims under state unfair trade practices acts brought by an attorney general typically do not request damages

    - *Bank of the West v. Superior Court*, 2 Cal.4th 1254, 1266 (1992) ("It is well established that one may not insure against the risk of being ordered to return money or property that has been wrongfully acquired. Such orders do not award 'damages' as that term is used in insurance policies.").

Covered Damages? (cont.)

- Are statutory damage awards covered?
  - *Limelight Productions, Inc. v. Limelite Studios, Inc.,* 60 F.3d 767 (11th Cir. 1995) (ill-gotten profits recovered under the Lanham Act in underlying trademark infringement action qualified as "damages" covered by policies).
  - *Am. Emps.' Ins. Co. v. DeLorme Pub. Co., Inc.*, 39 F. Supp. 2d 64 (D. Maine 1999) (underlying claim seeking an equitable accounting of lost profits, as permitted by the Lanham Act, sought "damages" under policies).

Insureds in Media/Internet Type Businesses

Standard Wording

Insureds In Media and Internet Type Businesses

"Personal and advertising injury" committed by an insured whose business is:

(1) Advertising, broadcasting, publishing or telecasting;

(2) Designing or determining content of web-sites for others; or

(3) An Internet search, access, content or service provider.

However, this exclusion does not apply to Paragraphs **21. a., b.** and **c.** of "personal and advertising injury" under the Definitions Section.

For the purposes of this exclusion, the placing of frames, borders or links, or advertising, for you or others anywhere on the Internet, is not by itself, considered the business of advertising, broadcasting, publishing or telecasting.

Insureds in Media/Internet Type Businesses

- Limited judicial consideration of this exclusion in Canada
- Concern over scope of "insured whose business is…" wording

The exclusion applies to insureds whose business is advertising

- Q: Is a company like Facebook which generates revenue predominantly through advertising still a social media company or is its business advertising?

Some U.S. jurisprudence seems to ask whether insured's business is primarily focused on any of the enumerated activities such as advertising

See: *Ace Am. Ins. Co. v. Dish Network, LLC*, 173 F. Supp. 3d 1128, 1130 (D. Colo. 2016); *State Auto Property and Casualty Insurance Co. v. Travelers Indemnity Company of America*, 2016 WL 4487998 (6th Cir., 2016)

Infringement of copyright, patent, trademark or trade secret

Source material with minor updates from “Coverage B in Canada” (2014) by ACCC Fellow Heather A. Sanderson,

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Standard Wording

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.

Potential Coverage Issues

- Exclusion is plainly worded, save for technical legal words to describe coverage: “infringement”, “copyright”, “patent” and “trademark”
- In Canada, wording is interpreted using its usual, everyday meaning and not in technical, legal sense: *Consolidated Bathurst Export Ltd. v. Mutual Boiler & Machinery Insurance Co*., [1980] 1 S.C.R. 888
- But Canadian courts are likely to apply the technical legal meaning because these ARE technical, legal words: “infringement”, “copyright”, “patent” and “trademark”
- – so what do these mean in Canada?

What is Copyright?

- Copyright means the sole right to produce or reproduce all or a substantial part of a protected work and
- allows reproduction only by the owner (usually the author or creator) of dramatic, musical, artistic and literary works (including computer programs), performances, communication signals and sound recordings
- This right exists for the lifetime of the author + 50 years

What is a Patent?

- A patent is a right that can be sold or licensed, granted by the Canadian government
- to prevent others from making, using or selling an invention
- Must be new and inventive in order to be granted

Trademarks

- A TM is a “Badge of Origin”. Can be words/designs or non-traditional marks (colours/sounds) and can be registered or unregistered
- Common-law (unregistered) trademarks are protected by the common law tort of “passing off” and by s.7(b) of the federal *Trademarks Act,* R.S.C., 1985, c. T-13 (as amended)
- Trade-marks registered with the Canadian Intellectual Property Office (CIPO) or proposed for registration are protected by ss. 19-22 of the *Trademarks Act*

What is a Trademark in Canada?

The *Trademarks Act* defines different categories of trademarks including:

- "Ordinary" Marks (e.g. logos);
- Certification Marks (e.g. certifying wares/services have met a prescribed standard re safety or production)
- Distinguishing Guise (shape of wares or containers or the mode of wrapping of packing, e.g. corporate colours)

<u>But NOT</u> trade/corporate names

“Trade Dress” as a “distinguishing guise”

- Canadian Courts deciding whether IP rights have been infringed regularly use the term “trade dress” even though it is not statutorily defined in the *Trademarks Act*
- Canadian Courts have no difficulty concluding that “trade dress” is “distinguishing guise” as one of the types of trade-mark recognized under the *Trademarks Act* see: *Crocs Canada Inc. v. Holey Soles Holdings L*td., 2008 FC 188

Application to Coverage Law

Trademark violations in advertising are excluded BUT:

- I/A wording usually *covers* “trade dress” infringement in advertising
- “Trade dress” in Canada could mean the appearance or “get up” of product packaging, or a trade-mark that is a “distinguishing guise”

Trademark violations in advertising are excluded BUT:

- I/A wording usually *covers* infringement of “slogan” in advertising
- Canadian law treats a “slogan” as a “trade-mark” or “trade-mark expression” see: *1429539 Ontario Ltd. v. Café Mirage Inc.*, 2011 FC 1290

Application to Coverage Law (Cont'd)

- The use of US terms in the Canadian industry advisory or standard form of exclusionary wording means
- although allegations of trademark infringement in advertising are generally excluded in Canada,
- "trade dress" and "slogans" are two forms of trademarks under Canadian law which are likely to be construed as *covered*

Thus Canadian wording imports more

- Canadian advisory exclusion applies to “personal and advertising injury” arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights
- The usual exception for copyright, trade dress or slogan infringement in the Named Insured’s advertisement
- Is required, as “personal and advertising injury” is specifically defined to include copyright, trade dress and slogan infringement in the Named Insured’s advertisement – coverage would otherwise be illusory…

Additional CGL Exclusions

- "'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.'"
- "arising out of the failure of goods, products or services to conform with any statement of quality or performance made in [the insured's] advertisement"
  - Total Call Int'l, Inc.v. Peerless Ins. Co., 181 Cal. App. 4th 161 (2010) (holding exclusion unambiguous)

Media Liability Insurance

- The proportion of advertising dollars spent on online advertising versus traditional forms of advertising is increasing exponentially
- Policyholders are seeking coverage for online risks
- The standard CGL PAI coverage is usually inadequate to address the risks of present-day online advertising
- The types of risks are continuously evolving with the increasing popularity of new apps and other online platforms
  - Existing policy terms quickly become outdated (i.e. bulletin boards, chatrooms)
- Can be purchased in a standalone policy, or as part of a Cyber or Tech E&O Policy
- Canadian insurers are responding by modifying the standard CGL PAI coverage and by issuing new products

IP Coverage in Media Liability Policies

Covers some or all of the following acts arising out of the Insured's Media Activities or use of Media Material:

- disparagement or harm to the reputation or character of any natural person or entity, defamation, libel, slander, product disparagement, trade libel, negligent infliction of emotional distress, outrage or outrageous conduct;
- invasion of or interference with the right of privacy or publicity, including eavesdropping, intrusion upon seclusion, false light, invasion of privacy, public disclosure of private facts, and misappropriation of name or likeness;
- false arrest, detention or imprisonment or malicious prosecution;
- infringement of any right to private occupancy, including trespass, wrongful entry, or eviction;
- plagiarism, piracy or misappropriation of ideas;
- infringement of copyright, or the dilution or infringement of trademark, trade dress, service mark, service name, trade name, title or slogan;
- negligence regarding the content of any Media Communication, including harm directly resulting from reliance or failure to rely upon such content;
- software copyright infringement, cyber-squatting violations, moral rights violations, any act of passing off or any misappropriation of formats, characters, trade names, character names, titles, plots, musical compositions, voices, slogans, graphic material or artwork; or
- unfair competition in connection with some of the above.

Some Key Exclusions . . .

- Inaccurate, incomplete or inadequate description of goods, products or services;
- Cost guarantees or representations;
- Failure to conform with any represented performance or quality standards;
- Failure to remove publications after a complaint or notice within a reasonable period;
- Prior knowledge and claim exclusions.

Risk Scenario Examples

- An insured's Google ad shows up alongside an offensive YouTube video
- An insured's website or Facebook page which allows public comments
  - The insured may or may not respond to or timely remove inappropriate content
- Social media influencers
  - Influencer is paid by the insured to post positively about its products
  - Insured has little to no control over the content of the post
- Third parties post infringing content on hosted website or page

Infringement Liability Policies

- Cover third-party patent, trademark, copyright, or other infringement claims against the insured
- May cover claims against licensees, customers or others with whom the insured has contractual IP indemnities
- Coverages vary widely - some limit coverage to certain scheduled products
- May provide for more modest defense protection
- High SIRs

Infringement Abatement Policies

- Small businesses, or those whose assets consist primarily of intellectual property, may not have the funds to sue infringers
- Left with few options:
  - Allow infringement
  - Negotiate a license
  - Settle at a low value
- Insurance can enhance bargaining power

Infringement Abatement Policies (cont.)

- Claims-made coverage
- All covered intellectual property must be scheduled
- Premiums are based on each patent
- Provides coverage to:
  - Enforce patents, trademarks and copyright
    - Covers defense costs for counterclaims challenging validity
    - May cover costs to reexamine patent in Patent Office

Infringement Abatement Policies (cont.)

- Coverage Conditions
  - Opinion by independent outside counsel that court is likely to find:
    - Intellectual property is being infringed upon
    - Patent is valid
    - Policy may require insured to use panel counsel for opinion
  - Insurer may be entitled to share in award of attorney's fees and costs, plus damage awards and settlements
- Exclusions include:
  - Amounts awarded against insured
  - Pre-litigation expenses
  - Anti-competitive claims

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