

The Interplay Between Advertising Injury Insurance And IP

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Patent and other intellectual property infringement claims in district court litigation can sometimes implicate insurance issues. Because recognizing these issues requires familiarity with both IP law and insurance law, litigants may overlook opportunities for insurance coverage when considering defense strategy in IP litigation. Parties facing IP litigation are well served to review their comprehensive general liability policies with counsel to ensure they are not missing any coverage potential over defense costs or liability. Insurance coverage may be available depending on the particular facts and language of the policy, and the nature of the allegations in the underlying infringement action.

In the recent case of *Mid-Continent Cas. Co. v. Kipp Flores Architects LLC*, 602 Fed. App'x 985 (5th Cir. 2015), the Fifth Circuit found a CGL policy covered claims for copyright infringement stemming from an advertising idea. This case builds on case law established in *Dish Network Corp. v. Arch Specialty Ins. Co.*, 659 F.3d 1010 (10th Cir. 2011) and *Hyundai Motor Am. v. Nat'l Union Fire Ins. Co. of Pittsburgh, PA*, 600 F.3d 1092 (9th Cir. 2010) in which the Tenth and Ninth Circuits, respectively, found similar coverage in CGL policies for patent infringement actions. Currently issued CGL policies commonly contain standard exclusions for typical patent infringement lawsuits. In 2002, the Insurance Services Organization ("ISO") — a drafting organization that creates standard policy forms used by major insurers — created a standard exclusion for copyright, patent, and trademark[1] infringement. Subsequent cases, however, have carved out an exception to the exclusion, where an insured facing IP infringement litigation relating to advertising technique can be covered under "advertising injury" provisions of CGL policies.

An insurer typically has two principal duties under third-party CGL policies: a duty to defend and a duty to indemnify. The duty to defend obligates the insurer to pay expenses that the insured incurs while investigating and defending a lawsuit. Depending on the language of the policy, an insurer may have a duty to defend the insured both in a lawsuit that seeks damages covered by the policy but also "potentially" covered by the policy. That is one potentially covered claim, such as a single patent claim involving advertising, could trigger the insurer's defense obligations over the entire lawsuit. *Gray v. Zurich Ins. Co.*, 419 P.2d 168, 176 (Cal. 1966).



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The duty to indemnify typically extends to reimbursing for amounts that the insured becomes legally obligated to pay because of “occurrences” covered under the policy. This can include amounts from settlements or judgments that the insurer cannot prove must be allocated solely to uncovered claims. Whether coverage is available turns on the language of the policy, the insurance and contract laws of the state governing the policy, and the nature of the infringement claims. Below we discuss several cases in which courts found claims to be covered or not covered.

Cases Finding Coverage of Losses via “Advertising Injury” Provisions Under CGL Policies

On Feb. 26, 2015, the Fifth Circuit, after de novo review, affirmed a ruling from the Western District of Texas that the insurer must cover “advertising injury” damages for an underlying copyright infringement suit against a homebuilder. See *Mid-Continent Cas. Co. v. Kipp Flores Architects LLC*, 602 Fed. App’x 985 (5th Cir. 2015). Insurer Mid-Continent issued CGL policies to a homebuilder Hallmark Design Homes LP. The policies provided coverage for injuries arising from infringing another’s copyright in advertisements. Hallmark was later sued for copyright infringement by architectural firm Kipp Flores Architects LLC in the Southern District of Texas. *Kipp Flores Architects LLC v. Hallmark Design Homes LP et. al*, No. 4:09-cv-0850 (Complaint, Dkt. No. 1) (S.D. Tex., Mar, 24, 2009). Kipp alleged that it gave Hallmark permission to build one house based on its architectural plan, but Hallmark allegedly used those designs to build and sell nearly 400 houses without paying additional license fees. *Id.* Hallmark tendered the claim to its carrier, Mid-Continent. Mid-Continent agreed to defend Hallmark, subject to a reservation of rights letter.

Hallmark was ultimately found liable in September 2012 for \$3.2 million, following a jury trial. *Kipp Flores Architects LLC v. Hallmark Design Homes LP et. al*, 544 Fed. App’x 553 (5th Cir. 2013) (affirming jury verdict and award). Mid-Continent subsequently filed a declaratory judgment action in the Western District of Texas asking for a finding that it had no duty to indemnify Kipp[2], claiming the policies did not cover copyright infringement directly, only advertising injury arising out of copyright infringement. *Mid-Continent Cas. Co. v. Kipp Flores Architects LLC*, No. 1:13-cv-60 (Complaint, Dkt. No. 1) (W.D. Tex., Jan. 23, 2013); *Mid-Continent*, 602 Fed. App’x at 987-988.

Both the district court and Fifth Circuit agreed with Kipp’s argument that the houses themselves represented advertisements under the definition found in the Mid-Continent policies, which defined “advertisement” as “a notice that is broadcast or published to the general public or specific market segments about [Hallmark’s] goods, products or services for the purpose of attracting customers or supporters.” See *id.* at *7. The undisputed evidence before the appellate court was that Hallmark used the infringing houses to market its construction business to customers. *Id.* Accordingly, the insurer’s duty to indemnify Hallmark in Kipp’s action was triggered. *Id.*

Mid-Continent builds on a pair of cases decided in 2011 and 2010, *Dish Network Corp. and Hyundai Motor Am.*, respectively, where the Tenth and Ninth Circuits established this common-law exception of “advertising injury” to the ISO’s boilerplate IP exclusion. In *Dish*, Dish Network sued five of its CGL carriers in Colorado state court for coverage of an underlying patent infringement action related to call center technology. *Dish Network Corp. v. Arch Specialty Ins. Co. et. al.*, No. 1:09-cv-00447-JLK (Amended Complaint, Dkt. No. 5) (D. Col., Mar. 10, 2009). The patents alleged to be infringed involved a telephone interface system that allowed customers to complete multiple tasks over the phone, including ordering pay-per-view programs. *Id.* at 4, ¶ 19. Dish alleged that its CGL policy should be interpreted as having such coverage since the patent claims covered a way of advertising a product. *Id.* at 11, ¶156. Specifically, Dish argued that the CGL coverage for “advertising injury” was triggered by the underlying plaintiffs’ asserted patent claims that purportedly included advertising or product promotion. *Id.*

The district court held that the underlying complaint did not allege an “advertising injury” under the policies issued to Dish by the five defendant-insurers, and consequently granted the insurers’ summary judgment motions. *Id.*, 734 F. Supp. 2d 1173, 1186 (D. Col. Aug. 19, 2010). The Tenth Circuit reversed, reasoning that although “numerous cases do, indeed, categorically rule out “advertising injury” coverage for patent infringement ... where an advertising technique itself is patented, its infringement may constitute advertising injury.” *Dish, slip op.* at 12-14. Interestingly, out of 23 patents-in-suit, and hundreds of claims, the Court focused on only one claim covering “[a] telephone interface system ... wherein said selective operating format involves advertising a product for sale.” *Dish*, 659 F.3d. at 1016 (alterations in original) (quoting claim).

The Tenth Circuit noted that the underlying complaint of patent infringement alleged a count involving misappropriation of a product designed for advertising purposes. Ultimately, the court held that, “[w]hile [it] agree[s] with the district court’s conclusion that patent infringement may, under certain circumstances, constitute “misappropriation of advertising ideas,” [it] disagree[s] with its ruling that the patented means of conveying advertising content at issue here could not be “advertising ideas” within the meaning of Dish’s commercial general liability policies.” *Id.* at 1020. The court stated that patent infringement claims might qualify as advertising injury if the patent “involve[s] any process or invention which could reasonably be considered an ‘advertising idea.’” *Id.*

Similarly, in *Hyundai*, Hyundai brought suit against its insurer after Hyundai was denied defense coverage over method patent infringement claims. The plaintiff in the underlying action brought suit against Hyundai and numerous other automobile retailers, claiming that the implementation of patented web site features, such as a “build-your-own” vehicle feature and a parts catalogue feature (allowing customers to select from a menu of features and view a photograph/information about the virtual vehicle they created), violated certain patents. *Id.* at 1096-97.

Hyundai sought to tender defense to its insurer, asserting that the allegations of the complaint sought damages based on a type of “advertising injury,” as defined in the insurance policy. The policy defined “advertising injury” as 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 organization or disparages a person's or organization's goods, products or services;
- b. Oral or written publication of material that violates a person's right of privacy;
- c. Misappropriation of advertising ideas or style of doing business; or
- d. Infringement of copyright, title, or slogan.

Id. Because Hyundai was accused of misappropriating patented “advertising ideas,” it argued that the claims should be covered under part (c) of the advertising injury definition. The insurer disagreed and denied all coverage. As a result, Hyundai paid for its own defense and was ultimately found liable for patent infringement (with a resulting \$34 million jury award, later overturned). *Id.* Hyundai then sued its insurer to recover only the cost of its defense, not the damages award. The district court found in favor of the insurer.

The Ninth Circuit reversed on appeal, finding the insurer owed Hyundai a defense under the “advertising injury” provision of the policy. *Id.* at 1098-1101. The court found that an insurance carrier “must defend a suit which potentially seeks damages within the coverage of the policy,” and that coverage can only be excused where there is no conceivable theory under which coverage could arise. *Id.* The court explained that there are three required elements to establish a duty to defend for an “advertising injury”: (1) the

policyholder was engaged in “advertising” during the policy period when the alleged “advertising injury” occurred; (2) the patentee’s allegations created a potential for liability under one of the covered offenses (i.e., misappropriation of advertising ideas); and (3) a causal connection existed between the alleged injury and the “advertising.” Id. at 1098.

In weighing these elements, the court concluded that Hyundai’s website constituted an “advertisement” because it was marketed to the public at large. Id. at 1098. The court noted that patent infringement might constitute an advertising injury where “an entity uses an advertising technique that is itself patented.” Id. at 1100-101. Regarding the third prong, the court held that “[w]hen the advertisement itself infringes on the patent, the causal connection requirement is met.” Id. at 1102.

Even prior to Dish Network Corp. and Hyundai Motor Am., policyholders have argued that where a patent infringement case alleges theft of another’s advertising or marketing idea, such case can qualify under advertising injury language of a policy. See *Amazon.com Int’l Inc. v. Am. Dynasty Surplus Lines Ins. Co.*, 85 P.3d 974 (Wash. App. 2004) and *Amazon.com Inc. v. Atlantic Mutual Ins. Co.*, No. 2:05-cv-00719 (Order, Dkt. No. 31) (W.D. Wash. July 21, 2005) (coverage for an underlying action alleging patent infringement by several Amazon features such as the virtual shopping cart, electronic catalogs, and 30-second music samples where such features were found to be a “use of another’s advertising idea.”)

Cases Denying Coverage of Losses via “Advertising Injury” Provisions Under CGL Policies

In instances where the only nexus to advertising is that the allegedly infringing product is being advertised or wrongfully taken and offered for sale, courts have rejected coverage on the basis that such conduct does not amount to a “misappropriation of advertising idea” or “style of doing business” geared towards soliciting the IP holder’s consumers and business.

In *Travelers Indem. Co. v. Levi Strauss & Co.*, 30 F. 3d 140 (9th Cir. 1994), the insured, a maker of “stone-washed” jeans, argued their infringement was more “closely connected to advertising than in other cases” because the patent-in-suit covered the actual, distinctive look of the jeans, independent of the process, and hence there was sufficient causal connection between the advertising and the injury to warrant CGL coverage. Id. at *5-6. Though the Ninth Circuit acknowledged this argument to be “creative” because the infringement claim was based in part on the product’s appearance, it also stated it was “not persuasive” and reiterated that patent infringement claims are based solely on the use or sale of a patented product, and not on how it is advertised. Id. at *6-7. Ultimately, for coverage to apply, the Court required the infringement allegations to make reference to the advertising of the product, but here, the claims did not do so. Id. at *7.

Other courts have similarly denied coverage for patent liability where the infringement claims failed to supply the requisite causal connection to an advertising injury. See, e.g., *Green Mach. Corp. v. Zurich-Am. Ins. Grp.*, 313 F.3d 837 (3d Cir. 2002) (neither the insured’s advertising of patented method it allegedly had stolen, thereby inducing others to infringe patent, nor the insured’s taking of patented method for cutting concrete, were a “misappropriation of advertising ideas” and thus not “advertising injury,” within meaning of the policy); *Techmedica Inc. v. Vanguard Underwriters Ins. Co.*, 59 F. 3d 176 at *4-5 (9th Cir. 1995) (no duty to defend or indemnify an insured-manufacturer of custom-made prosthetic hip replacement device, based on “advertising injury” clause, because irrespective of advertisement involving a customer-specific “order form,” the infringement still stemmed from manufacture and sale of product, not the reading and use of advertisements); *Discover Fin. Servs. LLC v. Nat’l Union Fire Ins. Co. of Pittsburgh, PA*, 527 F. Supp. 2d 806 (N.D. Ill. 2007) (patent infringement action concerning automated phone system technology did not allege injuries attributable solely to

insured's advertising activities or that insured misappropriated patentee's advertising ideas or style of doing business, as required to trigger coverage under advertising injury provision).

Practical Considerations

Even after several decisions finding IP liability coverage for defendant-insureds, the existence of "advertising injury" coverage to date is still one of the least recognized tools available to companies faced with claims of IP infringement. Particularly with the rise of business method and other patents related to websites and advertising, parties facing the possibility of IP infringement actions should consider insurance issues, both when engaged in litigation and when considering their CGL and other insurance policy needs:

- Work with IP and coverage counsel to determine whether coverage is available for underlying accusations of IP infringement, particularly those implicating advertising activity. In addition to the "advertising idea" cases, there could be other theories of infringement that can be used to explore coverage for IP litigation. All allegations in the complaint should be analyzed for potential coverage, even if noncovered claims are included;
- For defendant-insureds facing an advertising patent infringement suit where the patent is found to be invalid, this means a greater likelihood for recovery of defense costs from primary CGL insurers, as typically under a carrier's reservation of rights letter, being ultimately successful in litigation can be a condition precedent to triggering and exhausting a primary carrier's duty to defend;
- Review non-CGL policies, such as specialized IP, errors and omissions, or even media liability. Availability of coverage for IP lawsuits requires a policy without an IP exclusion. Some policyholders are able to purchase such policies or riders to existing policies through their bargaining power, their willingness to pay higher premiums, or even carelessness on the part of the insurer's broker[3]; and
- Depending on the nature of the underlying allegations and corporate successor or parent-subsidiary relationships, review both current and historical insurance policies of your employer. Defendants may also have coverage under "additional insured" provisions of other companies' policies. Often, it may actually be to the advantage of a patentee enforcing its rights to assist the infringer to secure its carrier's commitment to insure, whether by subrogation, joinder or impleader, where prospects of recovery are greater with such carrier's involvement rather than facing an insolvent entity.

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[1] Not addressed herein is the intersection of trademark infringement and advertising technique, which is well-developed, see, e.g., *Hudson Ins. Co. v. Colony Ins. Co.*, 624 F.3d 1264 (9th Cir. 2010) (held that words “Steel Curtain,” in reference to the Pittsburgh Steelers, could be deemed a slogan invoking advertising injury coverage); *St. Surfing, LLC v. Great Am. E&S Ins. Co.*, 776 F.3d 603 (9th Cir. 2014) (use of term “Streetsurfer” in advertisement did not constitute slogan infringement to invoke advertising injury coverage).

[2] Typically, in CGL insurance coverage actions where the underlying action is pending, an insurer may subrogate i.e. “step into the shoes” of and defend, the defendant-insured, based on the insurer’s duty to defend. Here, Hallmark filed for Chapter 7 bankruptcy protection eight months after the S.D. Tex. suit was filed. *Mid-Continent*, 602 Fed. App’x at 988. *Mid-Continent* had a duty to disclose to Hallmark all of its policies that might afford coverage and defend Hallmark against Kipps’ copyright infringement claims. *Mid-Continent Cas. Co. v. Kipp Flores Architects LLC*, No. 1:13-cv-60 (Complaint, Dkt. No. 1) (W.D. Tex., Jan. 23, 2013). *Mid-Continent* ultimately retained a law firm to defend Hallmark and the trial went forward between Kipps and Hallmark. *Mid-Continent Cas. Co. v. Kipp Flores Architects LLC*, No. 1:13-cv-60 (Order) (W.D. Tex., Apr. 3, 2014) at *1-2, 6.

[3] See R. Shore & I. Snyder, “Can Insurance Coverage Provide Meaningful Protection from Patent Trolls and Other Infringement Claims?,” [We’ve Got You Covered Insurance Law Blog](#), at 2 (Aug. 14, 2014).