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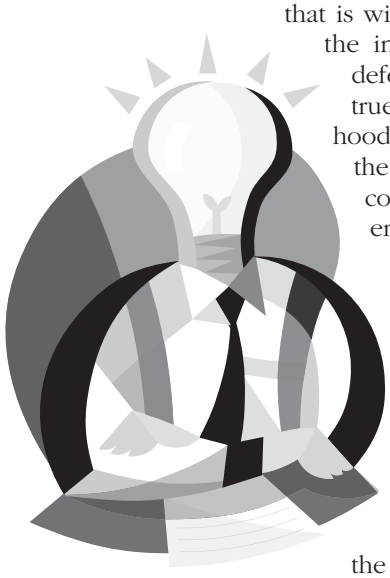
Insurance Coverage and Intellectual Property: Is the Banana Covered?

What does your company or your client have in common with the Andy Warhol Foundation? Both hope they have an insurance policy that requires the insurer to defend and indemnify them when intellectual property (IP) is at issue.

The Andy Warhol Foundation kicked off 2012 as the defendant in an action brought by the Velvet Underground for false designation of origin under the Lanham Act and other causes of action over rights in the iconic banana design that was featured on the Velvet Underground's album—"The Velvet Underground and Nico."[1] The Andy Warhol Foundation will certainly evaluate whether any of its insurance policies provide for defense and indemnity in connection with this suit or whether it will have to battle over the banana on its own dime.

What determines whether coverage exists for actions related to infringement of intellectual property rights? Assuming that you have not purchased IP infringement insurance,[2] is any coverage available under the terms of a Commercial General Liability (CGL) policy?[3] Questions of insurance coverage focus on the specific allegations of the underlying complaint, because an insurer's duty to defend a client is triggered if some of the facts alleged describe a covered act. If the facts allege any activity that is within the scope of your coverage, the insurer must provide you with a defense on all the claims. This is true regardless of the plaintiff's likelihood of prevailing on the allegations, the title of the claims asserted in the complaint, or the fact that uncovered activity is also alleged.



It is difficult to make generalizations because the facts of the individual case and the jurisdiction in which the action is filed will have a significant impact on the analysis. However, coverage for IP-related claims, if available, is usually found in the advertising injury provision of a CGL policy. You can use the following framework to analyze whether IP-related allegations in a complaint trigger coverage:

1. What does the policy's advertising injury language say about IP-related claims?

Most insurance policies use language similar to that issued by the International Organization for Standardization (ISO). The language describing advertising injury coverage was modified by ISO policy forms in 1976, 1986, 1988, 2001, 2003, and 2007. Generally, under ISO policy language, coverage may be available in actions alleging intellectual property violations where the alleged injury involves (1) infringement of copyright, title, or slogan, or (2) misappropriation of another's advertising idea.

Cases involving patent infringement often do not fit within either of these categories of conduct. On the other hand, it is fairly common that cases involving copyright do fit readily within the "infringement of copyright" portion of the description. Claims related to trademarks present the biggest challenge to determining whether alleged conduct is either misappropriation of another's advertising idea or infringement of copyright, title, or slogan. The distinction between a trademark and a title or slogan for coverage purposes is not intuitive and is answered differently by different courts, so careful review of the jurisdiction's treatment of this coverage question is recommended. For instance, one New Jersey court distinguished its law from California law on the subject by pointing out the lack of logic in a California court's opinion that would, if applied, afford coverage for alleged infringement of *Catcher in the Rye* Bread (because it includes a "title") but not to Wonder Bread (which is a trademark with no title).[4] In addition, the type of activity that can draw a trademark infringement claim will often include other allegations that could be characterized as misappropriation of another's advertising idea, or, in the language used in some policies, "use of another's advertising idea in your advertisement." Many courts consider Lanham Act or common law allegations of palming off (trying to pass off your goods as the goods of another through use of confusingly similar or counterfeit marks, advertising, or trade dress) to be within this coverage clause language, regardless of how the causes of action are titled.

In addition to the initial question of whether conduct fits within the definition of advertising injury, coverage analysis must take into account exclusions listed in the policy. In 2001, the CGL ISO policy language was changed to include a specific exclusion for intellectual property rights. The exclusion language is

broad—such as "this insurance does not apply to … infringement of copyright, patent, trademark or trade secret." However, the exclusion includes exceptions for "use of another's advertising idea in your advertisement" and for 'infringement in your advertisement of copyright, trade dress or slogan." Essentially, the exceptions to this exclusion often lead back to the original analysis of whether the alleged conduct is within the policy's definition of advertising injury. Other policy exclusions that have had an impact on a court's coverage analysis in IP cases include exclusion for advertising injury arising out of breach of contract and exclusion for written or oral publications in which the first publication took place before the insurance policy was in place.

2. Does the infringement claim arise out of the insured's advertising activity?

Alleged conduct that fits within one of the two categories described above should be covered as advertising injury if the underlying claims involve (1) the plaintiff's asserted rights in advertising ideas or methods or (2) the defendant's alleged violation of the plaintiff's intellectual property rights by means that include advertising by the defendant. This is the requirement of a causal nexus between the alleged offense and concept of advertising injury. Certain IP-related claims have a stronger inherent connection to advertising injury than others have.

Patents: Allegations of patent infringement are not likely to fall within the scope of advertising injury, unless the underlying technology is used in the insured's advertising activity, or the patent at issue is a business method patent involving an advertising technique. Because some complaints alleging patent infringement have triggered coverage under Errors and Omissions (E&O) policies or Directors and Officers (D&O) policies,[5] it is important to consider all possibilities for coverage.

Copyright: Infringement allegations involving the public distribution, performance, or display of another's original work have a natural tie to advertising injury. These claims may be covered if the offense alleged is connected to or caused by advertising or marketing of the infringing work. In some disputes where it appears that coverage should exist, courts have found no duty to defend by focusing on the element of injury or damages in the underlying claim, as opposed to the question of whether the alleged conduct sufficiently involves advertising injury. This distinction should be kept in mind when conducting your analysis.

Trademarks: To state a claim for trademark infringement, the underlying plaintiff must allege that the defendant used a mark confusingly similar to the plaintiff's mark in connection with the sale, offering for sale, distribution, or advertisement of goods. Thus, establishing the causal nexus is not difficult when the underlying case involves a trademark or trade dress. As described above, the real challenge in trademark-related cases is establishing that the complaint alleges misappropriation of another's advertising idea or infringement of copyright, title, or slogan.

Coverage analysis of IP-related claims is complex, but this general framework should help you get started. If you've peeled the slippery skin of coverage analysis and believe that the banana is covered—that is, that your policy language requires the insurer to defend and indemnify you—make sure that you notify your insurer, send the insurer the complaint or threat of suit, and request that the insurer provide a defense. **TFL**

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Endnotes

[1]*The Velvet Underground v. The Andy Warhol Foundation for the Visual Arts Inc.*, 12 CV 0201 (S.D.N.Y. Jan. 11, 2012).

[2]For an in-depth analysis of various kinds of IP insurance, *see* David A. Gauntlett, *IP Attorney's Handbook for Insurance Coverage in Intellectual Property Disputes*, ABA Section of Intellectual Property Law (2010).

[3]Commercial general liability policies are the most common general business policies, and they provide coverage when the business incurs losses resulting from claims of bodily injury and property damage arising out of premises, operations, products, and completed operations; advertising injury; and personal injury.

[4]*See, e.g., Villa Enterprises Management Ltd. v. Federal Insurance Co.*, 360 N.J. Super. 166, 183 (2002) ("in California under the policy language at issue in *Palmer* [*Palmer v. Truck Insurance Exchange*, 21 Cal. 4th 1109 (1999)], coverage would thus be afforded to *Catcher in the Rye* Bread®, *Raisin in the Sun* Cookies®, *Gulliver's Travels* Agency®, and *Grapes of Wrath* Vineyard®. However, coverage would not be available for Wonder Bread®, Famous Amos Chocolate Chip Cookies®, Liberty Travel Agency®, and Gallo Vineyards®. Would such a distinction fall within the reasonable expectations of a New Jersey insured presented with similar inclusive and exclusive language? One would hardly think so, …").

[5]Errors and omissions policies are professional liability insurance agreements that provide coverage when financial harm occurs as a result of a mistake in judgment or action. Directors and officers policies provide indemnity to directors and officers who incur defense costs or other losses as a result of claims based on decisions made or actions taken by them in their capacities as directors and officers.