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BLOG

Policyholders Continue to Secure Wins Against Liability Insurers for Defense Against IP Claims

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Given the expansion of intellectual property (IP) exclusions in liability policies such as directors and officers (D&O) and commercial general liability (CGL), companies are turning more and more to specialized cyber insurance for IP-related risks. While specific wording varies, IP exclusions typically disallow coverage for claims of misappropriation or infringement of copyright, patent, trademark, trade secret or any other IP rights. Although seemingly broad, these recent policyholder coverage wins are a reminder that the IP exclusion is not absolute.

Trademark

On March 5, 2019, the Ninth Circuit reversed summary judgment in favor of a CGL insurer that denied a defense to its mortgage lender insured for a lawsuit that included a Lanham Act trademark infringement claim. The court ruled that the insurer failed to demonstrate that the exclusions cited, including an IP exclusion, applied to all of the claims alleged in the lawsuit. Nor did a statute barring coverage for willful conduct apply because the Lanham Act claim did not require a showing of such willfulness. Accordingly, there was a "sufficient 'potential of liability' to trigger the insurer's broad duty to defend[.]"

Trade Secrets

In 2018, a Delaware Superior Court ruled that an extended stay hotel company and its employee were entitled to a defense from its D&O insurer in a suit brought by a competitor alleging the employee stole its electronic information, including a customer database. The insurer had denied coverage citing an exclusion for the misappropriation of trade secrets. The court disagreed, noting that although 10 of the 11 counts in the complaint referred to the stolen customer database (which the court agreed contained trade secrets), one count did not—that based on the Federal Computer Fraud and Abuse Act (CFAA). Since the CFAA count "depends on unlawful access to ESA's computers and obtaining anything of value—i.e., [ESA's former employee] may have violated the CFAA by using a computer to take anything of value—not just trade secrets[,]" the exclusion for the misappropriation of trade secrets was not applicable.

Trade Dress

In a recent decision, the United States Court of Appeals for the Second Circuit held that a CGL insurer had a duty to defend its insured footwear seller against claims that included trade dress infringement. A competitor alleged that the insured infringed its design patent by selling and/or "offering for sale" knock-off slippers. The insurer argued that its policy did not cover because it excluded advertising injury due to trademark infringement and that trade dress—one form of product identification included within the definition of a trademark—therefore fell within the scope of the IP exclusion. The Second Circuit rejected this argument, noting that the IP exclusion also contained an exception: "However, this exclusion does not apply to infringement, in your 'advertisement', of...trade dress[.]" Interpreting the exception to mean the policy covered "claims that [an] advertisement [by the insured] containing a photo or drawing of [the insured's] product infringes the trade dress of another company's product," the court found that the allegations the insured offered the knock-off slippers for sale created the potential for indemnity coverage and therefore the insurer was obligated to defend.

TIP: When facing IP claims, non-cyber liability policies should be carefully examined for potential coverage, in particular, valuable defense cost reimbursement. CGL policies typically cover liability for advertising injury defined to include copyright, trade dress, or slogan infringement so long as it occurs in your advertising. D&O policies, which cover individuals and sometimes companies for a broad range of "wrongful acts," may also provide a partial or full defense despite an IP exclusion.

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