

Chapter 14:

Advertisement Offenses—Use of Another's Advertising Idea in Your Advertisement (definition f.)

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I. The Policy Language and the 1998 Revisions

When evaluating whether a particular claim may fall within the coverage afforded by paragraph f. of the definition of “personal and advertising injury” (also referred to as “paragraph 14(f)”), the language of the specific policy form at issue is critical. Prior to 1998, the standard ISO occurrence-based CGL policy (CG 00 01) provided coverage for the “misappropriation of advertising ideas or style of doing business”. Commencing with the 1998 revisions to the standard ISO CGL policy, coverage is now extended for “[t]he use of another’s advertising idea in your ‘advertisement’...”

The language of the exclusions to the policy is critical to the analysis, too. Versions of CG 00 01 issued in 1998 and earlier did not include an exclusion for infringement. However, in 2001, ISO revised the Exclusions to Coverage B, and added exclusion i. to specifically exclude liability arising out of specific types of intellectual property violations, including trademark infringement, while excepting from the scope of the exclusion, claims for infringement of copyright, trade dress or slogan if used in the insured’s advertisement. Exclusion i. will be discussed in another chapter.

In the context of the interpretation of paragraph 14(f) of the present ISO CGL policy, the key questions for determining whether coverage may be triggered are: (1) what is an “advertising idea”; and (2) how has the phrase “use of another’s” been interpreted? Courts have also been called upon to determine what an “advertisement” is, and whether there is a “causal connection” between the alleged use of the “advertising idea” and the damages allegedly suffered by the underlying plaintiff. This Chapter will focus only upon the first two questions enumerated above. Issues regarding the definition of an “advertisement” and the so-called “causal connection” requirement will be discussed elsewhere in the Compendium.

II. What Is an “Advertising Idea”?

A. The Generally Accepted Definition

Some post-1998 ISO CGL policies leave the term “advertising idea” undefined. Notwithstanding this, courts have refrained from finding the term ambiguous. Rather, courts throughout the country have developed similar tests for determining whether an “advertising idea” is present. Most commonly, the test is phrased along these lines: “[a]n ‘advertising idea’ ... is an idea for calling public attention to a product or business, especially by proclaiming desirable qualities so as to increase sales or patronage.” *Atl. Mut. Ins. Co. v. Badger Med. Supply Co.*, 191 Wis. 2d 229, 239, 528 N.W.2d 486 (Wis. Ct. App. 1995).

Applying this test, numerous courts have clarified what an advertising idea is, and perhaps more importantly, what it is not. In *Hyundai Motor America v. National Union Fire Insurance Co. of Pittsburgh, PA*, 600 F.3d 1092 (9th Cir. 2010), the Ninth Circuit Court of Appeals held that a patent infringement claim by one car manufacturer (Orion) against another (Hyundai), arising out of Hyundai’s alleged use of Orion’s “build-your-own” vehicle on Hyundai’s website involved an “advertising idea.” In so holding, the court focused upon the fact that “the [build-your-own] feature is widely distributed to the public at large, to millions of unknown web-browsing potential customers, even if the precise information conveyed to each user varies with user input.” *Id.* at 1099–1100. Other cases have similarly held. See *Hanover Ins. Co. v. Urban Outfitters*, 2013 WL

4433440 (E.D. Pa. Aug. 19, 2013) (holding that the underlying complaint “clearly alleged” a claim for “use of another’s advertising idea” where Urban Outfitters sold its goods using the name “Navajo” or related Native American inspired words); *Air Eng’g, Inc. v. Indus. Air Power, LLC*, 346 Wis. 2d 9, 20-23, 828 N.W.2d 565, 571-72 (Wis. Ct. App. 2013) (finding that a system that targeted potential customers for an air compressor manufacturer constituted an advertising idea, such that the insurer owed a duty to defend its insured, which was alleged to have infringed upon that system); *DISH Network Corp. v. Arch Specialty Ins. Co.*, 659 F.3d 1010, 1021–22 (10th Cir. 2011) (holding that a telephone system allowing sales and up-sell purchase offers was a “product specifically designed, in part, for advertising purposes”); *Amazon.com Int’l, Inc. v. Am. Dynasty Surplus Lines Ins. Co.*, 120 Wash. App. 610, 85 P.3d 974, 977 (2004) (concluding that a patented website music-preview technology was an advertising idea).

By contrast, the revealing of confidential customer information was held not to be an “advertising idea,” since there was no effort to call the public’s attention to the business. *Badger Med.*, 191 Wis. 2d at 239. Similarly, a district court concluded that the insured’s use of customer testimonials, in alleged violation of a licensing agreement, did not constitute “use of another’s advertising idea.” *AgraKey Solutions, LLC v. Mid-Continent Cas. Co.*, 2012 WL 893162 (D. Idaho Mar. 14, 2012). Moreover, courts have held that a confidential customer list is not an “advertising idea.” *State Farm Fire & Cas. Co. v. Steinberg*, 393 F.3d 1226, 1234 (11th Cir. 2004); *Sentex Sys., Inc. v. Hartford Accident & Indem. Co.*, 93 F.3d 578, 579-81 (9th Cir. 1996). Also, where terms, images, or concepts in an advertisement are not original, novel, or distinctive, they cannot be considered “advertising ideas.” See *Sorbee Int’l Ltd. v. Chubb Custom Ins. Co.*, 735 A.2d 712, 715-16 (Pa. Super. 1999) (no duty to defend the insured’s alleged misuse of the terms “low calorie,” “sugar free,” “fat free,” and “cholesterol free” when applied to manufactured hard candy).

B. Can Trademark Infringement Qualify as “the Use of Another’s Advertising Idea”?

Keeping in mind the accepted definition of an “advertising idea” – “an idea for calling public attention to a product or business, especially by proclaiming desirable qualities so as to increase sales or patronage” – a substantial question has arisen as to whether trademark infringement may qualify as such. There is a split of authority across jurisdictions nationwide as to whether an insured’s use of another’s trademark constitutes advertising injury per the language of paragraph 14(f). Although much of the case law interprets the earlier version of the ISO policy language, which did not include a specific exclusion for trademark infringement (exclusion i.), the rationale underlying the courts’ decisions nevertheless bears comment.

1. View that Trademark Infringement May Qualify as an “Advertising Idea”

In *Kim Seng Co. v. Great American Insurance Co. of New York*, 179 Cal. App. 4th 1030, 1037-38, 101 Cal. Rptr. 3d 537 (2d Dist. 2009), the court interpreted the pre-1998 version of the ISO CGL policy language and held that trademark infringement could be covered as advertising injury. More specifically, the court held that “taking into account that a trademark could reasonably be considered to be part of either an advertising idea or a style of doing business, it would appear objectively reasonable that ‘advertising injury’ coverage could now extend to infringement of a trademark.” *Id.* at 1037-38.

Similarly, in *Edwards Theatres, Inc. v. United National Insurance Co.*, 126 F. App’x 831 (9th Cir. 2005), the Ninth Circuit concluded that trademark infringement could be covered based upon the current version of the ISO policy language, which provides coverage for “the use of another’s advertising idea in [Edwards’] advertisements.” The court based its holding upon the seminal California case of *Lebas Fashion Imports of USA, Inc. v. ITT Hartford Ins. Group*, 50 Cal. App. 4th 548, 59 Cal. Rptr. 2d 36 (2d Dist. 1996), where the court

held that the phrases “advertising idea” and “style of doing business” in a commercial liability policy were broad terms that provided coverage for trademark infringement as “trademark is but a species of advertising.” *Id.* at 832. *Edwards Theatres* also emphasized the changes made to the CGL policy by ISO, noting that there was no exclusion for trademark infringement. *Id.* Were the claim brought under an ISO CGL policy issued subsequent to 2001, Exclusion i. would have been included in the form and may have impacted the result.

Other courts have similarly held that trademark infringement, in and of itself, constitutes “advertising injury.” See *Cont’l Cas. Co. v. Quality King Distrib., Inc.*, 38 Misc. 3d 1230(A), 969 N.Y.S.2d 802 (2013) (finding that the policies “provide[d] coverage for trademark infringement and other trademark offenses through its coverage of offenses arising out of ‘the use of another’s advertising idea’”); *Aearo Corp. v. Am. Int’l Specialty Lines Ins. Co.*, 676 F. Supp. 2d 738, 745 (S.D. Ind. 2009) (holding that “trademark infringement is ‘advertising injury’ as defined in standard CGL policies...”); *Houbigant, Inc. v. Fed. Ins. Co.*, 374 F.3d 192, 201 (3d Cir. 2004) (holding that “trademarks ... have the same purposes as advertising”); *State Auto Prop. and Cas. Ins. Co. v. Travelers Indem. Co. of Am.*, 343 F.3d 249, 258 (4th Cir. 2003) (a trademark plays an important role in advertising a company’s products and at a minimum, has the potential to be an advertising idea); *Cat Internet Sys., Inc. v. Providence Washington Ins.*, 333 F.3d 138, 142 (3d Cir. 2003) (a trademark is a way of identifying goods with a particular source, and thus, an insured’s use or misappropriation of a trademark in connection with marketing and sales satisfies the definition of “advertising injury”); *Allou Health & Beauty Care v. Aetna Cas. and Sur. Co.*, 269 A.D.2d 478, 479, 703 N.Y.S.2d 253 (2d Dept. 2000) (“trademark infringement claims are covered as advertising injury, where they relate to the misappropriation of advertising ideas and style of doing business.”); *Am. Emp’rs Ins. Co. v. DeLorme Publ’g Co.*, 39 F. Supp. 2d 64, 74 (D. Me. 1999) (noting that a trademark “inherently and necessarily implicates possible advertising activities”).

In *Super Duper, Inc. v. Pennsylvania National Mutual Casualty Insurance Co.*, 385 S.C. 201, 683 S.E.2d 792 (2009), the Supreme Court of South Carolina was asked to review four certified questions, including whether trademark infringement had “the potential to constitute an advertising injury.” In conducting its review, the court analyzed multiple policies containing the post-1998 ISO CGL language, including at least one with exclusion i., and reached the same conclusion as did the *Kim Seng* court and the *Allou Heath* court, namely, that “the use of another’s advertising idea may include trademark infringement, because to infringe upon someone’s trademark, which is an advertising device, one improperly uses another’s advertising idea to draw the consumer’s attention to a product.” *Super Duper*, 385 S.C. at 213. In reaching this conclusion, the court made specific note of “the close link between advertising and trademarks.” *Id.*

2. View that Trademark Infringement Does Not Qualify as an “Advertising Idea”

Other courts have held that trademark infringement does not inherently constitute the use of an advertising idea. In *Sport Supply Group, Inc. v. Columbia Casualty Co.*, 335 F.3d 453, 463-64 (5th Cir. 2003), the Fifth Circuit determined that the insurer (Columbia Casualty) did not owe coverage because the use of a trademark did not constitute “advertising” under Texas law, which “refer[s] to a public announcement (such as on a billboard, in a newspaper, on a signpost, or in a television or radio commercial) that induces the public to patronize a particular establishment or to buy a particular product. In other words, the term advertising refers to a common device for soliciting business.” *Id.* at 464.

To a similar effect is *Krueger International, Inc. v. Federal Insurance Company*, 647 F. Supp. 2d 1024, 1034 (E.D. Wis. 2009), where the Eastern District of Wisconsin specifically rejected the notion that trademark infringement, by itself, constitutes use of an “advertising idea.” In so holding, the court recognized that “all products are, by their very nature, designed to attract customers,” and that “[a] product’s quality, looks, and

overall desirability are, it might be said, the best form of advertising.” *Id.* at 1034. However, the court refused to take the step of declaring that infringement upon trademarks or the look of the product necessarily constitute an advertising idea, since “[i]t is not the product *per se* that is the advertising, because even the best product can lie dormant in a forgotten cellar somewhere and no one would say its intrinsic qualities alone had ‘advertised’ it.” *Id.* at 1034-35.

C. Can the Product Itself Qualify as an “Advertising Idea”?

Numerous cases from around the country stand for the proposition that “the product itself is not advertising.” See *U.S. Fire Ins. Co. v. Cyanotech Corp.*, 2013 WL 5755338, at *11 (D. Haw. Oct. 23, 2013) (“allegations of patent infringement (even if allegations also involve advertisements of a patented invention) cannot constitute ‘advertising injury’ sufficient to trigger insurance coverage under a CGL policy, unless the patented idea itself concerns a method of advertising); *Krueger Int’l*, 647 F. Supp. 2d at 1035; *Accessories Biz, Inc. v. Linda and Jay Keane, Inc.*, 533 F. Supp. 2d 381, 388 (S.D.N.Y. 2008) (“L & J argues that the Samples themselves are a form of advertising, but New York courts have routinely held that the phrase ‘advertising idea’ does not include the product itself.”); *Westport Reinsurance Mgmt., LLC v. St. Paul Fire & Marine Ins. Co.*, 80 F. App’x 277, 279 (3d Cir. 2003) (product itself is not advertising); *Green Mach. Corp. v. Zurich-Am. Ins. Group*, 313 F.3d 837, 841 (3d Cir. 2002) (“Chiuminatta alleges not that Green Machine copied its marketing strategy or style of attracting customers, but that Green Machine copied its patented method for cutting concrete in order to sell its own saws.... These allegations do not state a claim for misappropriation of Chiuminatta’s marketing style used to sell its concrete-cutting method, but rather for theft of the underlying method itself.”); *Hosel & Anderson, Inc. v. ZV II, Inc.*, 2001 WL 392229 (S.D.N.Y. Mar. 21, 2001) (“[t]he product itself is not an advertisement within the meaning of the policy”); *Farmington Cas. Co. v. Cyberlogic Techs., Inc.*, 996 F. Supp. 695, 703 (E.D. Mich. 1998) (explaining that “a rule that mere advertisement of an infringing product would create a duty to defend contains a fundamental flaw, in that it reads the requirement that the infringement occur in the course of advertising out of the policy. Taken to its extreme, this argument would lead to the conclusion that any harmful act, if it were advertised in some way, would fall under the grant of coverage merely because it was advertised.”); *Advance Watch Co. v. Kemper Nat’l Ins. Co.*, 99 F.3d 795, 807 (6th Cir. 1996) (holding that the argument that the appearance of a product was advertising “proves too much, for it would invoke advertising injury coverage ... whenever a product is merely exhibited or displayed”).

III. “Use of Another’s”...

The second key question for determining whether coverage may be triggered under paragraph 14(f) is how the phrase “use of another’s” has been interpreted in the context of the definition extending coverage for “[t]he use of another’s advertising idea in your ‘advertisement.’” “Most courts ... have held that the ‘use of another’s idea’ means the ‘wrongful taking of the manner by which another advertises its goods or services.’” *Gustafson v. Am. Family Mut. Ins. Co.*, 901 F. Supp. 2d 1289, 1301 (D. Colo. 2012), citing *Discover Fin. Servs., LLC v. Nat’l Union Fire Ins. Co.*, 527 F. Supp. 2d 806, 824 (N.D. Ill. 2007) (citation omitted).

With this definition in mind, a fair number of cases have rejected insureds’ claims on the basis that the underlying claims do not trigger coverage based upon the word “another’s”, since the policy language specifically requires not only that an “advertising idea” be used, but also that the idea belong to “another.”

For instance, the Supreme Court of Utah recently refused to find coverage for an insured that marketed diet products with the promises that “Eat All You Want And Still Lose Weight” and “And we couldn’t say it in print if it wasn’t true!” because the “underlying causes of actions were in no way dependent on the source or ownership of those slogans.” *Basic Research, LLC v. Admiral Ins. Co.*, 297 P.3d 578, 580 (Utah 2013).

Similarly, multiple courts have rejected efforts by insureds to trigger coverage for claims against them for price-fixing, based upon the theory that the amounts being charged were what competitors were charging. See, e.g., *Epson Elecs. Am., Inc. v. Tokio Marine & Nichido Fire Ins. Co. Ltd.*, 2013 WL 3811203 (N.D. Cal. July 19, 2013) (rejecting insured's claim for coverage for price-fixing conspiracy of costs of LCD flat panels, and holding that "the policy language referring to injury arising from the 'use of another's advertising idea' on its face plainly contemplates some kind of misappropriation claim – for example, where a plaintiff in the underlying suit charges the insured with having copied some aspect of the plaintiff's advertising"); *Suwannee Am. Cement LLC v. Zurich Ins. Co., Ltd.*, 885 F. Supp. 2d 611, 615 (S.D.N.Y. 2012) (rejecting a claim for coverage by a cement manufacturer relating to underlying allegations of price fixing on the basis that the plaintiffs did "not allege that the manufacturers used the idea of another, much less misappropriated it"); *Trailer Bridge Inc. v. Illinois Nat'l Ins. Co.*, 657 F.3d 1135, 1143 (11th Cir. 2011) (CEO's allegedly misleading justifications for price increases published in newspaper article did not qualify as an "advertisement"); *Rose Acre Farms, Inc. v. Columbia Cas. Co.*, 772 F. Supp. 2d 994, 1003 (S.D. Ind. 2011), *aff'd*, 662 F.3d 765 (7th Cir. 2011) (holding that there was no coverage for horizontal price-fixing claims against the insured, as the use of a co-defendant's idea, as opposed to one of the plaintiffs, could not be considered an offense); *Champion Labs. v. Am. Home Assur. Co.*, 2010 WL 2649848, at *5 (N.D. Ill. Jun. 30, 2010) (finding no coverage for a suit alleging price-fixing among automobile fuel filter manufacturers).

