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Wisconsin Supreme Court Finds Judgment for Copyright and Trademark Infringement Claim Falls Within Coverage for “Advertising Injury”

In *Acuity v. Bagadia*, Nos. 2006AP1153 & 2006AP1974, 2008 Wisc. LEXIS 314 (Wisc. June 18, 2008), the Wisconsin Supreme Court affirmed the appellate court's decision finding an insurer liable for a judgment entered against the insured for copyright and trademark infringement under the commercial general liability policy's coverage for “advertising injury.” The court found that the entire amount of the judgment was covered because the insured's act of sending unauthorized sample CDs to potential buyers constituted advertising and that such advertising did “contribute materially” to the harm suffered by the copyright and trademark holder, thus the entire judgment was covered under the policy's “advertising injury” coverage.

Background Facts

The Underlying Infringement Action

The insureds, Kishan Bagadia and UNIK Associates (collectively, “UNIK”), were sued in the United States District Court for the District of Oregon, by Symantec Corporation and Quarterdeck Corporation (collectively, “Symantec”) for copyright and trademark infringement. UNIK is a software vendor whose business focuses on purchasing computer software at discount prices and then selling that software to resellers. Symantec claimed that UNIK, among other actions, advertised, distributed and sold Symantec's copyrighted and trademarked products without authorization. Symantec also alleged that

UNIK's actions caused injury to Symantec, including consumer confusion. *Id.* at *4-5. The court issued summary judgment in Symantec's favor, finding that UNIK “advertised [Symantec's] SystemWorks(R) software through trade magazines, telephone marketing, direct mailings, and supplying samples to interested buyers.” *Id.* at *5.

UNIK's allegedly infringing activities included placing advertisements bearing Symantec's trademarked name in computer trade magazines and shipping samples of Symantec's SystemWorks products to customers who requested them over the phone. *Id.* at *5. UNIK shipped the sample software in a “plain, white paper sleeve without a retail box or a manual.” *Id.* at *6. UNIK would mark the sample disk to indicate the SystemWorks products contained on the disk. The customer would then review the sample and, if it met the customer's approval, the customer would place a full order with UNIK. *Id.* UNIK would then place the order with its supplier and ship the full order to its customer in the same plain packaging used to ship the samples. While Symantec sold its SystemWorks suites for more than \$40, UNIK sold them for \$3.50 to \$20. *Id.* UNIK sold 117,273 copies of Symantec's software between December 2000 and October 2003, resulting in \$845,672 in revenue.

The court ruled that UNIK violated Symantec's copyrights and trademarks,

ordering both an injunction and monetary damages. The court enjoined UNIK from “[d]isseminating, promoting, selling, offering for sale, distributing, or using any unauthorized copies” of Symantec’s copyrighted products as well as from “[p]rocurring, using (including use on web sites, on the Internet, and on any products distributed by UNIK), reproducing, counterfeiting, or copying any of [Symantec’s] registered trademarks, or distributing any products bearing [Symantec’s] trademarks.” *Id.* at *7. The court awarded statutory damages for the trademark infringement and, at Symantec’s election, actual damages for the copyright infringement. The damages, plus costs and fees, resulted in a total judgment against UNIK of \$958,253.40. *Id.*

The Policy

The commercial general liability policy issued to UNIK stated that the insurer would pay sums UNIK was legally obligated to pay as a result of advertising injury caused by the insured. *Id.* at *11. The policy provided coverage for “advertising injury” “caused by an offense committed in the course of advertising [the insured’s] goods, products or services.” The policy defined “advertising injury” as follows:

1. “Advertising injury” means injury arising out of one or more of the following offenses:

* * *

c. Misappropriation of advertising ideas or style of doing business; or

d. Infringement of copyright, title or slogan.

Id. at *12.

The Coverage Action

While the underlying action was pending, UNIK’s liability insurer filed suit in Wisconsin Circuit Court seeking a declaration that it had no duty

to defend UNIK in the infringement action. The court ordered the insurer to defend UNIK, and, after judgment was entered in the underlying suit, heard cross motions for summary judgment regarding the insurer’s duty to indemnify. The circuit court ordered the insurer to indemnify UNIK for the full \$958,253.40 plus prejudgment interest, despite the insurer’s arguments that the judgment was not covered under its policy and its request that the award be offset by the amount Symantec had already received from another insurer. *Id.* at *8.

The court of appeals affirmed, holding that the policy covered Symantec’s judgment with respect to both its copyright infringement and trademark infringement claims because UNIK engaged in “advertising activity,” as described in the policy. The court of appeals also denied the insurer’s request for an offset because the record was insufficient. *Id.* at *8-9. The court of appeals used a three-step test to determine that UNIK’s activities resulted in “advertising injury” to Symantec. First, the court found that copyright and trademark infringement fell within the enumerated advertising injury offenses under the policy. Copyright infringement was specifically enumerated and the court found trademark infringement encompassed within infringement of “title.” Second, the court ruled that UNIK advertised copyrighted and trademarked products and names. Third, the court found a causal nexus between the advertising activity and the infringement. *Id.* at *10.

The Wisconsin Supreme Court’s Opinion

To determine whether the insurer was obligated to indemnify UNIK for the judgment the court applied a three-step test articulated in a previous Wisconsin Supreme Court case, *Fireman’s Fund v. Bradley Corp.*, which was stated by the court as follows:

- (1) Does UNIK’s conduct fit within an offense the policy enumerates?
- (2) Did UNIK engage in advertising activity?
- (3) Is there a causal connection between UNIK’s advertising activity and the damages?

Id. at *13 (citing *Fireman’s Fund Ins. Co. of Wis. v. Bradley Corp.*, 2003 WI 33, 261 Wis. 2d 4, P26, 660 N.W.2d 666 (2003 Wisc.)). The court then reviewed each of these questions for both the copyright and trademark infringement claims made in the underlying suit.

Under the first factor, the court concluded that both the copyright infringement and trademark infringement claims alleged enumerated offenses under the policy. With regard to copyright infringement, the insurer conceded that it was an enumerated offense as it was specifically listed in the policy. *Id.* at *13-14.

With regard to whether the trademark claims fit within an enumerated offense, Symantec alleged that trademark infringement was an enumerated advertising injury either as “infringement of title” or as a “misappropriation of advertising ideas or style of doing business.” *Id.* at *14. The court agreed that trademark infringement fell within the offense for infringement of title based on dictionary definitions of “title” and “trademark” and on the Wisconsin Court of Appeals having concluded that trademark infringement falls under “infringement of title.” *Id.* at *15-18 (citing *W. Wis. Water, Inc. v. Quality Beverages of Wis., Inc.*, 2007 WI App 188, PP27-28, 305 Wis. 2d 217, 738 N.W.2d 114). In addition, the court found it significant that, prior to 1986, the standard Insurance Services Office CGL policy form “included ‘unfair competition’ as a covered class of advertising injuries, and [expressly] excluded injuries resulting from trademark, service mark

and the trade name infringement.” *Id.* at *20 (quoting *Bay Elec. Supply, Inc. v. Travelers Lloyds Ins. Co.*, 61 F. Supp. 2d 611, 617 (S.D. Tex. 1999)), but in 1986, ISO revised the form to replace “unfair competition” with “misappropriation of advertising ideas and style of doing business,” and also eliminated the trademark, service mark and trade name exclusion. The court concluded that this revision implied that claims related to trademark infringement were included within the revised CGL policy. *Id.* (citing *Adolfo House Distrib. Corp. v. Travelers Prop. & Cas. Ins. Co.*, 165 F. Supp. 2d 1332, 1340 n.4 (S.D. Fla. 2001)). On the basis of all these factors, the court concluded that the “infringement of title” offense encompassed claims of trademark infringement. *Id.* at *21.¹

Next, the court moved on to the second step in the *Fireman’s Fund* test, “whether UNIK engaged in advertising activity.” The court noted that it had not yet adopted a definition of “advertising.” *Id.* at *25. The court also noted that the case law recognized both a broad and a narrow definition of advertising. *Id.* After considering various dictionary definitions of advertising, the court concluded that

¹ The court also rejected an argument made by the insurer that had the parties intended to ensure coverage for trademark infringement, they would have expressly included the word “trademark” in the “copyright, title or slogan” provision in the policy, based on the Sixth Circuit decision in *Advance Watch Co. v. Kemper National Insurance Co.*, 99 F.3d 795 (6th Cir. 1996). *Id.* *22-23. *Advance Watch* held that a CGL’s provision defining “advertising injury” as “infringement of copyright, title or slogan” did not include trademark infringement because the term “advertising” was limited to verbal conduct and “trademark” did not appear in the policy definition of “advertising injury.” *Id.* at *23 (citing *Advance Watch*, 99 F.3d at 802-04). The Wisconsin Supreme Court found this argument unpersuasive because (1) the court did not find any reason to limit “advertising” to verbal conduct; and (2) the absence of the word “trademark” does not mean that trademarks are necessarily not covered by such a policy. Furthermore, the court noted that *Advance Watch* has been criticized by numerous other opinions. *Id.* at n.12.

the term was “susceptible to multiple reasonable interpretations and is therefore ambiguous.” *Id.* at *28. Accordingly, the court interpreted the provision liberally in favor of the insured and defined advertising broadly as “any oral, written, or graphic statement made by the seller in any manner in connection with the solicitation of business.” *Id.*

With regard to the copyright infringement claims, the insurer argued that the damages awarded were based on UNIK’s sale of infringing products, not its advertising. In addition, the disks that UNIK distributed were only sent in response to customer requests, and packaged in plain, white paper sleeves without retail boxes, which could not constitute advertising. *Id.* at *28-29. The court rejected the insurer’s arguments. The underlying court’s opinion explicitly mentioned that UNIK “advertised [the] software through trade magazines, telephone marketing, direct mailings, and supplying samples to interested buyers.” *Id.* at *29. Thus, the portion of the judgment for copyright infringement was not based solely on the sales of copyrighted material. *Id.* Furthermore, the court concluded that taking sample orders and then sending samples to those customers fell within a broad definition of advertising. UNIK sold more than 117,000 disks containing the copyrights at issue through the process of sending sample disks that were then sold to the customer if the customer approved of the sample. The success of this process was proof enough that it constituted “solicitation of business” under the broad definition of advertising.

The court also found that the trademark infringement claims involved advertising. The court noted first that it was not limited to the underlying court’s summary judgment opinion to determine whether the trademark infringement claims involved advertising, instead the court consulted the entire record. *Id.* at *30-31. Second, the court then con-

cluded that UNIK’s use of Symantec’s trademarked name in its advertisements in trade magazines was a “graphic statement made by the seller in any manner in connection with the solicitation of business” and therefore constituted advertising. *Id.* at *31.

Finally, the court reached the third question under the *Fireman’s Fund* test, whether there was a causal connection between UNIK’s advertising activity and Symantec’s harm. *Id.* at *31-32. Under the test established in *Fireman’s Fund*, the advertising need not be the only cause of harm, instead the advertising must merely “contribute materially” to the harm. *Id.* at *32. The insurer argued that the “contribute materially” standard did not apply because *Fireman’s Fund* involved the duty to defend, not the duty to indemnify. *Id.* The court rejected this argument, finding that there was no distinction between the duty to defend and duty to indemnify with regard to the test to apply to establish a causal connection between advertising and injury, and, therefore, the “contribute materially” standard applied. *Id.* *33.

With regard to the copyright infringement claims, the court concluded that UNIK’s advertising “contributed materially” to its infringement of Symantec’s copyrights. UNIK made sales as a result of distributing unauthorized sample disks to its customers. *Id.* at *34. Furthermore, the underlying court enjoined UNIK from “[d]isseminating, promoting, selling, offering for sale, distributing, or using” Symantec’s copyrighted products. Because an injunction could not be entered without the party showing that it suffered irreparable harm, the Wisconsin Supreme Court reasoned that the underlying court’s judgment was necessarily based on harm caused by those activities. Accordingly, the court concluded UNIK’s advertising activity “contributed materially to infringing Symantec’s copyright, thereby causing Symantec damage.” *Id.* at *35.

With regard to trademark infringement, the court noted that the complaint alleged that UNIK's infringing on Symantec's trademarks likely caused consumer confusion. *Id.* The underlying court had noted that customer confusion is a central element of trademark infringement and that UNIK did not contest that it used Symantec's trademarks "in a manner that was likely to cause consumer confusion." *Id.* The *Acuity* court concluded that "[a]dvertising likely materially contributed to consumer confusion." *Id.* at *35. This conclusion was based on the fact that the advertising resulted in the purchase of disks containing software bearing Symantec's trademarked titles. *Id.* at *35-36. In addition, as with the copyright claims, the injunction against "reproducing, counterfeiting, or copying . . . or distributing" the trademarks supported the court's

conclusion that UNIK's advertising contributed materially to Symantec's harm. *Id.* at *36.

Because the court answered all three of the *Fireman's Fund* questions in the affirmative, the insurer was obligated to indemnify UNIK for the full amount of damages entered against UNIK. The court held that the insurer was "liable for the damages entered against UNIK, because [the insurer]'s policy assures coverage for the copyright and trademark infringement UNIK committed as a result of advertising Symantec's products." *Id.* at *37.

As the intermediate court had, the Wisconsin Supreme Court also declined to address the insurer's argument that it was entitled to an offset in the amount paid by another insurer because the

record was insufficient to make a determination. *Id.* at *36-37.

Implications

The *Acuity* decision highlights the potential that a policy's advertising injury provision may be read very broadly. The court applied a very broad definition of advertising. Such a result, if unintended, could be limited by including a definition of "advertising" in the policy itself. The court also applied the coverage broadly to cover damages that did not necessarily result from advertising. Here, the insurer was responsible for the entire amount of the award because a covered advertising injury "contributed materially" to the claimant's harm. Such a broad reading may require insurers to pay for otherwise uncovered harm simply because there was some minimal amount of advertising.

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