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INSURANCE LAW BLOG

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State Farm Fire & Casualty Co. v. Hines, 2021 WL 3668206 (D.N.J. June 30, 2021)

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INSURER HAS NO DUTY TO DEFEND TRADEMARK OR COPYRIGHT INFRINGEMENT CLAIMS

June 30, 2021, the United States District Court for the District of New Jersey recently held that an insurer had no duty to defend a lawsuit alleging trademark infringement and copyright infringement against the insured. The insured, Dedicated Business Systems International, Inc. ("DBSI") and its proprietor were sued by Avaya, Inc. ("Avaya") in connection with an alleged "massive illegal software piracy operation, which resulted in the theft and subsequent resale of thousands of unauthorized Avaya Internal Use Software Licenses." The complaint against the insureds alleged that Avaya licenses its software to customers and that such software contains certain trademarks and copyrights. DBSI's proprietor allegedly is a former authorized seller of Avaya products who sold thousands of licenses not authorized by Avaya. The underlying plaintiff asserted a cause of action for trademark infringement, alleging that State Farm's insureds "falsely claimed on their website . . . to be an 'Avaya Authorized Dealer' and specifically use[d] Avaya's Marks to further the false claim of endorsement and authorization by Avaya." Avaya also asserted a cause of action for copyright infringement, alleging that the insureds "infringed on [Avaya's] software copyrights through the unauthorized distribution of its software licenses." The court held that neither cause of action fell within the policy's "personal and advertising injury" definition of "infringement upon another's copyright, trade dress or slogan in your 'advertisement.'" First, the court distinguished between the legal causes of action of trade dress and trademark infringement, noting that the latter is expressly not included in the "personal and advertising injury" definition. Second, the court held that the alleged copyright infringement did not occur in the insured's "advertisement" (which was defined in the policy as a "notice that is broadcast or published to the general public or specific market segments about your goods, products or services for the purpose of attracting customers or supporters"), as was required in order for coverage to apply. Instead, the court observed that such infringement was alleged to have occurred in the "distribution, sale, and resale of copyrighted products." The case is on appeal to the United States Court of Appeals for the Third Circuit.