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WHAT'S INSIDE

COPYRIGHT

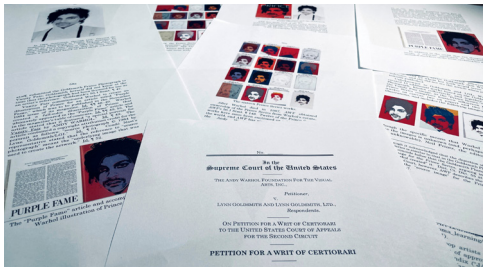
Justices try to pin down fair-use theories in Warhol's 'Orange Prince' case

By Kteba Dunlap, Esq.

The U.S. Supreme Court grilled attorneys representing the Andy Warhol Foundation for the Visual Arts Inc. and photographer Lynn Goldsmith on their interpretations of fair use in a case that could upend the art world's practices.

Andy Warhol Foundation for the Visual Arts Inc. v. Goldsmith et al., No. 21-869, oral argument held (U.S. Oct. 12, 2022).

In a lengthy and intense interrogation punctuated with humorous hypotheticals and wordplay, all nine justices at the Oct. 12 oral argument tried to get some clarification about the weight of copyright law's fair-use test.



REUTERS/Jim Bourg

The Andy Warhol Foundation for the Visual Arts' certiorari petition to the U.S. Supreme Court is shown here. The case concerns Warhol's use of a photograph of Prince.

WHAT'S THE REAL ISSUE?

The dispute the Supreme Court is set to resolve involves a series of silkscreens Warhol made from

CONTINUED ON PAGE 17

EXPERT ANALYSIS

When is a whistleblower's theft of confidential business information legal?

Littler Mendelson attorney Kevin Griffith discusses the legal protections and obligations for both companies and whistleblower employees.

SEE PAGE 3

EXPERT ANALYSIS

IPR tricks of the trade: Director Vidal implements changes to discretionary institution policies at PTAB

David McCombs, Eugene Goryunov and Jonathan Bowser of Haynes Boone discuss a policy change on the discretion of the Patent Trial and Appeal Board to deny institution of a petition for inter partes review or post-grant review of a patent involved in parallel litigation.

SEE PAGE 8

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TABLE OF CONTENTS

When is a whistleblower's theft of confidential business information legal?

By Kevin E. Griffith, Esq.
Littler Mendelson PC

SCENARIO

You are the Company's top in-house employment lawyer buried with work in the middle of your busy workday. Suddenly, a copy of a legal threat letter, settlement demand, and draft lawsuit pops up in your email. The letter and draft lawsuit contain a former salesperson's allegations of financial fraud occurring within the Company.

The allegations pertain to the Company's internal sales plan, which incentivizes sales employees to sell monthly maintenance service contracts for software programs. The former employee claims she had learned that the software programs did not need monthly maintenance, and the maintenance services did not actually enhance the programs' operation.

The former employee was a top sales producer. She alleges the Company terminated her unlawfully in retaliation for complaining to her manager about the fraudulent nature of the sales incentive plan, and for trying to stop the Company from further using the plan. The draft lawsuit alleges various federal and state-law whistleblower retaliation claims, and other wrongful termination claims.

The former salesperson had been making north of $385,000 in total compensation. She claims she would have continued to work for the Company for at least three more years, most likely longer. Her settlement demand is $1,325,000, in addition to attorneys' fees, in exchange for which she will agree to provide a full release of claims and stay silent. The threat letter gives the Company five business days to accept the demand before she files the lawsuit in court.

Her draft complaint contains a lot of company confidential business information — can she use the information?

Equally disturbing, you notice how her draft lawsuit contains detailed allegations that identify and disclose a massive amount of the Company's internal confidential business information, including:

(1) the dollar amounts charged to each customer for the software programs' maintenance service contracts;

(2) the dollar amounts of the Company's monthly and annual revenue and profit margins made off the contracts;

(3) the dollar amounts of the commission percentages the sales employees are receiving on each sale, including in comparison as a percentage of their overall annual compensation;

(4) in exhibits attached to the draft complaint, the name of the customers, identity of the customers' key personnel, their contact information, and the amounts paid by each customer for a monthly service contract over the last three years;

(5) in exhibits attached to the draft complaint, copies of internal email communications from various customers questioning the effectiveness of the maintenance services purchased; and

(6) in exhibits attached to the complaint, a copy of the entire internal sales incentive plan.

Understandably, your initial reaction is something along these lines:

"Damn! This former employee looks like a legally protected whistleblower. But, she obviously has taken a huge amount of confidential business information. She's using the information to support her termination claims.

But, if she files the lawsuit, she'll be disclosing — in a publicly available court docket — the Company's highly confidential and competitive business information. This will embarrass the Company, cause competitive harm, and damage customer relationships.

Competitors also will have immediate access to the Company's sales incentive program and other highly competitive business information — and their access will be for free.

But, she's *stolen* the information! We need to take legal action against her to prevent this from happening and to try to get the Company's information back."

WHISTLEBLOWER INFORMATION THEFT TRIGGERS RIGHTS AND OBLIGATIONS FOR BOTH PARTIES

The scenario above identifies two competing but equally important legal concepts. One concept concerns the Company's long-established legal right to protect its creation of and economic investment in its competitive business information.

The other concept involves an equally important policy to foster whistleblowing — i.e., to protect the public from fraudulent or other unlawful conduct, and to protect legitimate whistleblowers from unlawful retaliation.

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This includes allowing whistleblowers lawfully to (a) disclose internal Company business information — including documents and "trade secret" information — to an appropriate governmental enforcement agency in order to support a report of possible unlawful conduct that has occurred or is occurring within the Company; (b) "misappropriate" "trade secret" information and use the information to support of the whistleblower's retaliation claim; and (c) take and use other confidential business information — even if in violation of a contractual non-disclosure agreement (NDA) — to make legitimate reports to a governmental enforcement agency and to support whistleblower retaliation and other employment-related claims.

Notably, while claims for breach of an NDA normally are straightforward and require proof of traditional elements of a breach of contract claim, that's not always the case when a whistleblower is involved.

A body of federal case law has emerged that addresses a whistleblower's "justified" theft of a company's internal business information, such as where the theft is to support whistleblowing to a government agency or a whistleblower's retaliation lawsuit.

A mix of authority exists across the United States for when a whistleblower may be "excused" from violating an NDA. Generally, the courts will focus on: (1) what information was taken; (2) why it was taken; (3) how it was taken and how much was taken — targeted or indiscriminately; and (4) to whom it was disclosed and why.

A body of federal case law has emerged that addresses a whistleblower's "justified" theft of a company's internal business information, such as where the theft is to support whistleblowing to a government agency or a whistleblower's retaliation lawsuit.

When these legal concepts clash simultaneously, the law provides certain protections to both the Company and to the whistleblower. But, the law only goes so far.

The law also imposes certain legal obligations on both the Company and the whistleblower. These legal protections and obligations can become blurred, and the legal protections are not complete for either side.

LAWS TO CONSIDER IN THIS SCENARIO

A. Non-disclosure agreement (NDA) and breach of contract claim

Generally speaking, NDAs are lawful in every state in the United States. NDAs often include strong enforcement and remedy provisions, including the Company's right to seek temporary and permanent injunctive relief against the unauthorized possession, use or disclosure of the Company's confidential business information and trade secrets.

Other remedies include actual damages caused by a breach and, if the Company successfully negotiated these terms into the NDA, possible liquidated damages and the recovery of reasonable attorneys' fees, legal costs and expenses incurred in enforcing a breach of the NDA.

A "law school exam" example of such a court decision is the U.S. District Court for the Southern District of California's lengthy order in *Erhart v. Bofl Holding*.

In *Erhart*, the whistleblower was an internal auditor for a federally chartered bank. During his employment, he removed a massive volume of the bank's highly confidential and trade secret information.

This information included internal audit reports, audit committee meeting minutes, bank regulators' supervisory information, lists of customer accounts, specific customer account information, customers' Social Security numbers, documents concerning law enforcement and SEC inquiries, wire transfer details, and portions of customer loan files.

Denying the bank's motion for summary adjudication of the bank's breach of an NDA claim, the *Erhart* court held that under California contract law, the whistleblower may not have violated the standard NDA.

Instead, the court discussed at length how California state courts will not enforce an NDA if doing so will violate California's public policy, including California's strong policy in favor of whistleblowing.

Other courts outside of California have reached similar conclusions; however, still other courts have upheld a breach of NDA claim against a whistleblower's "theft" of internal confidential business information, regardless of the whistleblower's intent or purpose.

Bottom line — under current case law, a whistleblower's "self-help" may be permissible despite a breach of the plain language of an NDA.[1]

WATCH FOR NDA 'CARVE OUTS'

In addition to the case law — which may or may not protect a whistleblower from a breach of an NDA claim — the NDA itself may contain an express "carve out" for certain use and disclosure of internal business information for whistleblowing purposes.

Certain federal laws, and federal agency regulations and enforcement decisions, compel employers to include such "carve outs" in NDAs.

These "carve outs" are intended to promote whistleblowing about potentially unlawful conduct, while protecting the whistleblower legally. Some common "carve outs" contained in NDAs include:

1. SEC Rule 21F-17

This rule applies to publicly traded companies — i.e., companies with securities registered under Section 12 of the Securities and Exchange Act or companies required to file reports under Section 15(d) of the Act. SEC Rule 21F-17(a) provides:

> No person may take any action to impede an individual from communicating directly with the Commission staff about a possible securities law violation, including enforcing, or threatening to enforce, a confidentiality agreement (other than agreements dealing with information covered by § 240.21F-4(b)(4)(i)[2] and § 240.21F-4(b)(4)(ii)[3] of this chapter related to the legal representation of a client) with respect to such communications.

In 2014, the SEC's Office of the Whistleblower initiated very aggressive enforcement of SEC Rule 21F-17 against publicly traded companies whose NDAs did not contain an express exception — in compliance with Rule 21F-17 — for employees and former

employees to report possible violations of securities laws or rules to the SEC.

SEC enforcement decisions also began to penalize employers whose NDA provisions required whistleblowers to provide prior notice to and obtain permission from the employer — such as from the company's General Counsel — before communicating with and disclosing confidential business information to the SEC.

A significant number of SEC enforcement decisions under SEC Rule 21F-17 have imposed six-figure monetary penalties on public companies. Today, in any enforcement action the SEC initiates — for any type of potential SEC rule violation — the SEC commonly will look for compliant Rule 21F-17 language in the company's NDAs.

The SEC will add a Rule 21F-17 violation to the enforcement action if the SEC does not see the necessary language. Such enforcement actions also have picked up pace under the Biden administration.[4]

2. OSHA

OSHA also has taken the position on how NDAs — including in settlement agreements involving OSHA-governed whistleblower retaliation claims — cannot restrict a whistleblower's ability to (a) provide information to OSHA; (b) participate in an investigation; (c) file a complaint with OSHA; or (d) testify in OSHA proceedings based on the Company's past or future conduct.

Also, because OSHA enforces approximately 25 federal whistleblowing statutes — including the Sarbanes-Oxley Act — OSHA's "carve out" requirement has broader reach than SEC Rule 21F-17, since OSHA governs employers that are not publicly traded companies.

3. EEOC

The EEOC has taken a similar approach to OSHA's. The EEOC proactively has attacked NDAs that interfere with an individual's rights to communicate directly and voluntarily with the EEOC about possible legal violations.

4. Federal acquisition regulation (FAR)

FAR regulations bar federal contractors and subcontractors from receiving federal contract funds if the contractor or subcontractor requires its employees to enter into NDAs that restrict the employees from lawfully reporting to the government waste, fraud and abuse occurring in connection with the federal contract.

5. NLRB

The National Labor Relations Act (NLRA) protects "concerted activities," including when two or more employees discuss terms and conditions of employment, including compensation or possibly unlawful conduct.[5]

The NLRA's protections also apply to employees who are not represented by a labor union. Against this backdrop, the National labor Relations Board ("NLRB") has determined that NDAs cannot restrict an employee's ability to communicate directly with the NLRB and to disclose internal company information to the NLRB, which may reflect or constitute a violation of the NLRA.

The federal Defend Trade Secrets Act provides an employer with a multitude of legal and equitable remedies to seek against a trade secret misappropriator.

B. Trade secret misappropriation claims

The federal Defend Trade Secrets Act (DTSA) provides an employer with a multitude of legal and equitable remedies to seek against a trade secret misappropriator.[6]

In addition to injunctive relief to stop further misappropriation and compel the preservation or return of the information, the DTSA's civil remedies include recovery of: (i) actual damages; (ii) unjust enrichment "caused by the misappropriation of the trade secret that is not addressed in computing damages for actual loss"; or (iii) "in lieu of damages measured by any other methods… imposition of liability for a reasonable royalty for the misappropriator's unauthorized disclosure or use of the trade secret."

The court can also award "exemplary" damages of no more than two times the amount of actual damages awarded if the evidence shows the trade secret was "willfully and maliciously misappropriated."

Finally, "if a claim of the misappropriation is made in bad faith," if a motion to terminate an injunction is made or opposed in bad faith, and/or if the trade secret was "willfully and maliciously misappropriated," the court can award reasonable attorney's fees "to the prevailing party."

Similar state-law remedies also remain available, as the DTSA expressly states it does not preempt available state-law remedies.

Finally, crime reporting and possible criminal prosecution for trade secret misappropriation always remains available under the DTSA's parent statute, the Economic Espionage Act (EEA).

But, garnering the U.S. government's interest in prosecuting a day-to-day misappropriation of an employer's internal business information, where the misappropriation does not amount to theft of a large volume of highly secret business information that could have national or international implications, can be a challenge.

KEEP AN EYE ON THE DTSA'S LIMITED LEGAL IMMUNITY FOR WHISTLEBLOWERS

Uniquely, the DTSA provides *limited* legal immunity to whistleblowers who misappropriate *trade secret* information for certain whistleblowing purposes.

Recognizing the equally important but conflicting policies between encouraging whistleblowing while also trying to protect an employer's legitimate trade secrets, the DTSA protects whistleblowers from civil and criminal liability — under federal and state *trade secret* laws — if the whistleblower misappropriates the trade secret information *for specific reasons and in a specific manner*.

Namely, the DTSA's immunity extends to the whistleblower if the possession, use and disclosure of the trade secret information:

> (A) is made: (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or:
>
> (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.[7]

Note how the DTSA's legal immunity protection for whistleblowers is limited and does not apply to unauthorized

misappropriation of trade secrets beyond what Section 1833(b) allows.

Also, the immunity is only for misappropriation in violation of federal and state *trade secret* laws. Thus, there is no immunity if (1) the information taken is not a "trade secret" as defined in 18 U.S.C Section 1839(3); or (2) the taking violates *other laws*, as described below.

For example, there is no legal immunity for the common "grab and bolt" misappropriation of trade secret information if it is taken for competitive business purposes, such as a salesperson who downloads and takes internal customer sales information *to use in a new job with a competitor.*

> In today's world of whistleblower protections and avoidance of unlawful retaliation, the action steps can be, well, complicated.

In addition, and in what may have been a drafting oversight by Congress, the DTSA's immunity protections do not provide whistleblowers with any legal immunity for violations of other types of civil and criminal laws beyond the *federal and state criminal and civil trade secret misappropriation laws*.

Thus, there is no legal immunity:

- for breach of contract claims for violating an NDA that do not have a "carve out" as noted above.
- for violations of various civil tort common law, such as common-law conversion or breach of fiduciary duty.
- for violations of certain federal and state computer-use laws which prohibit the unauthorized access to or the misuse of another's computer. Although, keep in mind the U.S. Supreme Court's 2021 decision in *Van Buren v. United States,* which greatly narrowed an employer's ability to sue under the federal Computer Fraud and Abuse Act to challenge an employee's computer-based misappropriation of trade secret information. But, certain states have similar computer misuse laws that may provide civil and criminal remedies.

In addition, federal courts are beginning to develop certain "guideposts" and factors in deciding how broadly to recognize the DTSA's immunity defense.

These have included assessing the significance to the company of the trade secret information and documents taken; whether the whistleblower has filed a retaliation lawsuit using the information and documents; whether the whistleblower turned over the trade secret information and documents to their attorney and/or to the government; and the whistleblower's other plans, if any, to use the information and documents.

WHAT TO DO?

So, back to our terminated salesperson who is demanding $1,325,000 plus attorneys' fees under the threat of filing a publicly available lawsuit that will disclose damaging confidential business information.

What immediate legal actions can the Company take against the former employee? What action *should* the Company take — and not take? What legal rights did she have to take, possess, and use the Company's confidential business information and trade secrets to support her threatened whistleblower retaliation lawsuit and/or to report to a government agency? Can she lawfully provide the internal business information — including the Company's internal documents — to her lawyer and/or to a governmental compliance or enforcement agency?

In today's world of whistleblower protections and avoidance of unlawful retaliation, the action steps can be, well, complicated.

Here are some practical suggestions:

- Contact IT — First, in a confidential manner alert the Company's IT department about the situation and determine the location of whatever computer and other electronic device(s) she was using for the Company's business purposes. If it has not been done already, ask IT to shut down her access to the Company's computer system. Also, ask IT if it can image and search the hard drive of the computer she was using to determine if she recently downloaded any internal Company information to a thumb drive or similar device, or emailed information to a gmail or cloud account, etc. If she did, ask IT for an inventory that includes dates, times, and subject matter. If the Company owns the mobile phone she was using, and if this has not been accomplished already, obtain the phone back from her immediately. Then have IT image and search of the phone. If she owns the phone, if possible, ask her or her counsel to make it available to IT for imaging and then wiping of the Company's business information off the phone. There should be a protocol put in place for IT to accomplish this remotely, including without obtaining or viewing her personal information, photographs, videos, etc. If IT cannot handle these tasks, consider retaining and using a third-party forensics computer firm.
- Locate and review any NDA or other restrictive covenant agreement she may have signed — review and assess any NDA and other restrictive covenant agreement the Company has in place with her. Is her soon-to-be disclosure of the Company's confidential business information and trade secrets permitted under any "carve out" in the NDA? If so, to what extent, precisely? If not, consider whether she will be in breach of the NDA if she ends up filing a lawsuit. Are there any other post-employment covenants contained in the NDA? Note those covenants as well and begin to determine what the Company expects from her as far as her compliance with any other post-employment covenants. Also, note what remedies the NDA provides to the Company for enforcing a breach. In particular, does the NDA provide for the recovery of attorneys' fees — to either party — depending on who prevails? Also, is there an agreed venue and choice of law provision that would govern any lawsuit?
- Assess the parties' respective rights under the DTSA — note her trade secret misappropriation as well as her civil and criminal immunity rights under the DTSA. Consider asking her counsel to ensure that any complaint, per the DTSA, that contains the Company's trade secret information must be filed under seal. Note the Company's legal and equitable remedies under the DTSA, and under state common law, where no DTSA immunity exists.
- Reach out to her legal counsel — don't be shy — contact the former employee's legal counsel and acknowledge receipt

of the threat letter, money demand, and draft complaint. If you think it is in the Company's best interest and will be supported by key business decision makers, indicate to her counsel a willingness to discuss her allegations and demands. But, as a condition for the same, ask for more time than five business days and for her agreement to delay filing any lawsuit if and while the parties are talking and exploring a possible resolution.

- Instruct her legal counsel to direct her to preserve the status quo — while the Company certainly can demand the immediate return of any documents and electronically stored information (ESI) that constitute or contain the Company's confidential business information and trade secrets, as set forth above, she may have certain legal rights to possess and use the information and documents for purposes of whistleblowing and to support her anti-retaliation lawsuit.

A nuanced and compromise approach to consider would be to instruct her legal counsel, in writing, about (1) the Company's rights under the NDA and the DTSA to maintain the confidentiality of its trade secret and other internal business information; (2) her legal obligations to do the same, including under the DTSA's "filing under seal" requirement; and (3) the Company's request that she preserve the confidentiality of the information and to not use or disclose it for any other purpose while the parties are talking and, if such talks fail to achieve a resolution, for any purpose beyond which any NDA "carve out" or the DTSA allows.

In other words, for example, she cannot disclose the information to or use it for the benefit of a business competitor.

Another possibility would be to propose downloading and transferring all such information and documents into a secure share-file site, with a password-protected portal, so that both the Company and the former employee and her counsel will have access to the same information and documents until the matter, including any litigation, is resolved.

Who pays for setting up the site, who will have access to it, and who will pay to maintain the site becomes a matter of negotiation between the parties.

- To sue or not to sue — if any talks and negotiations fail to reach a resolution, or if none occur, the Company may determine it needs to sue the former salesperson to try to secure and seek the return of its confidential business information and trade secrets. Certainly, this is doable if the facts and applicable law support doing so — subject to any NDA "carve out" and the DTSA's civil and criminal immunity for *trade secret* misappropriation discussed above. But, keep in mind that even if there is a factual and legal basis for suing the whistleblower, as a *practical matter* doing so may create a perception that the Company (a) is trying to silence and punish the whistleblower; and (b) has something to hide. So, how any such lawsuit or counterclaim is drafted and advanced in litigation needs to be carefully analyzed and orchestrated with these possible adverse "perceptions" against the Company in mind.
- Potential criminal prosecution — this is a possibility under the Economic Espionage Act (and possibly under various state laws) for trade secret misappropriation. State-law criminal theft of property and/or unauthorized use of a computer system are other possibilities.

But, triggering such a prosecution has its risks and challenges. Also, ethically, in-house and outside counsel cannot "present, participate in presenting, or threaten to present criminal charges solely to obtain an advantage in a civil matter."

So, a threshold decision needs to be made on whether to contact criminal law enforcement right away, or to try to resolve the matter civilly and then subsequently contact law enforcement.

With the former, the government may not be interested in becoming involved in a "civil business dispute" or, if it does decide to become involved, it may take over the situation entirely and the Company could lose control. The government's goals and time frame for its investigation and prosecution also may be vastly different from the Company's goals and time frame.

If the Company waits to resolve the matter civilly and then contacts the government, the government may appreciate how the Company has done the legwork on an investigation and gathered the material facts and evidence.

But, the government may also view the matter as being resolved and may not be interested in pursuing it criminally at that point. Reputation in the industry of an unsuccessful prosecution, potential civil liability for malicious prosecution, and whether the former employee actually is a legitimate whistleblower with a legitimate retaliation claim — and a person who does not deserve to have criminal charges alleged against her — are other considerations to keep in mind. WJ

NOTES

[1] For a more thorough discussion of these type of cases, see the May 14, 2018, Littler Report, "Purloined Letters": Management Options When a Departing Employee Puts a Business Entity at Risk by Collecting Confidential Business or Personal Information for Use in the Employee's Personal Litigation, by Edward T. Ellis, Kevin E. Griffith, Earl M. Jones, III, Jill M. Weimer, Christian A. Angotti, and Bryan M. Gramlich.

[2] https://bit.ly/3OhWv4w

[3] https://bit.ly/3zI9kRC

[4] For a more thorough review of the SEC's enforcement actions under Rule 21F-17, see previous Littler Insights and ASAPs by Kevin E. Griffith and Earl (Chip) M. Jones III, SEC Issues Cease-and-Desist Order Against Severance Agreement Clause Limiting Whistleblowers' Rights to Recover Bounty Awards, Littler Insight, (Aug. 12, 2016), https://bit.ly/3nf9ljj; and Philip M. Berkowitz, Philip N. Storm, Gregory Keating, and Kevin E. Griffith, SEC's Attack on Confidentiality Agreements, Littler Insight (Apr. 6, 2015), https://bit.ly/3O0veE3.

[5] See generally 29 U.S.C. § 158(a)(1), https://bit.ly/3tJrmix, (making it an "unfair labor practice for an employer to interfere with, restrain, or coerce employees in the exercise of their rights" under 29 U.S.C. § 157); 29 U.S.C. § 157, https://bit.ly/3OkxvcP, ("[e]mployees shall have the right ... to engage in other concerted activities for the purpose of ... mutual aid or protection").

[6] The DTSA is an amendment that Congress enacted in May 2016 into a federal trade secret criminal statute called the "Economic Espionage Act" (EEA). As originally enacted, the EEA provided only criminal remedies for governmental criminal prosecutions for trade secret misappropriation. After numerous failed efforts, in 2016 Congress finally amended the EEA to provide private civil remedies — as well as certain express protections for whistleblowers who misappropriate trade secret information. Congress named this amendment the "Defend Trade Secrets Act."

[7] *See* 18 U.S.C Section 1833(b).

IPR tricks of the trade: Director Vidal implements changes to discretionary institution policies at PTAB

By David McCombs, Esq., Eugene Goryunov, Esq., and Jonathan Bowser, Esq.
Haynes Boone

Kathi Vidal has implemented significant policy changes for the Patent Trial and Appeal Board (PTAB) since becoming Director of the U.S. Patent and Trademark Office approximately four months ago. One of those changes included a clarification of the circumstances in which the PTAB may exercise its discretion to deny institution of a petition for *inter partes* review (IPR) or post-grant review (PGR) of a patent that is involved in parallel litigation in U.S. federal district court or the International Trade Commission (ITC).

In May 2020, the PTAB designated precedential *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, Paper 11 ("*Fintiv*"), which sets forth several factors PTAB judges consider when deciding to exercise discretion to deny institution of a petition if the challenged patent is involved in parallel litigation. The factors include, for example, whether the trial date in the parallel litigation would occur before the PTAB would issue a final written decision, and the amount of overlap in invalidity issues between the petition and the invalidity grounds raised in the parallel litigation.

The PTAB's *Fintiv* policies have been controversial and have led to several legal challenges by parties that file petitions. One argument against *Fintiv* is that the PTAB may deny institution of a petition based on an earlier scheduled trial date in a parallel proceeding, but that trial date may be rescheduled to occur after the PTAB would have issued a final written decision.

> On June 21, 2022, Director Vidal issued a binding guidance memorandum that clarifies "the PTAB's current application of *Fintiv* to discretionary institution when there is parallel litigation."

On June 21, 2022, Director Vidal issued a binding guidance memorandum ("Guidance") that clarifies "the PTAB's current application of *Fintiv* to discretionary institution when there is parallel litigation." The guidance indicates that PTAB judges may not discretionarily deny a petition under *Fintiv* when:

(1) the petition presents compelling evidence of unpatentability;

(2) the request for discretionary denial is based on a parallel ITC proceeding; or

(3) the petitioner stipulates not to pursue in a parallel district court proceeding invalidity grounds that the petitioner raised or reasonably could have raised in the petition (i.e., a *Sotera*-type stipulation).

In addition, in response to concerns about the unreliability of trial dates in parallel litigation, the Guidance explains that parties may present "evidence regarding the most recent statistics on median-time-to trial for civil actions in the district court in which the parallel litigation resides," and "the number of cases before the judge in the parallel litigation and the speed and availability of other case dispositions."

Director Vidal's Guidance has provided clarity to practitioners on the PTAB's application of *Fintiv* when there is parallel litigation. For example, after the Guidance was issued, the PTAB has declined to deny institution when the petitioner provides a broad stipulation to avoid overlap[1] and when there is a parallel ITC proceeding.[2]

The PTAB has also begun issuing institution decisions addressing the Guidance's "compelling evidence of unpatentability" scenario when the PTAB may not discretionarily deny a petition. For example, the PTAB recently declined to deny institution under *Fintiv* based on its determination the prior art cited by the petitioner "plainly shows" the claim limitations that led to allowance of the patent.[3]

In another example, the PTAB found that the prior art cited by the petitioner taught all the claim limitations. As such, the PTAB indicated that the petition presented "compelling evidence of unpatentability" and declined to deny institution under *Fintiv*.[4]



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In applying the Guidance, the PTAB has also applied median-time-to-trial statistics when the patent owner argues for discretionary denial based on an earlier trial date in a parallel proceeding. For example, one patent owner argued for discretionary denial when the district court trial was scheduled to occur one month before the PTAB would issue a final written decision.

Instead of relying on that scheduled trial date, the PTAB noted that the district court had a median-time-to-trial of 27.2 months. Applying the median-time-to trial statistics, the PTAB found that the parallel trial "would occur about three months after the [PTAB's] Final Written Decision is due," and declined to deny institution under *Fintiv*.[5]

Director Vidal's Guidance has provided clarity to parties on when the PTAB may exercise its discretion to deny institution under *Fintiv*. Director Vidal indicated that the USPTO is also considering rulemaking on discretionary institution policies. In the interim, practitioners should monitor how the PTAB's discretionary institution policies continue to evolve in view of the Guidance.

Director Vidal's Guidance has provided clarity to parties on when the PTAB may exercise its discretion to deny institution under *Fintiv*.

This article reflects only the present personal considerations, opinions, and/or views of the authors, which should not be attributed to any of the authors' current or prior law firm(s) or former or present clients. WJ

The writers are regular, joint contributing columnists on patent law for Reuters Legal News and Westlaw Today.

NOTES

[1] e.g., IPR2022-00453, Paper 10 (Aug. 3, 2022).

[2] e.g., IPR2022-00404, Paper 10 (July 22, 2022).

[3] e.g., IPR2022-00426, Paper 16 (July 12, 2022).

[4] IPR2022-00221, Paper 10 (Aug. 1, 2022).

[5] IPR2022-00367, Paper 10 (July 14, 2022).

Meta did not infringe patent for making 'autocomplete' searches, judge rules

By Patrick H.J. Hughes

Meta Platforms Inc. has persuaded a San Francisco federal judge to let the social media giant off the hook for claims that it infringed a patent for suggesting ways to complete a digital search while a user is typing.

MasterObjects Inc. v. Meta Platforms Inc., No. 21-cv-5428, 2022 WL 12039301 (N.D. Cal. Oct. 20, 2022).

U.S. District Judge William Alsup of the Northern District of California on Oct. 20 granted Meta's motion for summary judgment of noninfringement based on dissimilarities between its technology and MasterObjects Inc.'s patent.

The dispute involved U.S. Patent No. 8,539,024, one of several patents MasterObjects has asserted not only against Meta but also against other technology companies such as Google Inc., Yahoo Inc. and eBay Inc.

Judge Alsup's decision was based on differences in "autocomplete technology," which lengthens a string of characters to correspond with popular inquiries.

The parties agreed that Meta's "Typeahead" system sends an "entire input in the search bar each time" to a server. Judge Alsup determined that the '024 patent requires query messages to include "just the changes."

COLLATERAL ESTOPPEL

MasterObjects sued Meta's predecessor, Facebook Inc., in 2020 in the U.S. District Court for the Western District of Texas, where the dispute was litigated for 17 months before being transferred to California.

While the dispute was in Texas, U.S. District Judge Alan Albright held a Markman hearing, which resulted in the construction of the terms "query message" and "asynchronous."

Judge Albright had adopted MasterObjects' argument that the term "query message" in the '024 patent was not intended to be limited to sending "just the changes."

But Judge Alsup noted that transferee courts have the option to reject prior constructions.

The judge found that MasterObjects was collaterally estopped from making such as argument, as it conflicted with *MasterObjects Inc. v. Google Inc.*, No. 11-cv-1054, 2013 WL 2319087 (N.D. Cal. May 28, 2013).

> The judge said there were differences in the way the technologies communicated with servers.

As for the respective systems being asynchronous, a term Judge Alsup said is broadly defined by computer programmers as "something that is not depending on timing," the judge said there were differences in the way the technologies communicated with servers.

This time, Judge Alsup adopted Judge Albright's construction, finding that Meta's system failed to practice asynchronous client-server communications, while the '024 patent requires just that.

Judge Alsup said this was evident in the fact that the '024 patent uses a "session-based" system, in which client and server communicate simultaneously in session increments, while Facebook, like most internet offerings, uses a Hyper Text Transfer Protocol, or HTTP, system that is "inherently sessionless."

MasterObjects argued that the patent does not necessarily describe a session-based system, but the judge said that even if that were the case, MasterObjects had already admitted to differences.

The patent holder acknowledged during claim construction that "communication is 'asynchronous' if both sides are free to talk without relying on a clock or other coordination mechanism to synchronize their communications with one another."

The '024 patent requires a server to be "free to communicate" with a user, something Meta's Typeahead system does not require, the judge said, finding no infringement.

Meta had also argued that the '024 patent was invalid, but Judge Alsup said he did not need to rule on that issue.

Attorneys from Hosie Rice LLP represent MasterObjects. Attorneys from Latham & Watkins LLP represent Meta. WJ

Attorneys:
Plaintiff: Spencer Hosie, Darrell Atkinson and Diane S. Rice, Hosie Rice LLP, San Francisco, CA

Defendant: Clara Wing-Kwan Wang, Douglas E. Lumish and Jeffrey G. Homrig, Latham & Watkins LLP, Menlo Park, CA; Allison Harms, Latham & Watkins LLP, San Francisco, CA; Joseph H. Lee, Latham & Watkins LLP, Costa Mesa, CA; Gabriel Bell, Rachel Weiner Cohen and Tiffany C. Weston, Latham & Watkins LLP, Washington, DC; Paul Amandus Weinand, Latham & Watkins LLP, Boston, MA

Related Filings:
Order: 2022 WL 12039301

Supreme Court invites government to look at luggage-lock patent brawl

By Patrick H.J. Hughes

The U.S. Supreme Court has asked the federal government whether the justices should use a dispute over the validity of a pair of luggage-lock patents to review the patent-eligibility test they established eight years ago.

Tropp v. Travel Sentry Inc. et al., No. 22-22, invitation filed, 2022 WL 9552612 (U.S. Oct. 17, 2022).

The high court filed its invitation Oct. 17, asking Solicitor General Elizabeth B. Prelogar to consider the certiorari petition inventor David A. Tropp filed in July seeking clarification of the *Alice* test.

The test, which the Supreme Court created in *Alice Corp. v. CLS Bank International*, 573 U.S. 208 (2014), is used to determine if a patent is invalid as abstract under Section 101 of the Patent Act, 35 U.S.C.A. § 101.

Tropp filed his petition just days after the Supreme Court issued a certiorari denial in *American Axle & Manufacturing Inc. v. Neapco Holdings LLC*, 142 S. Ct. 2902 (2022), a case involving an application of the *Alice* test that many expected the justices to review after the solicitor general recommended it in May.

After the high court refused to review *American Axle*, it asked for the government's view of an appeal of *Interactive Wearables LLC v. Polar Electro OY*, No. 2021-1491, 2021 WL 4783803 (Fed. Cir. Oct. 14, 2021), a one-line affirmation by the U.S. Court of Appeals for the Federal Circuit.

The high court filed its invitation over the *Interactive Wearables* dispute Oct. 3.

Given that a recommendation is not expected for several months, the Supreme Court may ask about other disputes before the solicitor general recommends which, if any, is worthy of high court review.

GOOD FOR HIGH COURT REVIEW OR POOR VEHICLE?

Travel Sentry Inc., which has developed a standard for locks that can be opened in airports by the Transportation Security Administration, initiated the patent dispute in 2006, the year Tropp was granted his luggage-lock patents.

After many years of litigation that involved not only the Federal Circuit but also the International Trade Commission, the Federal Circuit declared the patents to be abstract. *Travel Sentry Inc. v. Tropp*, Nos. 2021-1908 and 2021-1909, 2022 WL 443202 (Fed. Cir. Feb. 14, 2022).

In his appeal to the Supreme Court, Tropp explains that the *Alice* test has most often been used to evaluate whether a computer patent just recites a process that a human being can perform.

Tropp's patents describe a "physical process" that makes use of a "physical apparatus," so the *Alice* test should not have applied or should be clarified for its application to inventions that do not use a computer, according to his certiorari petition.

Tropp also compares his dispute with Travel Sentry to the *American Axle* case, which he says "proved ill-suited to the task of reexamining ... the *Alice* framework." His case "lacks those issues," he says.

In contrast, Travel Sentry says there is no reason to review the *Alice* test at all. Even if review is warranted, the dispute over Tropp's patents is a poor vehicle because those inventions "simply describe a well-understood and conventional device," Travel Sentry says.

Eric A. White and Jamie B. Beaber of Mayer Brown LLP represent Tropp.

Attorneys from Scully, Scott, Murphy & Presser PC; Baker, Donelson, Bearman, Caldwell & Berkowitz PC; and Seyfarth Shaw LLP represent the respondents. WJ

Attorneys:
Petitioner: Eric A. White and Jamie B. Beaber, Mayer Brown LLP, Washington, DC

Respondents: Peter I. Bernstein, Scully, Scott, Murphy & Presser PC, Garden City, NY; Michael E. Schollaert, Baker, Donelson, Bearman, Caldwell & Berkowitz PC, Baltimore, MD; William L. Prickett, Brian L. Michaelis and Matthew Brekus, Seyfarth Shaw LLP, Boston, MA

Related Filings:
Invitation: 2022 WL 9552612
Reply brief: 2022 WL 4398497
Opposition brief: 2022 WL 4134442
Certiorari petition: 2022 WL 2612371
Federal Circuit opinion: 2022 WL 443202

COPYRIGHT

Miley Cyrus, photographer settle copyright tiff over Instagram post

By Patrick H.J. Hughes

Miley Cyrus, who was accused in a Los Angeles federal court of violating copyright law by posting a photo of herself on her Instagram page without the photographer's permission, has persuaded that photographer to drop his lawsuit.

Barbera v. Cyrus, No. 22-cv-6449, notice of settlement filed, 2022 WL 12051895 (C.D. Cal. Oct. 18, 2022).

Photographer Robert Barbera filed a notice of settlement Oct. 18 in the U.S. District Court for the Central District of California, effectively ending the litigation.

Barbera filed his complaint against Cyrus on Sept. 9, accusing her of willful copyright infringement, which can garner $150,000 in statutory damages for a single instance under Section 504(c) of the Copyright Act, 17 U.S.C.A. § 504(c).

He explained in the complaint that he is a professional photographer who posts his works for sale online and registers them with the U.S. Copyright Office.

Barbera said he took a photo Feb. 13, 2020, of Cyrus waving to onlookers as she left a building. He obtained a registration certificate for the photo in April 2020.

On May 10, 2020, he saw that Cyrus had posted the photo on her Instagram account the same day he took it, according to the complaint.

The social media account has 169 million followers and is used to promote the pop star's brand as well as her musical works and associated business ventures, the complaint said.

Liability for infringement of a pictorial work can be established if it has been impermissibly reproduced for display in a fixed tangible medium of expression.

The URL of Cyrus' Instagram account provided this tangible medium in a sufficiently permanent way to enable communication "for a period of more than a transitory duration," Barbera's complaint said, citing *Perfect 10 Inc. v. Amazon.com Inc.*, 508 F.3d 1146 (9th Cir. 2007).

REUTERS/Mario Anzuoni

Singer Miley Cyrus, shown here, has reached a settlement with a photographer who accused her of posting one of his pictures without permission.

Because the photo was exposed to the vast number of followers of Cyrus' account, Barbera claimed the post effectively "crippled if not destroyed the potentiality of any market for the photograph by plaintiff."

Claiming to have been "substantially harmed," Barbera sought injunctive relief in addition to statutory damages or actual damages, whichever proved to be greater.

Terms of the settlement were not disclosed.

Craig B. Sanders of Sanders Law Group represented Barbera.

Bryan M. Sullivan of Early Sullivan Wright Gizer & McRae LLP represented Cyrus. WJ

Attorneys:
Plaintiff: Craig B. Sanders, Sanders Law Group, Uniondale, NY

Defendant: Bryan M. Sullivan, Early Sullivan Wright Gizer & McRae LLP, Los Angeles, CA

Related Filings:
Notice of settlement: 2022 WL 12051895

Jack Daniel's barking up wrong tree over trademark parody, dog-toy maker says

By Patrick H.J. Hughes

Jack Daniel's plea for the U.S. Supreme Court to find that a "Bad Spaniel's" dog toy violates trademark law is unfounded, even if the parody is arguably in bad taste, according to a brief opposing the whiskey maker's certiorari petition.

Jack Daniel's Properties Inc. v. VIP Products LLC, No. 22-148, opposition brief filed, 2022 WL 11905796 (U.S. Oct. 17, 2022).

VIP Products LLC, which designs, manufactures and sells chew toys for dogs, says in its Oct. 17 opposition brief that the "poop humor" the toymaker employs is still protected by the First Amendment.

Jack Daniel's Properties Inc. has gained the support of the American Intellectual Property Law Association and the International Trademark Association, which say that allowing such puns hurts consumers and brand owners alike.

Whether the "parody is in good taste or bad does not and should not matter," VIP says, quoting the Supreme Court's landmark copyright decision over parodies, *Campbell v. Acuff-Rose Music Inc.*, 510 U.S. 569 (1994).

The Lanham Act protects consumers against trademark confusion, but VIP says the Jack Daniel's case is not really about confusion.

"It is about trademark owners who do not like being parodied — however gently — and do not enjoy that their brands' iconic character makes them subject to parody that they cannot control," the toymaker says.

JACK DANIEL'S HAD A BONE TO PICK

When Jack Daniel's first objected to the bottle-shaped dog toy that says "43% poo by vol." and "100% smelly," U.S. District Judge Stephen M. McNamee of the District of Arizona sided with the whiskey maker. *VIP Prods. LLC v. Jack Daniel's Props. Inc.*, No. 14-cv-2057, 2016 WL 5408313 (D. Ariz. Sept. 27, 2016).

A permanent injunction eventually resulted. But VIP had that injunction vacated on appeal, convincing the 9th U.S. Circuit Court of Appeals that the toy was a noncommercial and expressive work. *VIP Prods. LLC v. Jack Daniel's Props. Inc.*, 953 F.3d 1170 (9th Cir. 2020).

As noncommercial speech, the toy is exempt from liability under the Trademark Dilution Revision Act of 2006, 15 U.S.C.A. § 1125(c)(3)(C), the panel said.

> The Jack Daniel's case is not really about confusion, the opposition brief says.

As an expressive work, the toy should have been subjected to a test established in *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989), which requires an accused product to be "explicitly misleading."

On remand, Judge McNamee said VIP passed the *Rogers* test. *VIP Prods. LLC v. Jack Daniel's Props. Inc.*, No. 14-cv-2057, 2021 WL 5710730 (D. Ariz. Oct. 8, 2021).

The 9th Circuit affirmed. *VIP Prods. LLC v. Jack Daniel's Props. Inc.*, No. 21-16969, 2022 WL 1654040 (9th Cir. Mar. 18, 2022).

A certiorari petition followed.

NO CIRCUIT SPLITS

VIP says it used the dog toy as a "canvas for parodying," comparing itself to the satirist who created the "Chewy Vuiton" dog toy, a parody that also escaped trademark infringement allegations.

While a dog toy should not be compared to the "Mona Lisa," it is still an expressive work, subject to the *Rogers* test in every circuit, so there is no circuit split that needs repairing, VIP says.

And the toy is clearly noncommercial, despite being sold for profit, in the fact that it is an "obvious parody," not created to compete in the whiskey market, VIP says.

For this dilution argument, there is also no circuit split and "no reason to anticipate that any other circuit would disagree with the ... conclusion here," it says.

Bennett E. Cooper and David G. Bray of Dickinson Wright PLLC are representing VIP.

Attorneys from Kilpatrick Townsend & Stockton LLP, Williams & Connolly LLP and Messner Reeves LLP are representing Jack Daniel's. WJ

Attorneys:
Petitioner: Theodore H. Davis Jr., Kilpatrick Townsend & Stockton LLP, Atlanta, GA; Dennis L. Wilson, Kilpatrick Townsend & Stockton LLP, Los Angeles, CA; Lisa S. Blatt, Amy Mason Saharia, Matthew B. Nicholson and Natalie A. Komrovsky, Williams & Connolly LLP, Washington, DC; Isaac S. Crum, Messner Reeves LLP, Phoenix, AZ

Respondent: Bennett E. Cooper and David G. Bray, Dickinson Wright PLLC, Phoenix, AZ

Related Filings:
Opposition brief (2022): 2022 WL 11905796
Certiorari petition (2022): 2022 WL 3561781
9th Circuit opinion (2022): 2022 WL 1654040
District Court opinion (2021): 2021 WL 5710730
9th Circuit opinion (2020): 953 F.3d 1170
District Court opinion (2016): 2016 WL 5408313

See Document Section A (P. 19) for the opposition brief.

TRADEMARK

Skechers scuffles over trademarks on sites targeting 'unknowing consumers'

By John Fitzgerald

Skechers USA Inc. says in a lawsuit filed in Chicago federal court that numerous firms — mostly in China — are trading on the shoe company's reputation and goodwill by selling knockoff shoes on websites bearing the company's trademarks.

Skechers USA Inc. II v. Partnership and Unincorporated Associations Identified on Schedule "A," No. 22-cv-5326, complaint filed, 2022 WL 4594466 (N.D. Ill. Sept. 29, 2022).

Skechers filed the lawsuit Sept. 29 in the U.S. District Court for the Northern District of Illinois. It accuses the businesses, which it names in a list sealed by the court, of trademark infringement and false designation of origin.

"Plaintiff is forced to file this action to combat defendants' counterfeiting of their registered trademarks, as well as to protect unknowing consumers from purchasing counterfeit products over the internet," the suit says.

Skechers, which is registered in Virginia and based in California, makes and sells shoes, apparel and accessories for which it has more than a dozen trademarks registered with the U.S. Patent and Trademark Office, the complaint says.

The company says "significant" sales come from skechers.com, a website it maintains with proprietary content, images and designs.

The defendants allegedly create copycat websites that appropriate Skechers' trademarks and images to sell knockoff goods. The company says these copycat websites are designed to appear identical to skechers.com.

The defendants use search engine optimization tactics to appear before the legitimate Skechers site in web searches or "use social media spamming that redirects consumers to the [defendants' sites] where consumers could think they were purchasing from authentic websites," the lawsuit says.

Skechers accuses the companies of false designation of origin pursuant to Section 43(a) of the Lanham Act, 15 U.S.C.A. § 1125(a), and of violating its trademark rights pursuant to Section 32 of the Lanham Act, 15 U.S.C.A. § 1114.

It seeks an order stopping the companies from using Skechers trademarks and material on their websites. It also asks that the websites be disabled or turned over to a domain registrar of Skechers' choice.

The suit also demands all profits realized from the use of Skechers' trademarks or a $2 million fine for each use of a Skechers trademark, as well as attorney fees and costs.

Keith A. Vogt of Keith Vogt Ltd. represents Skechers. WJ

Attorneys:
Plaintiff: Keith A. Vogt, Chicago, IL

Related Filings:
Complaint: 2022 WL 4594466

Models say Florida strip club's use of pics violates their right of publicity

By John Fitzgerald

Six international models have filed a lawsuit claiming a Pensacola, Florida, gentlemen's club misappropriated their images to use in its ads, violating false advertising, false endorsement and right-of-publicity statutes.

Krupa et al. v. Pias Inc., No. 22-cv-19410, complaint filed, 2022 WL 5007161 (N.D. Fla., Oct. 3, 2022).

The suit, filed Oct. 3 in the U.S. District Court for the Northern District of Florida, states that the six plaintiffs never worked for Pias Inc. — which does business as both Sammy's Gentlemen's Club and Sammy's of Pensacola — or agreed to have their likenesses used in the club's advertising.

"In the modeling and acting industry, reputation is critical," the suit says, adding that the six plaintiffs "must necessarily be vigilant in protecting their 'brand' from harm, taint or other diminution."

The plaintiffs are:

- Actress, model and animal rights activist Joanna Krupa, of California. The suit says her likeness has appeared in five advertisements for the club.
- Model, actress and brand ambassador Ana Cherí, of California, who has allegedly appeared in ads for Sammy's Gentlemen's Club eight times.
- Model and actress Rhian Sugden, of Prestwich, United Kingdom. The suit says she has appeared in at least one of the club's ads.
- Model and fashion designer Lina Posada, a Colombia native who lives in California. She has appeared in at least one advertisement for Sammy's Gentlemen's Club, according to the suit.
- Model and Playboy playmate Tiffany Toth Gray, of California, whose likeness appeared in at least two of the club's ads, the suit says.
- Model, actress, television host and brand ambassador Jessica Hinton, of California, whose image has appeared in at least two ads for the Pensacola gentlemen's club, according to the suit.

The models, all of whom have large followings on Facebook and Instagram, say they are the exclusive owners of their images. The suit says they have never allowed their photos to be used by Pias Inc.

By featuring the models in its ads, Pias creates the false impression that they either work for the club, will appear at the club or have agreed to promote it, the suit says.

The complaint says Pias is liable under Florida's law protecting a celebrity's right of publicity, Fla. Stat. Ann. § 540.08.

It also alleges misappropriation of name or likeness, conversion and unjust enrichment, as well as false advertising and false endorsement in violation of Section 43(a) of the Lanham Act, 15 U.S.C.A. § 1125(a).

The plaintiffs, represented by Ludmila Khomiak of the Casas Law Firm PC, seek damages, attorney fees and costs. WJ

Attorneys:
Plaintiffs: Ludmila Khomiak, The Casas Law Firm PC, Miami, FL

Related Filings:
Complaint: 2022 WL 5007161

Judge: Strip clubs may be owed defense against models' image-use claims

By Jason Schossler

A group of models can proceed with claims that First Mercury Insurance Co. acted in breach of contract by refusing to cover three strip clubs against allegations that they illegally used the models' images in advertising, a federal judge has ruled.

Gibson et al. v. First Mercury Insurance Co., No. 21-cv-1522, 2022 WL 4599153 (D. Conn. Sept. 30, 2022).

In denying the insurer's motion to dismiss, U.S. District Judge Stefan R. Underhill of the District of Connecticut said Sept. 30 that First Mercury may have a duty to defend the clubs because the underlying allegations fall within the scope of coverage for "advertising injury" under their policies.

The judge also said that several policy exclusions, including a "knowing violation of rights of another" exclusion, do not apply to block coverage.

IMAGE-USE CLAIMS

The coverage row stems from three lawsuits filed by a dozen professional models against the operators of Mr. Happy's Café in Connecticut, the Dream Palace in Arizona and Tiffany's Cabaret in Texas.

The plaintiffs include model Jessica Burciaga and TV personality Carmen Electra, whose real name is Tara Leigh Patrick.

According to the suits, the defendants misappropriated the plaintiffs' images, without their consent, to promote and market their strip clubs on their websites, social media and other advertising platforms.

The suits alleged the clubs' conduct harmed the models' brands by creating the false impression that they either worked for or endorsed the clubs.

In all three suits, the models asserted claims for misappropriation of likeness and violation of the Lanham Act, 15 U.S.C.A. § 1125(a), among other causes of action.

Each club tendered the underlying actions to Mercury under nearly identical commercial general liability policies. The insurer denied it had any obligation to cover the clubs in any of the cases, according to court records.

The parties ultimately reached a confidential settlement in the Mr. Happy's Café action. They also entered into $545,000 and $230,000 consent judgments in the Dream Palace and Tiffany's Cabaret actions, respectively.

Under the terms of each deal, the clubs assigned their rights under their First Mercury policies to the plaintiffs. The models then sued the insurer in New Haven federal court to collect their judgments and legal costs, accusing First Mercury of breach of contract and violations of the Connecticut Unfair Trade Practices Act, Conn. Gen. Stat. Ann § 42-110a, and the state's Unfair Insurance Practices Act, Conn. Gen. Stat. § 38a-816.

'NEGLIGENCE' CLAIMS

Moving to dismiss, First Mercury argued it has no duty to cover the underlying cases because the clubs were accused of knowingly publishing false material about the models.

But Judge Underhill said the insurer may be on the hook for the clubs' defense because the models also accused them of "negligent or recklessly indifferent" conduct.

These allegations, he said, may trigger First Mercury's defense duties even though the underlying actions also included claims for intentional acts of misappropriation.

First Mercury failed to convince the court that exclusions for a "knowing violation of rights of another" and "material published with knowledge of falsity" barred coverage for the actions.

Both exclusions are inapplicable here because they do not apply to claims involving negligent or "unknowing" conduct, the judge said.

A "field of entertainment" endorsement that excludes coverage for personal or advertising injuries arising from an invasion of privacy also is inapplicable, he said, because it "creates an ambiguity about the scope of coverage" that must be construed in the plaintiffs' favor.

The judge did, however, hold that it is premature to resolve the question of whether First Mercury has a duty to indemnify the plaintiffs for the underlying judgments.

John V. Golaszewski of Casas Law Firm PC and John J. Radshaw III represented the plaintiffs.

Michael J. Tricarico of Kennedys CMK LLP represented First Mercury. WJ

Attorneys:
Plaintiffs: John V. Golaszewski, Casas Law Firm PC, New York, NY; John J. Radshaw III, New Haven, CT

Defendant: Michael J. Tricarico and Thomas C. Kaufman Jr., Kennedys CMK LLP, New York, NY

Related Filings:
Opinion: 2022 WL 4599153

See Document Section B (P. 35) for the opinion.

'Orange Prince'

CONTINUED FROM PAGE 1

a photo of Prince that was taken by Goldsmith, who had licensed it to Vanity Fair magazine.

AWF claims the artist's works were allowed under the fair-use doctrine and is appealing the 2nd U.S. Circuit Court of Appeals' rejection of its fair-use argument. *Andy Warhol Found. for the Visual Arts Inc. v. Goldsmith*, 11 F.4th 26 (2d Cir. 2021).

"The court seemed eager to hear how the 'new meaning and message' part of the fair-use test could be crafted so as to avoid wholly overtaking a creator's right to make and license derivative works," Stephanie Bunting Glaser of Patterson Belknap Webb & Tyler LLP said.

But the parties disagree about the dispute's real issue.

At oral argument, the foundation characterized the central issue as being about transformative meaning or the message of Warhol's follow-on work, whereas Goldsmith said Warhol had not acted within the license granted to Vanity Fair.

FACTOR 1: PURPOSE AND CHARACTER

The case is considered within the framework of Section 107 of the Copyright Act, 17 U.S.C.A. § 107, which lists four factors to weigh fair use. The first factor, "the purpose and character of the use," forms the crux of the parties' arguments.

Roman Martinez of Latham & Watkins, representing the AWF, said the 2nd Circuit wrongly found a follow-on artwork's transformative meaning or message was irrelevant under the first factor.

Several justices, including Justice Sonia Sotomayor and Chief Justice John Roberts, questioned how much transformation was necessary for a new meaning.

If a filmmaker must license the use of a book, why would Warhol be exempt from obtaining a license for the photo, Justice Elena Kagan queried. And does Warhol's reputation as a transformative artist affect the analysis, she asked Martinez, adding "I wonder ... if your case doesn't benefit from a certain kind of hindsight."

Justice Ketanji Brown Jackson seemed to find Martinez's argument unclear as to the interplay between meaning or message and the character of the use, asking if he was conflating meaning or message with purpose.

Justice Clarence Thomas spun a hypothetical that had him waving an "Orange Prince" flag with "Go Orange" text at a Syracuse University game. "Would you sue me?" he asked the foundation's lawyer.

Stephanie Bunting Glaser of Patterson Belknap Webb & Tyler LLP, an attorney who is not involved in the case, provided some context on this issue.

"The court seemed eager to hear how the 'new meaning and message' part of the fair-use test could be crafted so as to avoid wholly overtaking a creator's right to make and license derivative works, particularly in well-established licensing markets," she said.

PROPOSED TEST

Arguing for Goldsmith, Lisa S. Blatt of Williams & Connolly LLP said the real problem was that AWF had not justified using the photo without a license but had leaned on the meaning-or-message argument instead. That an artwork is transformative, a descriptor not found in the statute, does not automatically make fair use, she said.

Blatt expressed concern that turning the fair-use analysis on a new meaning or message would make problems for original creators. "Anyone could turn Darth Vader into a hero ... without paying the creators a dime," she said.

Chief Justice Roberts and Justice Kagan pushed back, questioning whether the purposes were really the same. "If you had ... a photograph of you and then a Warhol, you know, it's just not the same thing," Chief Justice Roberts said.

Blatt countered by saying an artist creating a follow-on work must show the necessity of using the original as a base.

The justices, however, asked where this "necessity" requirement had originated and why it should be added to the analysis.

Joshua Schiller of Boies Schiller Flexner, who is also not involved in the dispute, framed the ruling's potential impact.

"The Supreme Court now has the opportunity to clarify the test for 'fair use' when applied to a visual artwork and what it means for copyright holders," Joshua Schiller of Boies Schiller Flexner said.

"The Supreme Court now has the opportunity to clarify the test for 'fair use' when applied to a visual artwork and what it means for copyright holders and artists in the country," he said. "The fair use doctrine has allowed creatives to draw inspiration from copyrighted materials to create new works of art, bolstering individuality and the advancement of art."

"If the court ultimately limits the scope of the doctrine, it could hinder artists from creating new works due to the fear of being sued for infringement," Schiller said.

The Supreme Court is expected to issue its final ruling by June 2023. WJ

Attorneys:
Petitioner: Roman Martinez V, Latham & Watkins LLP, Washington, DC

Respondent: Lisa S. Blatt, Williams & Connolly LLP, Washington, DC

Amicus curiae: Yaira Dubin, U.S. Department of Justice, Washington, DC

Related Filings:
Reply brief: 2022 WL 597502
Opposition brief: 2022 WL 394741
Petition for certiorari: 2021 WL 5913520
2nd Circuit opinion: 11 F.4th 26

CASE AND DOCUMENT INDEX

JACK DANIEL'S

2022 WL 11905796 (U.S.) (Appellate Petition, Motion and Filing)
Supreme Court of the United States.

JACK DANIEL'S PROPERTIES, INC., Petitioner,
v.
VIP PRODUCTS LLC, Respondent.

No. 22-148.
October 17, 2022.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

Brief in Opposition

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***i QUESTIONS PRESENTED**

1. Does the *Rogers* test apply to an artistic parody of the famous Jack Daniel's whiskey bottle to determine trademark infringement?

2. Does the Trademark Dilution Revision Act's statutory exception for "noncommercial use" apply to an artistic parody of the famous Jack Daniel's whiskey bottle?

***ii CORPORATE DISCLOSURE STATEMENT**

Respondent VIP Products LLC is an Arizona limited liability company, and no publicly traded company owns 10% or more of the interest in Respondent.

***iii TABLE OF CONTENTS**

***v TABLE OF CITED AUTHORITIES**

CASES

STATUTES & RULES

OTHER AUTHORITIES

***1 INTRODUCTION**

It is ironic that America's leading distiller of whiskey both lacks a sense of humor and does not recognize when it-and everyone else-has had enough. Petitioner Jack Daniel's Properties Inc. ("JDPI") has waged war against Respondent VIP Products LLC for having the temerity to produce a pun-filled parody of JDPI's iconic bottle-the Bad Spaniels Silly Squeaker dog toy. In the playful parodic tradition that has ranged over a half century from Topps's Wacky Packages trading cards through 'Weird Al' Yankovic, VIP put out a chewable dog toy. VIP has never sold whiskey or other comestibles, nor has it used "Jack Daniel's" in any way (humorously or not). It merely mimicked enough of the iconic bottle that people would get the joke.

TABULAR OR GRAPHIC MATERIAL SET AT THIS POINT IS NOT DISPLAYABLE
IMAGE
JDPI is now back before this Court for the second time. In 2021, this Court denied JDPI's petition challenging the Ninth Circuit's order to the district court to apply the *Rogers* test (named after *Rogers v. Grimaldi*, 875 F.2d 994, 998 (2d Cir. 1989)) to JDPI's trademark-infringement claim, and to enter judgment for VIP on JDPI's trademark-dilution claim. To obtain the Ninth Circuit's summary affirmance of the district court's judgment for VIP on both claims, JDPI waived any "challenge [to] the district court's post-remand ruling on appeal." Doc. 14-1 at 15. So what this Court has now before it is *exactly* the same as what it had before. JDPI has deliberately forgone appellate review of the only potentially distinguishing element, i.e., the district court's determination that the ***2** *Rogers* test favors VIP-a result that JDPI once told this Court was a sure bet.[1]

Another thing that has not changed is JDPI's failure to demonstrate an intercircuit conflict. Every circuit that has addressed the issue has adopted the *Rogers* test to reconcile trademark rights with First Amendment rights. No other circuit has held that the *Rogers* test does not apply to products like VIP's parody dog toy. The Ninth Circuit did not perceive that it was creating or perpetuating a circuit conflict, and no other circuit has recognized a conflict or criticized the Ninth Circuit's ruling. In fact, to find even critical *nonjudicial* commentary, JDPI had to resort to citing articles written by counsel for its amici. JDPI is left arguing that other circuits have not yet applied the *Rogers* test to similar goods, or that they have rejected claims like JDPI's on other grounds. Neither is surprising, given the small number of cases that have addressed the infrequently raised issues presented here. But neither reflects a circuit conflict warranting this Court's review at this time.

The unanimous Ninth Circuit panel decided this case correctly, and not one of the nearly thirty Ninth Circuit active judges even called for a vote each time JDPI sought rehearing en bane. There is no dispute by any party or any court in this case that the Bad Spaniels parody dog toy is an expressive work. The Ninth Circuit correctly held that the *Rogers* test applies to the facts here. The Ninth Circuit also correctly held that the Bad Spaniels parody ***3** was noncommercial speech under this Court's commercial-speech doctrine and therefore was exempted from liability under the statutory "noncommercial use" exception of the Trademark Dilution Revision Act of 2006 ("TDRA"), 15 U.S.C. § 1125(c)(3)(C).

In reality, JDPI's (and its amici's) quarrel is not with the Ninth Circuit's manifestly correct rulings below, but with the balance Congress and the courts have struck between trademark rights and First Amendment rights, and with the principle that the First Amendment does not permit "the trademark owner ... to control public discourse" about its trademark. *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 900 (9th Cir. 2002). If JDPI and its amici are concerned about competitors' marketing alcoholic beverages or marijuana-laced cookies to children, *see, e.g.*, Pet. 7, 28-29, 31, they should sue those parties. VIP sells a dog toy called "Bad Spaniels Silly Squeaker" with a picture of a dog and no reference to alcohol, and the only people who would understand what was being parodied are people already familiar with whiskey. No one-not a child, not a dog-is going to be harmed by VIP's parody. If there is some grand principle at stake, this is simply not the right case to be raising it. The petition for certiorari should be denied.

STATEMENT

1. VIP designs, manufactures, markets, and sells dog toys. Pet App. 26a, 46a. Among its product offerings is a parody line branded "Silly Squeakers®." *Id.* VIP's Silly Squeakers line includes a variety of toys in the shapes of beer, wine, soda, and liquor bottles. Pet. App. 47a-48a. Among them is the Bad Spaniels Silly Squeaker. Pet. App. 48a.

***4** VIP designed the Bad Spaniels Silly Squeaker to be a comical parody of the Jack Daniel's black-label whiskey. Pet. App. 69a. As the Ninth Circuit stated, "VIP's purported goal in creating Silly Squeakers was to 'reflect' 'on the humanization of the dog in our lives,' and to comment on 'corporations [that] take themselves very seriously.'" Pet. App. 26a. The district court acknowledged that VIP owner

Stephen Sacra's "intent behind producing the Silly Squeakers line of toys was to develop a creative parody on existing products." Pet. App. 47a.

To accomplish the parodic effect, the Bad Spaniels Silly Squeaker invokes elements of the Jack Daniel's black-label whiskey bottle and artistically transforms those elements in order to communicate the parody. "Jack Daniel's" becomes "Bad Spaniels," "Old No. 7" becomes "Old No. 2," and "Tennessee whiskey" becomes "Tennessee carpet." References to alcohol content are transformed into "43% POO BY VOL." and "100% SMELLY". Pet. App. 48a. Bad Spaniels approximates the shape and size of a Jack Daniel's black-label whiskey bottle but features the picture of, in the district court's words, a "wide-eyed spaniel." Pet. App. 48a.

2. In September 2014, JDPI "demand[ed] that VIP cease all further sales of the Bad Spaniels toy." Pet. App. 26a. VIP promptly filed the present action for a declaratory judgment that its parody of the Jack Daniel's whiskey bottle "does not infringe or dilute any claimed trademark rights" of JDPI. Pet. App. 26a. JDPI counterclaimed for an injunction and generally asserted that the Bad Spaniels Silly Squeaker infringed and diluted JDPI's trademarks. Pet. App. 26a-27a.

***5** 3. In September 2016, the district court denied VIP's motion for summary judgment, rejecting VIP's First Amendment defenses, including its noncommercial-use and fair-use defenses, e.g., the fair-use defense based on parody. Pet. App. 49a-50a. Although the district court found that Bad Spaniels was an expressive work, the court refused to apply the *Rogers* test and the TDRA's noncommercial-use exception, leaving for a bench trial all of JDPI's counterclaims. Pet. App. 50a.

The district court found that VIP used an "adaptation" of JDPI's trademark and trade dress "for the dual purpose of making expressive comment as well as the commercial selling of a non-competing product." Pet. App. 89a. It found Bad Spaniels to be a predominantly expressive work-the court said that it was only "somewhat non-expressive," Pet. App. 90a- developed by a creative artist whose intent "was to develop a creative parody," Pet. App. 46a-47a. Yet the court rejected VIP's First Amendment defenses because VIP sold the parody as "a commercial product, its novelty dog toy." Pet App. 90a.

In May 2018, following a four-day bench trial, the district court permanently banned the parody, enjoining VIP "from sourcing, manufacturing, advertising, promoting, displaying, shipping, importing, offering for sale, selling or distributing the Bad Spaniels dog toy." Pet. App. 27a, 42a.

4. The Ninth Circuit, in a unanimous panel decision, reversed the district court's judgment and remanded "because the Bad Spaniels dog toy is an expressive work entitled to First Amendment protection." Pet. App. 25a; ***6** *VIP Prods. LLC v. Jack Daniel's Props., Inc.*, 953 F.3d 1170, 1172 (9th Cir. 2020). The court of appeals reversed and vacated the district court's permanent injunction; held that the parody dog toy constituted a noncommercial use such that it did not dilute JDPI's mark by tarnishment as a matter of law; held that the parody dog toy was an expressive work to which the *Rogers* test applied; and remanded for application of that test in the first instance. *Id.*

In determining whether the Bad Spaniels parody was an expressive work, the Ninth Circuit analyzed "whether the work is 'communicating ideas or expressing points of view.'" Pet App. 30a-31a (indirectly quoting *L.L. Bean, Inc. v. Drake Publishers, Inc.*, 811 F.2d 26, 29 (1st Cir. 1987)). The court noted that the "work need not be the expressive equal of *Anna Karenina* or *Citizen Kane* to satisfy this requirement, and is not rendered non-expressive simply because it is sold commercially." Pet. App. 31a (cleaned up).

Applying these settled standards, the Ninth Circuit held "the Bad Spaniels dog toy, although surely not the equivalent of the *Mona Lisa, is* an expressive work." Pet App. 31a. As the court explained, Bad Spaniels is a humorous parody of the original:
The toy communicates a "humorous message," using word play to alter the serious phrase that appears on a Jack Daniel's bottle-"Old No. 7 Brand"-with a silly message-"The Old No. 2." The effect is "a simple" message conveyed by "juxtaposing the irreverent representation of the trademark with the idealized image created by the mark's owner."

***7** *Id.* (citations omitted). The Ninth Circuit quoted the First Circuit's decision in *L.L. Bean*, which afforded First Amendment protection to a message "that business and product images need not always be taken too seriously." *Id.* (quoting *L.L. Bean*, 811 F.2d at 34).

The Ninth Circuit noted that "[t]he fact that VIP chose to convey this humorous message through a dog toy is irrelevant." Pet App. 32a (citing *Hurley v. Irish-Am. Gay, Lesbian & Bisexual Grp. of Bos.*, 515 U.S. 557, 569 (1995)). The Ninth Circuit also observed that it was not the first court to find that dog toys can be "successful parodies" of well-known brands, pointing to the Fourth Circuit's conclusion that a parody dog toy did not infringe as a matter of law. *Id.* (discussing *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Cir. 2007) (affirming summary judgment for dog-toy maker)).

JDPI sought rehearing en banc. Pet. App. 21a. The Ninth Circuit denied rehearing, with not a single judge even requesting a vote. *Id.*

5. JDPI then filed a petition for certiorari raising the precise issues raised here: whether the *Rogers* test should be applied to VIP's Bad Spaniels Silly Squeaker, and whether the dilution claim was barred under the noncommercial-use exception. As now, that petition was supported by numerous amicus briefs submitted by trademark owners and their organizations. This Court denied the petition. Pet. App. 20a.

6. On remand, the district court followed the Ninth Circuit's mandate. It entered judgment for VIP on the dilution claim, and it entertained briefing on ***8** the consequences of applying the *Rogers* test to the infringement claim. The district court concluded what JDPI had predicted: the *Rogers* test required judgment for VIP. Pet. App. 11a-18a. It then entered judgment for VIP. Pet. App. 3a.

7. On appeal, JDPI requested summary affirmance so that it could bring yet another petition for rehearing en bane and yet another petition for certiorari. Pet. App. 2a. To accomplish that it, JDPI waived any challenge to the district court's application of the *Rogers* test. Doc. 14-1 at 15. Granting that wish, the Ninth Circuit panel summarily affirmed. Pet. App. 2a. Yet again, not a single Ninth Circuit judge called for a vote on JDPI's petition for rehearing en bane. Pet. App. la.

This successive, repetitive petition followed.

REASONS FOR DENYING THE PETITION

I. There Is No Circuit Conflict or Split on the Application of the *Rogers* Test to Expressive Works.

As to JDPI's infringement claim, the only issue the Ninth Circuit decided was whether the Bad Spaniels parody was an expressive work to be evaluated under the *Rogers* test. The unanimous panel answered in the affirmative and remanded the case to the district court for application of the test. Particularly in light of JDPI's express waiver of any appeal of the district court's application of the *Rogers* test, the only issue presented by the petition whether there is a current disagreement among the circuits on the standard that should govern application of the Lanham Act to expressive works. There is not.

*9 A. The Ninth Circuit correctly held that the Bad Spaniels parody dog toy is protected expression.

The Bad Spaniels Silly Squeaker is quintessential parody, that is, "a simple form of entertainment conveyed by juxtaposing the irreverent representation of the trademark with the idealized image created by the mark's owner." *L.L. Bean*, 811 F.2d at 34.

"Parody is a form of artistic expression covered by the First Amendment." 6 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 31:153 (5th ed. 2022). Parody is a form of satire, which "is a long-established artistic form that uses means such as ridicule, derision, burlesque, irony, parody, or caricature to censure the vices, follies, abuses, or shortcomings of an individual or society." *Farah v. Esquire Mag.*, 736 F.3d 528,536 (D.C. Cir. 2013) (cleaned up). "Although satire has been employed since the time of Ancient Greece, it remains one of the most imprecise of all literary designations-a notoriously broad and complex genre whose forms are as varied as its victims." *Id.* (cleaned up). The D.C. Circuit explained, "Sometimes satire is funny. Othertimes it may seem cruel and mocking, attacking the core beliefs of its target. And sometimes it is absurd ...." *Id.* (citations omitted). Thus, it is well established that "[t]he fact that the joke on [the plaintiff's] luxury image is gentle, and possibly even complimentary [to the plaintiff], does not preclude it from being a parody." *Louis Vuitton Malletier, S.A. v. My Other Bag, Inc.*, 674 F. App'x 16, 18 (2d Cir. 2016).

Because VIP's Bad Spaniels Silly Squeaker is a classic parody, it *had* to borrow enough from JDPI's iconic bottle to make the parody work. The D.C. Circuit ***10** recognized that, as with other forms of satire, in parody "the style of an individual or work is closely imitated for comic effect or in ridicule." *Id.* As this Court held, "Parody needs to mimic an original to make its point, and so has some claim to use the creation of its victim's (or collective victims') imagination ...." *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 580-81 (1994). Whether the "parody is in good taste or bad does not and should not matter," and even though the Court "might not assign a high rank to the parodic element here," the standard is whether the defendant's work "reasonably could be perceived as commenting on the original or criticizing it, to some degree." *Id.* at 583. "[A] parody enjoys First Amendment protection notwithstanding that not everybody will get the joke." *Gold v. Att'y Gen. of N.Y.*, 870 F.3d 89, 102 (2d Cir. 2017).

JDPI has always admitted that VIP's Bad Spaniels Silly Squeaker is a parody: it acknowledged to this Court that Bad Spaniels constitutes a "humorous use of another's trademark" and "imitates a Jack Daniel's whiskey bottle, while adding poop humor." Pet. 4-5. Indeed, because owning dogs is meant to be fun, parody products are ubiquitous in the dog-merchandise industry. "The pet owner who sees a line of products for pet dogs under names that parody elegant and high-fashion marks, such as CHEWNEL #5, DOG PERIGNON, SNIFFANY & CO. and CHEWY VUITON, is not likely to mistakenly think that those famous high-fashion houses are making or authorizing the dog accessories." 6 *McCarthy on Trademarks, supra,* § 31:154.

As the Ninth Circuit appreciated, that the parody is in the form of a dog toy that is sold to the public does not ***11** render "non-expressive" for First Amendment purposes. Pet. App. 31a-32a; *see also Brown v. Ent. Merchs. Ass'n*, 564 U.S. 786, 790 (2011) ("[T]he basic principles of freedom of speech ... do not vary when a new and different medium for communication appears." (quotation omitted)); *City of Lakewood v. Plain Dealer Publ'g Co.*, 486 U.S. 750, 756 (1988) ("Of course, the degree of First Amendment protection is not diminished merely because the ... speech is sold rather than given away."). Indeed, a dog toy is a fairly plastic medium for expression, including parody. A dog toy is defined by its function, and its successful performance turns on whether a dog could or would chomp on it without choking on stray pieces. The dog toy could come in any shape or color a canine might safely enjoy, from a bone to the Venus de Milo.

JDPI and its amici belittle dog toys as "utilitarian" or "ordinary commercial products," but the line between dog toys and greeting cards, parody study guides, calendars, and video games-to which the *Rogers* test has been applied-becomes indefensible when the parodic element is entirely independent of the underlying tangible vehicle of expression in artistic and functional dimensions. *See, e.g.*, 6 *McCarthy on Trademarks, supra,* § 31:144.50 ("The *Rogers* test is used if the mark is used in any expressive context.") (collecting cases).

Here, VIP used its dog toys as a canvas for parodying, among others, an iconic (and, from its petition, self-obsessed) whiskey brand. It did what 'Weird Al' Yankovic did when he parodied Coolio's *Gangsta's Paradise* with *Amish Paradise*, or what Topps has done to hundreds of similarly iconic brands since 1967, through its Wacky Packages trading cards and stickers that parody similarly ***12** iconic consumer products, from "Ratz Crackers," "Jolly Mean Giant," "Gulp Oil," "Lame O Lakes," and "Miracle Weep" to "Battletime Beer," "Blast Blew Ribbon Beer," "Muller Beer," "Jim Mean Kentucky Sharp Broken Whiskey," "Old Grand-Mom Whiskey," and "South Beached Whale Diet." At the height of their popularity, Wacky Packages outsold Topps baseball cards, when they were by far the most-sold trading card items in the United States.[2] Yet the world did not end.

JDPI complains that VIP's Bad Spaniels Silly Squeaker bore on its hang tag a disclaimer of affiliation in too small a font, Pet. 12, but that is irrelevant. "There is no requirement that the cover of a parody carry a disclaimer that it is not produced by the subject of the parody, and we ought not to find such a requirement ...." *Cliff Notes, Inc. v. Bantam Doubleday Dell Publ'g Grp., Inc.*, 886 F.2d 490, 496 (2d Cir. 1989). This is not a case where someone claimed a parody just by using the claimant's mark on an inapt product-VIP did not put "Jack Daniel's" on a dog toy as the sum total of the would-be parody. That Bad Spaniels Silly Squeaker is a parody is obvious from "Bad Spaniels," the cartoon dog, and the other humorous transformations of the original.

This case is not really about confusion. It is about trademark owners who do not like being parodied-however gently-and do not enjoy that their brands' iconic ***13** character makes them subject to parody that they cannot control. But "'the last thing we need, the last thing the First Amendment will tolerate, is a law that lets public figures keep people from mocking them.'" *Cardtoons, L.C. v. Major League Players Ass'n*, 95 F.3d 959,972-73 (10th Cir. 1996) (quoting *White v. Samsung Elecs. Am., Inc.*, 989 F.2d 1512, 1519 (9th Cir. 1993) (Kozinski, J., dissenting)).

B. Every circuit to consider the issue has adopted or endorsed the *Rogers* test.

Given that Bad Spaniels Silly Squeaker is an expressive work, there is no cert-worthy conflict presented here because every circuit that has addressed the issue has adopted the Second Circuit's *Rogers* test to resolve infringement claims that target expressive works. "[W] here artistic expression is at issue, [courts] have expressed concern that the traditional [likelihood-of-confusion] test fails to account for the full weight of the public's interest in free expression." *Gordon v. Drape Creative, Inc.*, 909 F.3d 257, 264 (9th Cir. 2018) (cleaned up). When a mark is used in an expressive work, courts assess likelihood of confusion in a different way because "First Amendment concerns" must "inform [a court's] consideration of the scope of the [Lanham] Act as applied to claims involving" expressive works. *Rogers*, 875 F.2d at 998.

In the seminal 1989 *Rogers* decision, the Second Circuit articulated a two-part test for assessing whether the use of a mark in an expressive work is "likely to cause confusion" within the meaning of the Lanham Act. Such a use, even if found to be likely confusing under the traditional analysis, is not actionable unless (1) the use has ***14** "no artistic relevance to the underlying work whatsoever," or (2) the work "explicitly misleads as to the source or the content of the work." *Rogers*, 875 F.2d at 999. Applying the *Rogers* test is straightforward: "the only threshold requirement for the *Rogers* test is an attempt to apply the Lanham Act to First Amendment expression." *Twentieth Century Fox Television v. Empire Distrib. Inc.*, 875 F.3d 1192, 1198 (9th Cir. 2017). Contrary to JDPI's repeated assertion, the *Rogers* test does not abandon all reference to likelihood of confusion, *e.g.*, Pet. 33, but rather channels that element through the standard of whether the work, even if it has artistic relevance, "explicitly misleads as to the source or content of the work."

Rogers is illustrative. That case involved a Federico Fellini film called *Ginger and Fred* about "two fictional Italian cabaret performers ... who, in their heyday, imitated" Ginger Rogers and Fred Astaire and so "became known in Italy as 'Ginger and Fred.'" *Rogers*, 875 F.2d at 996-97. Ginger Rogers sued, alleging that the film's title violated the Lanham Act "by creating the false impression that the film was about her or that she sponsored, endorsed, or was otherwise involved in the film." *Id.* at 997. Despite survey evidence showing likely confusion and evidence of actual confusion, *id.* at 1001, the court found no infringement because the use was artistically relevant to the work, and the work did not "explicitly mislead[] as to the source or content of the work," *id.* at 999.

The *Rogers* test was a sea change in how courts treat Lanham Act infringement claims involving expressive works. When presented with the opportunity, every circuit court has adopted or endorsed the *Rogers* test to ***15** determine infringement in cases involving expressive works. "The Second Circuit's *Rogers* balancing test is now widely used by almost all courts." 6 *McCarthy on Trademarks, supra,* § 31:144.50 (collecting cases). "No courts have rejected the *Rogers* test." Lynn M. Jordan & David M. Kelly, *Another Decade of* Rogers v. Grimaldi: *Continuing to Balance the Lanham Act with the First Amendment Rights of Creators of Artistic Works*, 109 Trademark Rep. 833, 834-35 (2019).

The Fifth Circuit adopted the *Rogers* test in *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658 (5th Cir. 2000). In evaluating a claim for infringement against the publisher of a lifestyle magazine, the Fifth Circuit agreed with the Second Circuit that there is a "tension between the protection afforded by the Lanham Act to trademark owners and the protection afforded by the First Amendment to expressive activity." *Id.* at 664. The court "adopted the Second Circuit's approach" for resolving that tension. *Id.* at 664-65 (quoting *Twin Peaks Prods., Inc. v. Publ'ns Int'l, Ltd.*, 996 F.2d 1366,1379 (2d Cir. 1993) (quoting *Rogers*, 875 F.2d at 999)).

The *Rogers* analysis was followed in *Seale v. Gramercy Pictures*, 949 F. Supp. 331,339 (E.D. Pa. 1996), which the Third Circuit affirmed without opinion, 156 F.3d 1225 (3d Cir. 1998) (mem.); *see also Hidden City Philadelphia v. ABC, Inc.*, 2019 WL 1003637, at *3 (E.D. Pa. Mar. 1, 2019) (applying *Rogers* to dismiss state-law claim of trademark infringement against expressive use of title of video website).[3]

***16** The Ninth Circuit first adopted the *Rogers* test in 2002 in *Mattel, Inc. v. MCA Records*, which involved trademark dilution and infringement claims based on the music band Aqua's commercially successful parody song *Barbie Girl*. Applying *Rogers* to the parody song, the Ninth Circuit concluded "that MCA's use of Barbie is not an infringement of Mattel's trademark." 296 F.3d at 902. The Ninth Circuit later applied the *Rogers* test to another parodic use of Barbie in *Mattel, Inc. v. Walking Mountain Products*, 353 F.3d 792, 801 (9th Cir. 2003), which concerned postcards sold for profit that bore parodic photographs depicting the famous doll. The court affirmed summary judgment for the parodist because his use was artistically relevant to his "parodic message," and the photographs did "not explicitly mislead as to Mattel's sponsorship of the works." *Id.* at 807.

The year after the Ninth Circuit adopted the *Rogers* test, the Sixth Circuit followed suit. *Parks v. LaFace Records*, 329 F.3d 437, 450 (6th Cir. 2003) (holding that the likelihood-of-confusion and "alternative means" tests do not give sufficient weight to the public interest in freedom of expression). Then, in *ETW Corp. v. Jireh Publishing, Inc.*, 332 F.3d 915, 936-37 (6th Cir. 2003), the Sixth Circuit applied the *Rogers* test to the use of a Tiger Woods's likeness in a painting of Woods at The Masters golf tournament. The court held that even though "[s]ixty-two percent" of survey respondents indicated they thought Woods was affiliated or connected with, ***17** approved, or sponsored the painting, *id.* at 937 n.19, "[t]he risk of misunderstanding, not engendered by any explicit indication on the face of the print, is so outweighed by the interest in artistic expression as to preclude application of the [Lanham] Act," *id.* at 937.

Although the Seventh Circuit has not expressly adopted the *Rogers* test, it affirmed a district court decision that dismissed a claim for infringement and held that even if the plaintiff could demonstrate that the use constituted "actionable trademark infringement, it is protected by the First Amendment under *Rogers*." *Fortres Grand Corp. v. Warner Bros. Ent. Inc.*, 947 F. Supp. 2d 922, 931-32 (N.D. Ind. 2013) ("The *[Rogers* test] is one of the beacons used to navigate the murky boundary between trademark law and the First Amendment."), *aff'd on other grounds*, 763 F.3d 696 (7th Cir. 2014).

The Eleventh Circuit adopted the *Rogers* test in *University of Alabama Board of Trustees v. New Life Art, Inc.*, 683 F.3d 1266 (11th Cir. 2012), stating that "we have no hesitation in joining our sister circuits by holding that we should construe the Lanham Act narrowly when deciding whether an artistically expressive work infringes a trademark." *Id.* at 1278. The court held that the defendant's painted depictions of the University's trademarked uniforms in unlicensed paintings, prints, and calendars were protected expression under the *Rogers* test. *Id.* at 1279.[4]

***18** The uninterrupted trend in the circuit courts in favor *of Rogers* continues. The Fourth Circuit recently endorsed *Rogers* in *Radiance Foundation, Inc. v. N.A.A.C.P.*, 786 F.3d 316 (4th Cir. 2015). As noted above, that court had previously used the traditional analysis to reject an infringement claim based on a parody dog toy. *Haute Diggity Dog*, 507 F.3d at 268-69.

In short, there is no circuit disagreement on the central question at issue in this case: the standard that governs analysis of Lanham Act infringement claims involving expressive works. The Ninth Circuit did not perceive a conflict, and no subsequent circuit has criticized the Ninth Circuit's decision below. Cases that do not even address whether to apply the *Rogers* test, which JDPI and its amici repeatedly cite, do not create a conflict based on what they did *not* consider. Moreover, to find even critical *nonjudicial* commentary on the Ninth Circuit's decision, JDPI has cited works that fall short of compelling authority: articles written by counsel for JDPI's own amici (without disclosure of that association),[5] law-student and new-graduate notes,[6] and an apparently subscriber-only news "report" on the "debate," including amicus arguments.[7] Pet. 32.

***19 C. JDPI's cases do not represent a circuit split.**

JDPI argues that the Ninth Circuit, by applying the *Rogers* test to VIP's Bad Spaniels Silly Squeaker, has created a conflict with the Second, Seventh, and Eighth Circuits. Pet. 6-7, 18-22. Specifically, JDPI relies on those circuits' decisions in *Harley-Davidson, Inc. v. Grottanelli*, 164 F.3d 806 (2d Cir. 1999); *Nike, Inc. v. "Just Did It" Enterprises*, 6 F.3d 1225,1228 n.3 (7th Cir. 1993); and *Mutual of Omaha Insurance Co. v. Novak*, 836 F.2d 397 (8th Cir. 1987). None of them comes close to a conflict. Certainly the Ninth Circuit did not perceive a conflict, and for good reason: two of the courts did not even acknowledge the *Rogers* test, and the third declined to apply it because the facts were clearly distinguishable.

The Second Circuit in *Harley-Davidson* cited its prior decision in *Rogers*, explaining that "[w]e have accorded considerable leeway to parodists whose expressive works aim their parodic commentary at a trademark or a trademarked product." 164 F.3d at 812, The court declined to apply *Rogers* because there was humor but no parody: defendant's "mark makes no comment on Harley's mark; it simply uses it somewhat humorously to promote his own products and services, which is not a permitted trademark parody use." *Id.* at 813. The defendant had directly used Harley's bar-and-shield logo in advertisements, first by a "hand-drawn copy of the bar-and-shield logo, with the name 'Harley-Davidson' displayed on the horizontal bar"; then, after Harley's complaints, with "Harley-Davidson" replaced by "American-Made" and an added banner "UNAUTHORIZED DEALER"; then with eagle's wings behind the shield, which "was apparently patterned after Harley-Davidson's bicentennial logo design mark"; and ***20** finally with a pig wearing sunglasses. *Id.* at 809. *Harley-Davidson* would be more relevant if someone put out a dog toy labeled "Jack Daniel's," without any parodic transformation. That is not this case.

Indeed, more recently, the Second Circuit distinguished its decision in *Harley-Davidson* in affirming summary judgment for the alleged infringer in *Louis Vuitton Malletier, S.A. v. My Other Bag, Inc.*, 674 F. App'x 16 (2d Cir. 2016). "At the same time that [the defendant's tote bags] mimic LV's designs and handbags in a way that is recognizable, they do so as a drawing on a product that is such a conscious departure from LV's image of luxury-in combination with the slogan 'My other bag'-as to convey that MOB's tote bags are *not* LV handbags." *Id.* at 18. Citing *Harley-Davidson*, the court noted, "That distinguishes this case from ones ... where a trademark was used merely to 'promote' or 'sell' goods and services, which is impermissible." *Id.* at 18. Again, that is not this case.

JDPI's citations to the Seventh Circuit's opinion in *Nike* and the Eighth Circuit's opinion in *Mutual of Omaha* are even more perplexing, since those opinions did not address whether to apply the *Rogers* test at all. *Nike* involved a defendant who sold t-shirts and sweatshirts "with a 'swoosh' design identical to Nike, Inc.'s, but with the word Mike instead," and marketed such shirts to people named "Michael." 6 F.3d at 1226. The defendant, who was himself named "Michael," "admitted that his 'whole point' was to give someone viewing from a distance the impression that the shirt actually read NIKE." *Id.* at 1227. The opinion mentions *Rogers* only as the object of "citing" in a footnote reference, and the Seventh Circuit ***21** did not address whether *Rogers* should be applied. The court observed only that Nike "assumes with neither citation nor argument that parody is an affirmative defense," while the district court had cited *Cliffs Notes*, which cited *Rogers*, as employing a balancing test. *Id.* at 1228 n.3. The court reversed summary judgment for Nike, holding that whether MIKE was intended as a parody rather than mere passing off was a question for the jury. *Id.* at 1232.[8]

Finally, the Eighth Circuit's opinion in *Mutual of Omaha* is even more easily disposed of. The opinion concerned an obvious parody-the defendant used "Mutant of Omaha" along with "a side view of a feather-bonneted, emaciated human head" and the words "Nuclear Holocaust Insurance." 836 F.2d at 398. But the opinion could not create a conflict as to whether to apply the *Rogers* test because it antedated *Rogers* by two years.[9] Moreover, the so-called "alternative means" test employed by *Mutual of Omaha* has been discredited in favor of the *Rogers* approach, and it was rejected by *Rogers* itself. *Rogers*, 875 F.2d at 998; *see also Parks*, 329 F.3d at 448-49, 450 (6th Cir.) ("reject[ing] the alternative avenues test" because it does not "accord[] adequate weight to the First ***22** Amendment interests"); *Westchester Media*, 214 F.3d at 672 n.18 (5th Cir.) (explicitly rejecting *Novak's* "alternative means test"). *Mutual of Omaha* does not justify certiorari here.

Simply put, there is no circuit split to resolve. Every circuit court to consider the issue has either adopted or endorsed *Rogers* and no circuit court has rejected it. JDPI is left with cases that antedated *Rogers* or did not address the test. That does not create a *current* circuit split.

D. The Ninth Circuit correctly held that *Rogers* applies.

The unanimous Ninth Circuit panel scrupulously followed settled precedent in holding that the Bad Spaniels parody dog toy constitutes First Amendment expression subject to the *Rogers* test. The courts are virtually unanimous in holding that, in the expressive context, *Rogers* must be applied "as a rule of construction to avoid conflict between the Constitution and the Lanham Act." *Gordon*, 897 F.3d at 1190.

JDPI argues the opposite, contending that the Lanham Act's statutory language mandates using the traditional likelihood-of-confusion test in every case of infringement, even those involving expressive works: "No language in the statute permits a court to require that *[Rogers]* showing in every case of humorous infringement." Pet. 33. But JDPI's focus on whether the defendant's message was merely "humorous" is a red herring. The question, as the Ninth Circuit recognized, is not merely whether the defendant's use of a mark was "humorous," but whether the defendant produced a true parody, i.e., ***23** "create[d] a transformative work with new expression, meaning or message." Pet. 32a (cleaned up). The Ninth Circuit correctly concluded that VIP did so here.

What JDPI fails to acknowledge is that the *Rogers* approach, like the traditional approach, is an interpretation of when the use of a mark in an expressive work is "likely to cause confusion." 15 U.S.C. § 1125(a)(1)(A). The *Rogers* approach is simply a recognition that different considerations come into play when assessing likelihood of confusion in the context of an expressive work. This is also why JDPI's characterization of the *Rogers* approach as a judicial exception that "clashes with the Lanham Act's structure" also misses the mark. Pet. 33. Congress did not need to make an exception to trademark infringement liability under 15 U.S.C. § 1125(a) because the *Rogers* test is simply an interpretation of subsection 1125(a) in the context of expressive works.

The Lanham Act does not furnish any particular formula for evaluating whether the use of a mark is "likely to cause confusion." 15 U.S.C. § 1125(a)(1)(A). The circuit courts have developed sets of factors to consider in determining whether confusion is likely in a typical case of related, purely commercial products. *Compare AMF Inc v. Sleekcraft Boats*, 599 F.2d 341, 348-49 (9th Cir. 1979) (listing Ninth Circuit factors), *with Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961) (listing Second Circuit factors). Even these various "catalogue[s]" of factors do "not exhaust the possibilities-the court may have to take still other variables into account." *Polaroid*, 287 F.2d at 495; *see Sleekcraft*, 599 F.2d at 348 n.11 ("The list is not exhaustive. Other variables may come into play depending on the particular facts presented.").

***24** These "traditional" factors have their "origin in cases of purely commercial exploitation." *Cliffs Notes*, 886 F.2d at 495 n.3. In the purely commercial context, there are no countervailing First Amendment interests to consider. But "when a trademark owner claims that an expressive work infringes on its trademark rights," those countervailing First Amendment interests must be taken into account. *Gordon*, 909 F.3d at 260-61. Courts "use the *Rogers* test to balance the competing interests at stake." *Id.* And they do so because, as the courts have repeatedly explained, the traditional factors are "at best awkward in the context of parody" and "artistic expression." *Cliff Notes*, 886 F.2d at 495 n.3.

JDPI and amici curiae disagree with the *Rogers* because it does not make it easier for them to stifle criticism either outright or through expensive, speech-chilling litigation. *See e.g., Novalogic, Inc. v. Activision Blizzard*, 41 F. Supp. 3d 885, 900 (C.D. Cal. 2013) ("The *Rogers* test is relatively straightforward to apply and is very protective of speech."). But that is precisely what the First Amendment requires in the context of protected expression: clear rules regarding any boundaries on protected speech, not the ad hoc, discretionary weighing of factors fostered by the traditional approach. As this Court explained in a different First Amendment

context, to avoid "chilling speech through the threat of burdensome litigation," First Amendment standards "must eschew the open-ended rough-and-tumble of factors, which invites complex argument in a trial court and a virtually inevitable appeal. In short, it must give the benefit of any doubt to protecting rather than stifling speech." *Fed. Election Comm'n v. Wis. Right to Life, Inc.*, 551 U.S. 449, 469 (2007) (citations and quotations omitted).

***25** Congress and the courts have struck the proper balance between trademark rights and First Amendment rights. JDPI and its supporting amici are simply unhappy with that balance because it does not permit them "to control public discourse" about their trademarks. *MCA Records*, 296 F.3d at 900.

II. The Ninth Circuit Correctly Interpreted and Applied the TDRA as Required by the First Amendment, and Consistently with Existing Law.

With respect to its dilution claim, this case is in precisely the same posture as it was when this Court denied JDPI's prior petition for certiorari. The Ninth Circuit held thatVIP was entitled to judgment as a matter of law, and it remanded for entry of judgment on mandate. Despite the finality of the Ninth Circuit's ruling, this Court denied certiorari. It should do so again.

JDPI accuses the Ninth Circuit of "adopting" a broad reading of the TDRA's statutory noncommercial-use exception, suggesting that no other circuit would find the Bad Spaniels expressive parody a "noncommercial use." Pet. 25-26. That is at best the prediction of *a future* circuit conflict, which militates against grant of certiorari at this time. In any event, JDPI is incorrect. The Ninth Circuit properly applied this Court's commercial-speech doctrine to the speech at issue and correctly held an obvious parody to be fully protected, noncommercial speech such that the TDRA's noncommercial-use exception applied.

*26 A. The TDRA may not regulate a work of creative expression, which is fully protected, noncommercial speech.

The TDRA "provides three broad, overlapping categories within which any use of a famous mark, even if likely to cause harm or blurring, is not actionable: fair use; news reporting and news commentary; and noncommercial use." *Radiance*, 786 F.3d at 330 (citing 15 U.S.C. § 1125(c) (3) and holding that the noncommercial-use exemption precluded the NAACP's dilution-by-tarnishment claim even though it made a *primafacie* showing of dilution).[10]

To determine whether the alleged dilutive use falls within the noncommercial-use exemption, the courts, including the Ninth Circuit, uniformly apply this Court's commercial-speech doctrine. *See, e.g., Radiance*, 786 F.3d at 331 ("The term 'noncommercial' refers to the First Amendment commercial speech doctrine."). And contrary to JDPI's contention, the courts decide this legal issue as a matter of law. *See, e.g., Bolger v. Youngs Drug Prods. Corp.*, 463 U.S. 60,65 (1983) ("[W]e must first determine the proper classification of the [speech] at issue here."); *Jordan v. Jewel Food Stores, Inc.*, 743 F.3d 509, 515 (7th Cir. 2014) ("classifying [speech] as commercial or noncommercial speech for constitutional purposes ... is a legal question").

***27** In its seminal 2002 decision in *Mattel, Inc. v. MCA Records*, 296 F.3d at 903, the Ninth Circuit took a deep dive into the legislative history behind the noncommercial-use exception and found that "the exemption for noncommercial speech is used as a somewhat inexact, shorthand reference to 'speech protected by the First Amendment.'" *Sporting Times, LLC v. Orion Pictures Corp.*, 291 F. Supp. 3d 817,826-27 (W.D. Ky. 2017) (quoting and finding "the noncommercial use exemption reasoning of *Mattel* persuasive," and dismissing the "dilution claim [as] meritless" under that rubric).

Stated somewhat differently, the "[l]egislative history indicates that Congress intended the noncommercial exemption to ... incorporate the Supreme Court's concept of 'commercial speech.'" 4 *McCarthy on Trademarks, supra,* § 24:128. In *MCA Records*, the Ninth Circuit held that "[t]o determine whether [the speech at issue] falls within this exemption, we look to our definition of commercial speech under our First Amendment caselaw." 296 F.3d at 906.

Contrary to JDPI's contention, this approach is not at odds with the Fourth Circuit's approach. *See Radiance*, 786 F.3d at 331 ("The term 'noncommercial' refers to the First Amendment commercial speech doctrine."). Indeed, courts uniformly use this Court's commercial-speech doctrine to determine whether the speech at issue falls within the TDRA's statutory noncommercial-use exemption. *See Chooseco LLC v. Netflix, Inc.*, 439 F. Supp. 3d 308,324 (D. Vt. 2020) ("This [noncommercial-use] 'exemption incorporates the concept of commercial speech from the commercial speech doctrine.'") (quoting *MCA Records);* ***28** *Liberty Counsel, Inc. v. Guidestar USA, Inc.*, 2018 WL 10323724, at *3 (E.D. Va. Jan. 23, 2018) ("The term 'noncommercial' refers to the First Amendment commercial speech doctrine.") (quoting *Radiance*, 786 F.3d at 331), *aff'd*, 737 F. App'x 171 (4th Cir. 2018).

B. The Bad Spaniels parody dog toy is fully protected, noncommercial speech.

There should be no question that the Bad Spaniels parody dog toy constitutes noncommercial speech under this Court's commercial-speech doctrine. As this Court has held, "[p]arody is a form of noncommercial expression if it does more than propose a commercial transaction." *Bolger*, 463 U.S. at 66-67 (1983) (finding that speech does not become "commercial" simply because the author had economic motivation). Entirely consistent with this Court's definition, the Ninth Circuit held that the Bad Spaniels Silly Squeaker does more than propose a commercial transaction-it communicates a humorous parody-and therefore is not commercial speech. 953 F.3d at 1176. That holding is unassailable.

JDPI's suggestion that Bad Spaniels would be deemed commercial speech under the Fourth Circuit's three-part *Bolger* analysis (or that the Ninth Circuit does not use that analysis to aid in determining the issue) is simply incorrect. First, the Ninth Circuit does use the *Bolger* analysis in cases that present "close questions," *Dex Media W., Inc. v. City of Seattle*, 696 F.3d 952,958 (9th Cir. 2012) (quoting *Hunt v. City of Los Angeles*, 638 F.3d 703, 715 (9th Cir. 2011)), which this case decidedly does not.

Second, the Bad Spaniels parody dog toy does not qualify as commercial speech under the factors identified ***29** in *Bolger*. As the Ninth Circuit has applied this Court's decision, "[t]he factors identified in *Bolger* include 'three characteristics which, in combination, support[]' a conclusion that the document 'at issue constitute[s] commercial speech, including (i) their advertising format, (ii) their reference to a specific product, and (iii) the underlying economic motive of the speaker.'" *Dex Media*, 696 F.3d at 958 (quotation omitted).

The Bad Spaniels Silly Squeaker "is not advertising the product; it *is* the product." *Hilton v. Hallmark Cards*, 599 F.3d 894, 905 n.7 (9th Cir. 2010); *see also Am. Acad. of Pain Mgmt. v. Joseph*, 353 F.3d 1099, 1106 (9th Cir. 2004) (first *Bolger* factor met only if "the speech is admittedly advertising"). In short, "[e]ven the most cursory examination of [Bad Spaniels] reveals that it is not 'concededly an advertisement' and ... it does not refer to a specific product." *Dex Media*, 696 F.3d at 959. VIP is not offering or selling bottles of anything, much less bottles of "Old No. 2" that contain "43% POO BY VOL."

That leaves the final factor, economic motivation. VIP did want to sell Bad Spaniels Silly Squeaker (as do most, if not all, artists and parodists[11]), but "the fact that [VIP] has ***30** an economic motivation for [creating Bad Spaniels] would clearly be insufficient by itself to turn [it] into commercial speech." *Bolger*, 463 U.S. at 67 (citing *Bigelow v. Virginia*, 421 U.S. 809, 818 (1975)).

There is no merit in JDPI's contention that there is a conflict in how courts determine whether the TDRA's noncommercial-use exemption applies, or that the issue would have been decided differently under the Fourth Circuit's *Bolger* analysis. In fact, in the principal case championed by JDPI on this issue, the Fourth Circuit not only affirmed dismissal of the dilution claim, but recognized more broadly that "[t]rademark law in general and dilution in particular are not proper vehicles for combatting speech with which one does not agree. Trademarks do not give their holders under the rubric of dilution the rights to stymie criticism." *Radiance*, 786 F.3d at 332. The court continued:

Criticism of large and powerful entities in particular is vital to the democratic function.... The article in this case was harsh. But that did not forfeit its author's First Amendment liberties. The most scathing speech and the most disputable commentary are also the ones most likely to draw their intended targets' ire and thereby attract Lanham Act litigation. It is for this reason that law does not leave such speech without protection.

Id.

JDPI attempts to distinguish *Radiance* on the basis that the speech there involved social criticism, but it fails ***31** to acknowledge that "[p]arody is regarded as a form of social and literary criticism, having a socially significant value as free speech under the First Amendment." *Dr. Seuss Enters. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1400 (9th Cir. 1997); *see also Cliffs Notes*, 886 F.2d at 493 ("parody and satire are deserving of substantial freedom-both as entertainment and as a form of social and literary criticism"). "Parody is a humorous form of social commentary and literary criticism that dates back as far as Greek antiquity." *L.L. Bean*, 811 F.2d at 28. And at least since the advent of *Wacky Packages* trading cards in the 1960s, parodying famous brands has been part of American culture.

Simply put, there is no reason to anticipate that any other circuit would disagree with the Ninth Circuit's conclusion here.

C. The TDRA's noncommercial-use exception is an independent statutory basis for protecting expression.

JDPI also contends that the Ninth Circuit erred and created a circuit conflict by applying he TDRA's statutory noncommercial-use exception under 15 U.S.C. § 1125(c) (3)(C) without also requiring satisfaction of the statutory fair-use parody defense under 15 U.S.C. § 1125(c)(3)(A). Pet. 25-26, 37. That argument misstates the law. The Ninth Circuit explained in its detailed examination in *MCA Records* of the TDRA's legislative history that the statute contains "three statutory exemptions [for] uses that, though potentially dilutive, are nevertheless permitted: comparative advertising; news reporting and commentary; and noncommercial use." ***32** 296 F.3d at 904. As the statute's plain language and the cases construing it make clear, these defenses can be asserted in the alternative (as VIP did below), and the failure to satisfy the requirements of one defense does not preclude application of another. *See, e.g., MCA Records*, 296 F.3d at 904 (holding "[t]he first two exemptions clearly do not apply" but the noncommercial-use exemption did).

The Ninth Circuit explained in *MCA Records* that the statutory noncommercial-use exception contained in 15 U.S.C. § 1125(c)(3)(C) allays First Amendment concerns not addressed by the statutory defenses contained in 15 U.S.C. § 1125(c)(3)(A) and (B). 296 F.3d at 906 ("the bill's sponsors relied on the 'noncommercial use' exemption to allay First Amendment concerns"). The three statutory defenses overlap to ensure robust First Amendment protection:
[T]he overlap of exemptions represents a sort of overabundance of caution to statutorily provide for free speech concerns that the federal anti-dilution law would be used to silence "noncommercial" critics who use the famous marks of companies whose goods, services or policies were being criticized or mocked.

4 *McCarthy on Trademarks, supra,* § 24:128; *see also Radiance*, 786 F.3d at 330 (explaining that "[t]he law provides three broad, overlapping categories within which any use of a famous mark, even if likely to cause harm or blurring, is not actionable," and holding that the exemption precluded the dilution claim despite evidence of dilution). For example, McCarthy notes that though an allegedly dilutive use does not fall within the statutory fair-use ***33** exception, "[e]ven if the accused use is a trademark use, a parody can still be immune under free speech principles from liability for dilution by tarnishment." 4 *McCarthy on Trademarks, supra,* § 24:90 (collecting cases).

D. JDPI's cases do not represent a circuit split.

JDPI struggles to identify a circuit split under the TDRA, and it ultimately cites a grand total of two circuit cases that it argues reflect a conflict. Pet. 26-26. But neither of those cases stand for the proposition that failure to satisfy the fair-use parody defense under 15 U.S.C. § 1125(c)(3)(A) precludes the court from applying the noncommercial-use exception in 15 U.S.C. § 1125(c)(3)(C). In *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 588 F.3d 97, 113 (2d Cir. 2009), the court considered only the fair-use defense under subsection (A), and never addressed whether the noncommercial-use exception in subsection (C) applied in that case. The same thing happened in *Haute Diggity Dog-the* Fourth Circuit never addressed whether the noncommercial-use exception applied in that case. 507 F.3d at 266.

There is no intercircuit conflict for this Court to resolve on this or any of the issues presented for review.

***34 CONCLUSION**

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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Footnotes

1 JDPI assured this Court in its prior petition that the Ninth Circuit's holding that the *Rogers* test applied was "outcome-determinative" and "dispose[s] of the case," Pet. 30, No. 20-365, and reiterated in its reply that the issue was "case-dispositive," Reply Br. 8, No. 20-365.

2 This Court may take judicial notice of such generally known background facts under Fed. R. Evid. 201. *See, e.g., Wacky Packages*, WIKIPEDIA, https://en.wikipedia.org/wiki/Wacky_Packages (last visited Oct. 14, 2022); *Wacky Packages Alphabetized Crosslist*, https://wackypacks.com/stickers/alphabetical.html (last visited Oct. 14, 2022).

3 In *Facenda v. N.F.L. Films, Inc.*, 542 F.3d 1007, 1018 (3d Cir. 2008), the Third Circuit decided not to apply the *Rogers* test because it held the alleged infringement was not protected expression. Nevertheless, the court ruled for the defendant, overturning summary judgment for the plaintiff on the traditional factors and remanding for trial. *Id.* at 1024-25.

4 Contrary to the misimpression left by one amicus, *see* INTA Br. 13, the Eleventh Circuit did not apply the *Rogers* test to mugs, towels, flags, or apparel solely because the defendant did not argue on appeal for First Amendment protections for those items and, given that waiver, "we need not address those issues with respect to" those items. *Id.* at 1279, 1282-83.

5 Jared I. Kagan, *Bad Spaniels Make Bad Law: Ninth Circuit Says Dog Toy is an Expressive Work Entitled to First Amendment Protection*, IPWatchdog (Apr. 3, 2020); Jared I. Kagan & Emily R. Hush, *Parody Chew Toys and the First Amendment*, Landslide, Jan./Feb. 2021.

6 Hannah Knab, Note, *Jack Daniel's Highlights the Second and Ninth Circuit's Divide on the Application of the Rogers Test*, 10 Am. Bus. L. Rev. 517 (2022); Zachary Shufro, *Based on a True Story: The Ever-Expanding Progeny of* Rogers v. Grimaldi, 32 Fordham Intell. Prop. Media & Ent. L.J. 391 (2022).

7 Muireann Bolger, *Applying the Rogers Test: A Step Too Far?*, World Intell. Prop. Rev., June 7, 2022.

8 Similarly, in *Elvis Presley Enterprises v. Capece*, 141 F.3d 188 (5th Cir. 1998), also cited by JDPI, the Fifth Circuit did not consider application of *Rogers* or the defendants' First Amendment defense at all because it was not properly raised on appeal. *Id.* at 193 n.2. Two years later, the Fifth Circuit adopted the *Rogers* test in *Westchester Media.* 214 F.3d at 664-65.

9 The same is true of other *pre-Rogers* cases cited by JDPI. *See, e.g., Jordache Enters. v. Hogg Wyld, Ltd.*, 828 F.2d 1482 (10th Cir. 1987).

10 The 2006 version of the TDRA defines in Lanham Act § 43(c)(3)(C) a defense exempting from liability "[a]ny noncommercial use of a mark." This exemption is identical to an exception in the 1996 Federal Trademark Dilution Act, but for the inclusion in the 2006 version of the determiner "any."

[11] Cases applying *Rogers* to parody products routinely (if not always) involve commercial products sold for a profit. *See, e.g., MCA Records*, 296 F.3d at 903 (finding "[t]hat is precisely what MCA did with the Barbie mark: It created and sold to consumers in the marketplace commercial products (the Barbie Girl single and the Aquarium album) that bear the Barbie mark."); *Walking Mountain*, 353 F.3d at 797, 803 (finding that the "'Food Chain Barbie' series earned [the parodist] income" and that the parodist "had a commercial expectation and presumably hoped to find a market for his art").

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GIBSON

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Only the Westlaw citation is currently available.
United States District Court, D. Connecticut.

Cielo Jean GIBSON, et al., Plaintiffs,
v.
FIRST MERCURY INSURANCE COMPANY, Defendant.

No. 3:21-cv-1522 (SRU)
|
Signed September 30, 2022

Attorneys and Law Firms

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RULING ON DEFENDANT'S MOTION TO DISMISS

Stefan R. Underhill, United States District Judge

***1** In 2018 and 2019, three groups of professional models each brought a lawsuit against three different gentlemen's clubs alleging that each club unlawfully used the models' images and likenesses. Each club requested a defense and sought indemnification from its commercial general liability insurer, First Mercury Insurance Company ("First Mercury"). In each case, First Mercury denied having duties to defend and indemnify the club. Eventually, each suit came to a resolution by which the club assigned its rights under the salient First Mercury policy to the plaintiffs.

Many of the plaintiffs in the underlying lawsuits now bring suit as assignees of the clubs, seeking a declaration that First Mercury owes each club a duty to defend it and indemnify it in the underlying litigation, and seeking damages arising from First Mercury's failure to do so. First Mercury continues to deny any duty to defend or indemnify the underlying insureds, and it moves to dismiss this coverage action.

Because the Plaintiffs plausibly allege that First Mercury had a duty to defend its insureds and because it would be premature to rule on First Mercury's duty to indemnify the underlying defendants at this time, I **deny** First Mercury's motion to dismiss.

I. Background

A. Allegations

1. *The Underlying Lawsuits*[1]

Plaintiffs Cielo Jean Gibson, Dessie Mitcheson, Marketa Kazdova, Brooke Taylor, Jessica Burciaga, Brooke Banx, Lina Posada, Joanna Krupa, Marta Andretti, Arianny Celeste Lopez, Abigail Ratchford, and Tara Leigh Patrick are twelve professional models who were plaintiffs in one or more lawsuits filed against three gentlemen's clubs insured by First Mercury under a materially identical

commercial liability insurance policy ("the Policy"): Mr. Happy's, Inc., in Connecticut; Liberty Entertainment Group, LLC, in Arizona; and KHG of San Antonio, L.L.C., in Texas. Compl., Doc. No. 1, at 4 ¶ 20.

a. The Connecticut Action

Plaintiffs Cielo Jean Gibson, Dessie Mitcheson, Marketa Kazdova, Brooke Taylor (collectively, "the Connecticut Plaintiffs") sued Mr. Happy's, Inc. d/b/a Mr. Happy's Cafe ("Mr. Happy's"), and its owner Frederick Toupin (collectively, "the Mr. Happy's Defendants"), in the United States District Court for the District of Connecticut. *Id.* at 2 ¶ 4; *Nobriga, et al. v. Mr. Happy's Inc.,* Dkt. No. 19-cv-868 (JAM) (D. Conn. June 5, 2019) ("the *Connecticut Action*").

***2** The Connecticut Plaintiffs principally alleged that the Mr. Happy's Defendants used each plaintiff's image in advertising without her consent to "promote" the "strip club," even though each plaintiff had never been "employed by ... or otherwise ... affiliated or associated with" Mr. Happy's, received no remuneration for the club's use of her images, and the use "create[d] the false impression" that each plaintiff had "worked at" or "endorsed" the club. Conn. Compl., Doc. No. 19-1, at 1 ¶ 1, 11 ¶¶ 48-50, 12 ¶ 54, 13 ¶¶ 61-65 ("Connecticut Complaint"). As a result, each plaintiff was "deprive[d]" of income "relating to the commercialization of [her] Images;" and harmed by the "implication" that she is a "stripper, endorse[s] a strip club, or [is] otherwise associated or affiliated with a strip club." *Id.* at 12 ¶¶ 57, 59. The Connecticut Plaintiffs alleged, on information and belief, that the Mr. Happy's Defendants did so "with the intent of causing" each plaintiff "irreparable harm." *Id.* at 13 ¶ 66.

In addition, the Connecticut Plaintiffs alleged that the Mr. Happy's Defendants were "at least negligent" in publishing the relevant images, because the Mr. Happy's Defendants "knew, or should have known, that Plaintiffs were not employed by the Club, had no affiliation with the Club, had not consented to the use of their Images, and had not been compensated for the use of their Images;" that the Mr. Happy's Defendants were "negligent in their failure to promulgate policies and procedures concerning the misappropriation of the Images of models that were used on the Mr. Happy's Cafe websites and social media accounts;" or that the Mr. Happy's Defendants "negligently failed to enforce those policies, communicate them to employees, and/or supervise their employees in order to ensure that these policies, along with [f]ederal and Connecticut [law], were not violated." *Id.* at 20 ¶ 147, 22 ¶¶ 155-157.

The Connecticut Plaintiffs brought suit for (1) violation of section 43 of the Lanham Act, 15 U.S.C. § 1125(a)(1), which prohibits false or misleading representations of fact in commercial advertising, and the false or misleading use of a person's image for commercial purposes; (2) violation of the plaintiffs' common law right of privacy, with respect to the defendants' appropriation of the plaintiffs' likenesses; (3) violation of the plaintiffs' common law right of privacy, based on publicity that unreasonably placed the plaintiff in a false light before the public; (4) violation of the Connecticut Unfair Trade Practices Act ("CUTPA"), Conn. Gen. Stat.§ 42-110b; (5) defamation; and (6) various common law torts, including conversion. *Id.* at 1 ¶ 2.

After the Connecticut Action was filed, the Mr. Happy's Defendants tendered the complaint to First Mercury. Compl., Doc. No. 1, at 6 ¶ 34, 8 ¶¶ 48-49. First Mercury, asserting that the Policy excluded the alleged conduct from coverage, denied a defense and indemnification. *Id.*

The *Connecticut Action* ultimately settled. *Connecticut Action*, Doc. No. 76. The terms of the settlement were not provided to the Court. As a result of the settlement, instant plaintiffs Cielo Jean Gibson, Dessie Mitcheson, Marketa Kazdova, and Brooke Taylor were assigned the Mr. Happy's Defendants' rights in its First Mercury insurance policy. Compl., Doc. No. 1, at 3 ¶¶ 12, 13.

b. The Arizona Action

Plaintiffs Jessica Burciaga, Brooke Banx, Lina Posada, Joanna Krupa, Marta Andretti, Arianny Celeste Lopez, and Abigail Ratchford (collectively, "the Arizona Plaintiffs") sued Liberty Entertainment Group, LLC ("Liberty"), owner of the Dream Palace, in the Superior Court of Arizona, Maricopa County. *Id.* at 2 ¶ 5; *see also Burciaga, et al. v. Liberty Entertainment Group, LLC, et al.*, Dkt. No. CV2018-052191 (Ariz. Super. Ct. Apr. 24, 2018) ("the *Arizona Action*").

The Arizona Plaintiffs principally alleged that Liberty used each plaintiff's image in advertising for the purpose of "promoting, advertising, and marketing" the Dream Palace, even though she did not consent to or authorize such use. *See generally* Ariz. Compl., Doc. No. 19-3 ("Arizona Complaint"). The Arizona Plaintiffs also alleged that Liberty "acted "at a minimum ... with reckless

indifference" by "expressly permitting, allowing and condoning" the use of the plaintiffs' images on its website and/or social media and, thereby, potentially creating a "false and misleading impression" about the plaintiffs. *Id.* at 18 ¶ 56, 23 ¶ 88.

***3** The Arizona Plaintiffs brought suit for (1) violation of the common law right of publicity, with respect to misappropriation of their likeness; (2) violation of section 43 of the Lanham Act, 15 U.S.C. § 1125(a)(1); and (3) violation of plaintiffs' Brooke Banx and Abigail Ratchford's common law right of privacy based on publicity that unreasonably places each of them in a false light before the public. *See generally* Ariz. Compl., Doc. No. 19-3.

After the Arizona Action was filed, Liberty tendered the complaint to First Mercury, and First Mercury denied defense and coverage, asserting that the relevant commercial general liability policies excluded the alleged conduct from coverage. Compl., Doc. No. 1, at 11 ¶ 70-71.

The parties to the *Arizona Action* entered into a consent judgment of $540,000 ("Arizona Judgment"). *Id.* at 3 ¶ 10, 12 ¶ 79-80; *see also* Ariz. Judgment, Doc. No. 16-5. The Arizona Judgment summarized the plaintiffs' allegations: "Plaintiffs alleged in the Complaint that Defendant used their images without consent or remuneration, and that the advertisements depicted Plaintiffs in a manner that stated or implied that they were promoting Dream Palace, worked thereat, or were otherwise associated, affiliated, or connected with same." *Id*. at 3 ¶ 2. In addition, the parties stipulated that the amount was "reasonable in light of what a jury might reasonably award in compensation attributable to Defendant's alleged conduct coupled with the amount of attorneys' fees and costs...." *Id.* at 4 ¶ 7.

As a result of the Arizona Judgment, instant plaintiffs Jessica Burciaga, Brooke Banx, Lina Posada, Joanna Krupa, Marta Andretti, Arianny Celeste Lopez, and Abigail Ratchford were assigned Liberty's rights in its First Mercury insurance policy. Compl., Doc. No. 1., at 3 ¶¶ 12, 13.

c. The Texas Action

Plaintiffs Tara Leigh Patrick and Cielo Jean Gibson (collectively, "the Texas Plaintiffs") sued KHG of San Antonio in the United States District Court for the Western District of Texas.[2] Compl., Doc. No. 1, at 3 ¶ 6; *Patrick, et al. v. KHG of San Antonio, et al.*, Dkt. No. 18-cv-910 (W.D. Tex. Aug. 31, 2018) ("the *Texas Action*").

The Texas Plaintiffs alleged that KHG, owner of Tiffany's Cabaret, had used their images in advertising without their authorization "to promote [KHG's] strip clubs," even though they had never been "associated with" KHG, received no renumeration for its use of their images, and the use "create[d] the false impression ... that [they] worked as strippers at ... or endorsed" KHG's club. *See generally* Tex. Compl., Doc. No. 19-2 ("Texas Complaint").

The Texas Plaintiffs principally alleged that KHG used each plaintiff's image in advertising without her consent to "promote" the "strip club," even though each plaintiff had never been "affiliated with or employed by" Tiffany's Cabaret, received no remuneration for the club's use of her images, and the use "create[d] the false impression" that each plaintiff had "worked at" or "endorsed" the club. Tex. Compl., Doc. No. 19-2, at 1 ¶ 1, 10 ¶¶ 34-35, 11 ¶ 40-47 ("Texas Complaint"). As a result, each plaintiff was harmed by the "implication" that she was a "stripper working in a sexually-oriented business." *Id.* at 11 ¶ 43. The Texas Plaintiffs alleged, on information and belief, that KHG did so "with the intent of causing" each plaintiff "irreparable harm." *Id.* at 12 ¶ 50.

***4** In addition, like the Connecticut Plaintiffs, the Texas Plaintiffs alleged that KHG was "at least negligent in publishing Plaintiffs' Images because they knew, or should have known, that Plaintiffs were not employed by the Club, had no affiliation with the Club, had not consented to the use of their Images, and had not been compensated for the use of their Images;" "negligent in their failure to promulgate policies and procedures concerning the misappropriation of the Images of models that were used on the KHG websites and social media accounts;" or that KHG had "negligently failed to enforce those policies, communicate them to employees, and/or supervise their employees in order to ensure that these policies, along with [f]ederal and Illinois [sic] law, were not violated." *Id.* at 19 ¶ 98, 20-21 ¶¶ 107-109.

The Texas Plaintiffs brought suit for (1) violation of section 43 of the Lanham Act, 15 U.S.C. § 1125(a)(1); (2) violation of each plaintiff's common law right of privacy as pertains to the defendants' appropriation of their likeness; (3) violation of each plaintiff's common law right of privacy and publicity; (4) defamation; and (6) various common law torts. *Id.* at 1 ¶ 2.

After the Texas Action was filed, KHG tendered the complaint to its insurer, First Mercury, and First Mercury denied defense and coverage to KHG, asserting that the relevant commercial general liability policies excluded the alleged conduct from coverage. Compl., Doc. No. 1, at 12 ¶ 82, 14 ¶¶ 96-67.

The parties to the *Texas Action* entered into a consent judgment of $230,000 ("Texas Judgment"). *Id.* at 3 ¶ 10, 15 ¶ 104. Therein, KHG admitted that:

> (2) The ads depicted Plaintiffs' images in a manner that implied they were promoting the Defendant's club or would appear at Defendant's club on the advertised dates.
>
> (3) The use of the images was without Plaintiffs' consent or permission and constituted an unauthorized publication of Plaintiffs' names and likeness.
>
> (4) The use of such images was defamatory and constituted an invasion of Plaintiffs' right of privacy in the use of their image and likeness.

Tex. Judgment, Doc. No. 16-6, at 4 ¶¶ 2-4.

As a result of the Texas Judgment, instant plaintiffs Tara Leigh Patrick and Cielo Jean Gibson were assigned KHG's rights in its First Mercury insurance policy. Compl., Doc. No. 1, at 3 ¶¶ 12, 13.

B. The First Mercury Policies

Each Underlying Defendant secured and maintained a materially identical commercial general liability insurance policy from First Mercury ("the Policy"). *Id.* at 6 ¶ 34, 9 ¶ 58, 12 ¶ 82.

The Policy included coverage for "Personal and Advertising Injury." *Id.* at 7 ¶ 39, 10 ¶ 62, 13 ¶ 87. Specifically, it provided:

> 1. Insuring Agreement
>
> a. We will pay those sums that the insured becomes legally obligated to pay as damages because of "personal and advertising injury" to which this insurance applies. We will have the right and duty to defend the insured against any "suit" seeking those damages. However, we will have no duty to defend the insured against any "suit" seeking damages for "personal and advertising injury" to which this insurance does not apply.

Mr. Happy's Policy, Doc. No. 16-7, at 11.

The Policy defined "[p]ersonal and advertising injury" as "injury ... arising out of one or more" of the following relevant "offenses:"

> d. Oral or written publication, in any manner, of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services;
>
> e. Oral or written publication, in any manner, of material that violates a person's right of privacy;
>
> * * *
>
> g. Infringing upon another's copyright ... in your "advertisement".

Id. at 16; *see also* Compl., Doc. No. 1, at 13 ¶¶ 87-90, 10 ¶¶ 62-65.

The Policy defined "advertisement" 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. For the purposes of this definition:
>
> ***5** a. Notices that are published include material placed on the Internet or on similar electronic means of communication; and
>
> b. Regarding web-sites, only that part of a website that is about your goods, products or services for the purposes of attracting customers or supporters is considered an advertisement.

Mr. Happy's Policy, Doc. No. 16-7, at *22; see also* Compl., Doc. No. 1, at 7 ¶ 43, 10 ¶ 66, 13 ¶ 91.

The Policy also contained two salient exclusions from coverage.[3]

In the " 'Knowing Violation of Rights of Another' Exclusion," the Policy barred from coverage "[p]ersonal and advertising injury" that was "caused by or at the direction of the insured with the knowledge that the act would violate the rights of another and would inflict 'personal and advertising injury.' " Mr. Happy's Policy, Doc. No. 16-7, at 16.

In the " 'Material Published with Knowledge of Falsity' Exclusion," the Policy barred from coverage "[p]ersonal and advertising injury" that "ar[ose] out of oral or written publication of material, if done or at the direction of the insured with knowledge of its falsity." *Id.*

In addition, the Policy also contained a " 'Field of Entertainment– Limitation of Coverage' Endorsement," providing in pertinent part:

> This insurance does not apply to "bodily injury," "property damage," "personal and advertising injury," or "injury" actually or allegedly arising out of, related to, caused by or attributed to by any of the following, but only as each applies to the "Business of The Insured in The Field of Entertainment."
>
> a. Invasion of the right to privacy;
>
> b. Infringement of copyright, whether under statutory or common law; libel, slander or other forms of defamation....

Id. at 55.

The Policy defined "Business of The Insured in The Field of Entertainment" as:

> a. The production, pre-production, post-production, distribution, exploitation and exhibition of motion pictures, video productions, television programs, commercial or educational films, live performances, audio recordings, phonograph records, electrical transcriptions, sheet music or other similar properties and projects;
>
> b. The conduct of any players, entertainers or musicians in any show, theatrical performance or exhibition;
>
> c. The ownership, licensing, operation maintenance or use of merchandising programs, advertising or publicity material or paraphernalia, characters or ideas, whether or not on premises of the insured or in possession of the insured at the time of the alleged offense or "occurrence";
>
> d. The ownership, leasing, operation, maintenance or use of arenas, stadiums, theatres and similar exhibition venues or media;
>
> e. The sponsorship, production or promotions of any live performance concert, sporting, or special event.

Id.

C. Procedural History

On November 11, 2021, Plaintiffs, as assignees of the applicable Underlying Defendant, filed the instant complaint against First Mercury ("the Complaint"). Compl., Doc. No. 1. Plaintiffs brought causes of action for: (1) breach of contract, (2) declaratory judgment, (3) violation of the Connecticut Unfair Trade Practices Act, and (4) violation of the Connecticut Unfair Insurance Practices Act. Compl., Doc. No. 1, at 15-19. They seek the costs and expenses incurred in the underlying actions; a declaration that First Mercury owed the Underlying Defendants a defense and indemnification under the operative First Mercury insurance policies; the full amount of the judgements; costs, disbursements, and attorneys' fees in this action; and interest. *Id.* at 20.

***6** On January 28, 2022, First Mercury moved to dismiss the Complaint. Def.'s Mot. to Dismiss, Doc. No. 14. In First Mercury's view, the Underlying Plaintiffs alleged that Underlying Defendants knowingly published false material to advance their business interests, and that they have admitted to doing so. As a result, First Mercury asserts that the alleged conduct is not covered by the Policy. On February 18, 2022, Plaintiffs opposed the motion. Pls.' Opp'n, Doc. No. 19. On March 11, 2022, First Mercury replied. Def.'s Reply, Doc. No. 28.

I heard oral argument on the motion on June 15, 2022. Min. Entry, Doc. No. 32.

II. Standard of Review

A motion to dismiss for failure to state a claim pursuant to Federal Rule of Civil Procedure Rule 12(b)(6) is designed "merely to assess the legal feasibility of a complaint, not to assay the weight of evidence which might be offered in support thereof." *Ryder Energy Distribution Corp. v. Merrill Lynch Commodities, Inc.*, 748 F.2d 774, 779 (2d Cir. 1984) (quoting *Geisler v. Petrocelli*, 616 F.2d 636, 639 (2d Cir. 1980)).

When deciding a motion to dismiss pursuant to Rule 12(b)(6), the court must accept the material facts alleged in the complaint as true, draw all reasonable inferences in favor of the plaintiffs, and decide whether it is plausible that plaintiffs have a valid claim for relief. *Ashcroft v. Iqbal*, 556 U.S. 662, 678–79 (2009); *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555–56 (2007); *Leeds v. Meltz*, 85 F.3d 51, 53 (2d Cir. 1996).

Under *Twombly*, "[f]actual allegations must be enough to raise a right to relief above the speculative level," and assert a cause of action with enough heft to show entitlement to relief and "enough facts to state a claim to relief that is plausible on its face." 550 U.S. at 555, 570; *see also Iqbal*, 556 U.S. at 679 ("While legal conclusions can provide the framework of a complaint, they must be supported by factual allegations."). The plausibility standard set forth in *Twombly* and *Iqbal* obligates the plaintiff to "provide the grounds of his entitlement to relief" through more than "labels and conclusions, and a formulaic recitation of the elements of a cause of action." *Twombly*, 550 U.S. at 555 (internal quotation marks omitted). Plausibility at the pleading stage is nonetheless distinct from probability, and "a well-pleaded complaint may proceed even if it strikes a savvy judge that actual proof of [the claims] is improbable, and ... recovery is very remote and unlikely." *Id*. at 556 (internal quotation marks omitted).

On a motion to dismiss for failure to state a claim pursuant to Rule 12(b)(6), the court may rely upon "any written instrument" attached to the complaint as an exhibit or "any statements or documents incorporated in it by reference." *Chambers v. Time Warner*, 282 F.3d 147, 153 (2d. Cir. 2002). "Even where a document is not incorporated by reference, the court may nevertheless consider it where the complaint relies heavily upon its terms and effect, which renders the document integral to the complaint." *Id*.

III. Discussion

A. Principles of Law

1. *Choice of Law*

"A federal court sitting in diversity ... must apply the choice of law rules of the forum state." *Klaxon Co. v. Stentor Elec. Mfg. Co.*, 313 U.S. 487, 496 (1941); *Rogers v. Grimaldi*, 875 F.2d 994, 1002 (2d Cir. 1989). However, when there is no actual conflict between the states' relevant law— that is, when "the laws of both states relevant to the set of facts are the same, or would produce the same decision in the lawsuit," *Nat'l Council on Compensation Ins., Inc. v. Caro & Graifman, P.C.*, 2008 WL 450413, at *19 (D. Conn. Feb. 15, 2008) (cleaned up)— there is no need to undertake a choice of law analysis. *See Metro. Life Ins. Co. v. Aetna Cas. and Sur. Co.*, 255 Conn. 295, 302 n.7 (2001) (explaining, in affirming trial court's judgment, that the "trial court did not undertake a choice of law analysis" because "there was no conflict between New York and Connecticut law"). In such a case, a court should "decide [the case] under the law that is common to both states." *Gen. Star Indem. Co. v. Travelers Indem. Co.*, 2013 WL 1849285, at *8 (Conn. Super. Ct. Apr. 9, 2013) (cleaned up).

***7** When no party has made a showing of a conflict of law, the Court need not conduct a choice of law analysis. *See, e.g., Ali v. Fed. Ins. Co.*, 719 F.3d 83, 90 n.12 (2d Cir. 2013) ("Because there is no conflict between the relevant substantive law in these states, however, we dispense with any choice of law analysis."). Accordingly, unless the parties identify otherwise, I may presume that Connecticut law governs. *W. Dermatology Consultants, P.C. v. VitalWorks, Inc.*, 322 Conn. 541, 558 n.13 (2016).

2. *Principles of Insurance Policy Construction*

Under Connecticut law, "[a]n insurance policy is to be interpreted by the same general rules that govern the construction of any written contract and enforced in accordance with the real intent of the parties as expressed in the language employed in the policy." *Hammer v. Lumberman's Mut. Cas. Co.*, 214 Conn. 573, 583 (1990). "The determinative question is the intent of the parties, that is, what coverage the plaintiff expected to receive and what the defendant was to provide, as disclosed by the provisions of the

policy." *Id.* (cleaned up). "If the words in the policy are plain and unambiguous ... the language ... must be accorded its natural and ordinary meaning." *Id*. (cleaned up). If the policy is ambiguous, "such ambiguity is resolved against the insurance company." *Id*. at 584 (cleaned up). "As with contracts generally, a provision in an insurance policy is ambiguous when it is reasonably susceptible to more than one reading." *Connecticut Med. Ins. Co. v. Kulikowski*, 286 Conn. 1, 6 (2008) (cleaned up). "The burden of proving that an exclusion applies is on the insurer, but the insured has the burden of proving that an exception to an exclusion reinstates coverage." *Capstone Bldg. Corp. v. American Motorists Ins. Co.*, 308 Conn. 760, 787-88 n.24 (2013) (citing *Buell Indus.*, 259 Conn. at 551).

B. Breach of Contract and Declaratory Judgment

In Count One, Plaintiffs argue that First Mercury breached its contractual obligation to defend and indemnify the Underlying Defendants in the Underlying Actions, because the claims fall within the scope of coverage for "Advertising Injury" pursuant to the terms of the First Mercury Policy, and the Underlying Defendants made a proper demand for coverage and submitted timely notice of the lawsuits. Compl., Doc. No. 1, at 15-16 ¶¶ 107-115. In Count Two, Plaintiffs seek a declaration that First Mercury has a duty to defend and indemnify the Underlying Defendants in the Underlying Actions. *Id.* at 16 ¶¶ 116-119. In response, First Mercury asserts that the Policies exclude or otherwise limit coverage for the conduct alleged in the Underlying Actions, and therefore that it has not breached any contractual obligations to defend and indemnify the Underlying Defendants. Def.'s Mem. of Law, Doc. No. 15, at 16-20.

Applying those principles, I evaluate in turn the respective duties to defend and to indemnify.

1. *Plaintiffs plausibly allege that first mercury had a duty to defend the Underlying Defendants and breached that duty.*

The Underlying Plaintiffs' alternative pleading of intentional conduct and negligent or recklessly indifferent conduct is sufficient to plausibly allege that First Mercury had a duty to defend the Underlying Defendants. Pls.' Opp'n, Doc. No. 19, at 2, 6.

Courts determine whether a duty to defend exists by comparing the contractual language with the allegations in the underlying complaint. *Middlesex Ins. Co. v. Mara*, 699 F. Supp. 2d 439, 448 (D. Conn. 2010) (citing *Hartford Casualty Ins. Co. v. Litchfield Mutual Fire Ins.*, 274 Conn. 457, 463 (2005).); *accord Quihuis v. State Farm Mut. Auto. Ins. Co.*, 334 P.3d 719, 726 (Ariz. 2014) ("allegations of a plaintiff's complaint generally trigger a liability insurer's duty to defend"); *Don's Bldg. Supply,* 267 S.W.3d at 31 ("Under the 'eight corners' rule of Texas insurance law, the insurer's defense duty turns on the policy's terms and the plaintiff's allegations."). "Because the duty to defend has a broader aspect than the duty to indemnify ..., [i]f an allegation ... falls even *possibly* within the coverage, then the insurance company must defend the insured." *Mara*, 699 F. Supp. 2d at 448 (emphasis in original); *accord Quihuis*, 334 P.3d at 726.

***8** In an insurance case, "construction of an insurance contract presents a question of law for the court." *Aetna Life & Cas. Co. v. Bulaong*, 218 Conn. 51, 58 (1991); *accord Sparks v. Republic Nat. Life Ins. Co.*, 647 P.2d 1127, 1132 (Ariz. 1982); *Don's Bldg. Supply.*, 267 S.W.3d at 23. "Where the terms of an insurance policy are plain and unambiguous, the language is to be interpreted according to its natural and ordinary meaning." *Belz v. Peerless Ins. Co.*, 46 F. Supp. 3d 157, 163 (D. Conn. 2014) (citing *Poole v. City of Waterbury*, 266 Conn. 68, 88 (2003)); *accord Sparks*, 647 P.2d at 1132; *Don's Bldg. Supply,* 267 S.W.3d at 23. "The determination of whether an insurance policy is ambiguous is a matter of law for the court to decide." *Travelers Cas. & Sur. Co. v. Neth. Ins. Co.*, 312 Conn. 714, 740 (2014) (quoting *Metro. Life Ins. Co.*, 255 Conn. at 305–06). "Nevertheless, the mere fact that the parties advance different interpretations of the language in question does not necessitate a conclusion that the language is ambiguous." *Poole*, 266 Conn. at 88. "Any ambiguity in the terms of an insurance policy must be construed in favor of the insured because the insurance company drafted the policy." *Lexington Ins. Co. v. Lexington Healthcare Grp.*, 311 Conn. 29, 38 (Conn. 2014); *accord Sparks*, 647 P.2d at 1132; *Don's Bldg. Supply,* 267 S.W.3d at 23.

Plaintiffs assert that the alleged misconduct is covered "Personal and Advertising Injury," because it consists of injuries arising from "[o]ral or written publication, in any manner" of content that "slanders or libels a person or organization or disparages a person's or organization's goods, products or services," that "violates a person's right of privacy," or that "infring[es] upon another's copyright" in an advertisement. Compl., Doc. No. 1, at 13 ¶¶ 87-90, 10 ¶¶ 62-65. First Mercury disagrees, arguing that the alleged "personal and advertising injury" is not covered by the Policy.

Like Plaintiffs, I embrace the reasoning of *First Mercury Ins. Co. v. Triple Location, LLC*, 536 F. Supp. 3d 326 (N.D. Ill. 2021), whereby the Northern District of Illinois determined that First Mercury had a duty to defend a gentlemen's club insured in a substantially identical underlying litigation. *Id.* at 333. There, models sued defendant Triple Location for unauthorized use of their images in the

club's advertising. *Id.* at 327-28. Triple Location, apparently insured under a materially identical First Mercury general liability policy, requested a defense and indemnification. *Id.* at 327. First Mercury denied the request, pointing to the same policy provisions at issue in the case at bar. *Id.* at 328. First Mercury sought summary judgment on its request for a declaration that it had no duty to defend or indemnify the club in the underlying litigation. *Id.* at 328-30.

The *Triple Location* court held that First Mercury had a duty to defend the club. It reasoned that "[r]esolving the case require[d] attention only to the negligence claims," the same negligence claims alleged here in the Connecticut and Texas Actions, that the insured club "negligent[ly]" failed to "promulgate policies and procedures concerning the misappropriation of the [i]mages" of the plaintiff models used on the insured's website and social media, and/or that it had negligently failed to enforce those policies." *Id*. at 327. Even though the underlying complaint in that case also alleged "intentional acts of misappropriation," and the club "necessarily [could not] have done [those acts] negligently," such intentional misconduct was not the end of the story. *Id.* at 330. Rather, the Federal Rules of Civil Procedure permit alternative pleading, and the underlying plaintiffs had pleaded theories of both negligent and intentional conduct in the alternative. *Id.* (citing to Fed. R. Civ. P. 8(d)(3)). As a result, Rule 8(d)(3) necessarily "defeat[ed] First Mercury's contention that the complaint does not or cannot allege negligent conduct because it also alleges intentional conduct." *Id.* Therefore, Triple Location's alleged negligent failure to adopt and/or implement anti-misappropriation policies "arguably f[ell] within at least one of the categories of wrongdoing listed in the policy," a policy that did not exclude "negligent" conduct. *Id.* at 330-31. Accordingly, the court concluded, First Mercury had a duty to defend Triple Location in the underlying lawsuit.[4]

***9** The same fact— that the Underlying Plaintiffs pleaded intentional conduct and non-intentional conduct in the alternative—disposes of First Mercury's motion to dismiss the breach of contract and declaratory judgment claims in the instant action, at least with respect to the duty to defend. The Connecticut and Texas Plaintiffs expressly alleged that the Mr. Happy's Defendants and KHG were "negligent in [their] failure to promulgate policies and procedures concerning the misappropriation" of the plaintiffs' images; that if Mr. Happy's Defendants and KHG had such policies, they "negligently failed to enforce th[em], communicate them to employees, and/or supervise their employees in order to ensure that these policies, along with [f]ederal and [state] law, were not violated;" and that the Mr. Happy's Defendants and KHG were "at least negligent in publishing [Underlying] Plaintiffs' Images...." Conn. Compl., Doc. No. 19-1, at 20 ¶ 147, 22 ¶¶ 155-57; Tex. Compl., Doc. No. 19-2, at 19 ¶ 98, 20-21 ¶¶ 107-09. The Arizona complaint is different, alleging that Liberty "acted at a minimum ... with reckless indifference" by "expressly permitting, allowing and condoning" the use of the plaintiffs' images on its website and/or social media, and that Liberty acted with "reckless indifference about whether the posting of [the Arizona] Plaintiffs' images ... would create a false and misleading impression about the [Arizona] Plaintiffs." Ariz. Compl., Doc. No. 19-3, at 18 ¶ 56, 23 ¶ 88. But the Arizona Complaint is characterized by the same pleading in the alternative sufficient to plausibly allege that First Mercury owed Liberty a duty to defend.

None of the policy provisions invoked by First Mercury excludes the Underlying Defendants' alleged negligent or recklessly indifferent conduct from the policy's coverage for "personal and advertising injury." Accordingly, Plaintiffs plausibly allege that First Mercury owed the Underlying Defendants a duty to defend.

a. The "Knowing Violation of Rights of Another" Exclusion does not bar coverage for the allegations of negligent or recklessly indifferent conduct.

First Mercury argues that coverage is precluded by the "Knowing Violation of Rights of Another" Exclusion, which bars coverage for " 'personal and advertising injury' caused by or at the direction of the insured with the knowledge that the act would violate the rights of another and would inflict 'personal and advertising injury.' " Def.'s Mem. of Law, Doc. No. 15, at 16-17. "[E]xclusions from insurance policy coverage," such as this one, receive "strict construction" and are "interpreted in a manner most beneficial to the insured." *Mara*, 699 F. Supp. 2d at 447 (citing *Kimmins Indus. Serv. Corp. v. Reliance Ins. Co.*, 19 F.3d 78, 81 (2d Cir. 1994)). On its face, the "Knowing Violation of Rights of Another" Exclusion only applies when the insured acted while *knowing* that its conduct would violate the rights of another. Accordingly, the exclusion does not preclude coverage of unknowing conduct, including the alleged negligent or recklessly indifferent conduct.

First Mercury does not dispute the meaning of the exclusion; instead, it attacks the Plaintiffs' characterization of the underlying allegations. Def.'s Mem. of Law, Doc. No. 15, at 18 (quoting Tex. Compl., Doc. No. 16-2, at 6 ¶ 18 and arguing that the alleged misconduct was "undertaken with full knowledge of the obvious consequences" and that it "cannot possibly be argued that publishing a picture of a world-famous model, who is plainly not an employee of the strip club (and whose livelihood depends on her public image), in an advertisement for 'tabledances,' is done in any manner other than 'intentionally' or 'knowingly' "). In my view, however, the caselaw on which First Mercury relies for its argument is distinguishable.

For this proposition, First Mercury initially cites to *Awards Depot, LLC v. Scottsdale Ins. Co.*, 2016 WL 613909 (S.D. Tex. Feb. 16, 2016), *reconsideration denied*, 2016 WL 1090110 (S.D. Tex. Mar. 21, 2016). There, the underlying plaintiff alleged that the underlying defendant had acted "knowingly" and "willfully" to violate the plaintiff's intellectual property rights and, accordingly, inflicted "personal and advertising injury" within the terms of the policy. *Id.* at *3. The *Awards Depot* court declared that the defendant-insured's identical "Knowing Violation of Rights of Another" Exclusion barred coverage for the alleged infringements and, therefore, that the insurer had no duty to defend the insured in the underlying lawsuit. *Id.* at 2-3. However, the court expressly (and distinguishably) concluded that there were "no allegations ... that suggest that [the underlying defendant] acted other than with such knowledge" that its conduct would violate the plaintiff's rights in trade dress. *Id.* at *3. Here, however, the Underlying Plaintiffs also allege negligent and recklessly indifferent conduct— conduct that plausibly could have given rise to unknowingly violating the Plaintiffs' rights. Therefore, *Awards Depot* does not shed light on the core issue with regard to the duty to defend: whether First Mercury has a duty to defend arising from the Underlying Plaintiffs' allegations of negligence or recklessness. *See* Pls.' Opp'n, Doc. No. 19, at 10 (arguing same).

***10** Next, First Mercury cites to *Allstate Ins. Co. v. Russell*, 2021 WL 4061403 (N.D. Tex. Sept. 7, 2021), which also construed an identical "Knowing Violation of the Rights of Another" Exclusion. Def.'s Mem. of Law, Doc. No. 15, at 16-17; Def.'s Reply, Doc. No. 28, at 12-13. There, the plaintiff alleged that her former employer invaded her privacy and defamed her by publishing her intimate photographs. *Russell*, 2021 WL 4051403. at *1. The former employer sought a defense and indemnification for the plaintiff's claims, which the insurer denied. *Id*. at *3. The *Russell* court granted summary judgment to the insurer, reasoning that that employer had "intentionally disclosed the photos" and "should have reasonably anticipated and known that [the employer's] act would violate [the plaintiff's] rights." *Id*. at *3. Therefore, the alleged conduct fell within the exclusion and was not covered by the policy. *Id.*

Like Texas law, Connecticut law recognizes that "merely describing an action in terms of negligence is of no consequence when the action itself can only be deemed intentional." *Mara*, 699 F. Supp. 2d at 457 (quotation marks and citation omitted). But the line of precedent including *Russell* and *Mara* is distinguishable, because that line of precedent address factual allegations concerning harm of an intimate or personal nature. In *Russell*, the defendant shared intimate photos of a colleague with others who knew her personally. 2021 WL 4061403 at *1. In *Mara*, the white supremacist defendant intended to menace his neighbors of color by, *inter alia*, shooting bottle rockets at his neighbor's home. 699 F. Supp 2d at 451. Other cases in that line feature analogous harms, such as sexual assault, sexual exploitation of minors, assault and battery, or violent acts. *E.g., Farmers Texas Cnty. Mut. Ins. Co. v. Griffin*, 955 S.W.2d 81, 82 (Tex. 1997) (reasoning that a random, but targeted, act of gun violence was necessarily intentional); *Chicago Ins. Co. v. Manterola*, 955 P.2d 982, 985 (Ariz. Ct. App. 1998) (concluding that molestation of a minor fell outside of professional negligence liability coverage). Those acts cannot have been done negligently and without knowledge of the harms they caused. In other words, one could not reasonably allege the problems in *Russell, Mara*, and *Manterola* were failure to promulgate policies for employees barring the unauthorized sharing of a colleague's intimate photos, racist victimization of neighbors, or the sexual assault of a minor.

The case at bar is different. Plaintiffs are professional models. Compl., Doc. No. 1, at 4 ¶ 20. Unlike in *Russell*, the Underlying Defendants did not reveal *private* images. Instead, the Underlying Defendants allegedly misused public images by failing to engage in arms-length contracting for the rights to use the images and likenesses, or to employ the Underlying Plaintiffs for the purpose of advertising the insured establishments; and, as a result of the Plaintiff's inability to decline the presumedly undesired job opportunities, the Underlying Defendants allegedly tarnished the models' reputation by imputed affiliation. *Id.* at 2 ¶ 3. The harm alleged is business and could plausibly have arisen from a failure to promulgate adequate business policies, enforce those policies, and/or supervise employees. Accordingly, assuming *arguendo* that the Underlying Defendants' alleged misconduct caused Plaintiffs harm, the allegations do not give rise to the same unrebuttable presumption of knowing harm illustrated by cases like *Russell, Mara*, and *Manterola*.

Finally, First Mercury's assertion that the Underlying Actions have been "fully litigated" is of no consequence for the purpose of assessing First Mercury's duty to defend the Underlying Defendants in the underlying actions. Def.'s Mot. to Dismiss, Doc. No. 15, at 18. To determine First Mercury's duty to defend, I must look to the pleadings. First Mercury does not offer any authority for the proposition that the factual posture of this proceeding requires departing from well-settled law that the duty to defend arises from the allegations in the complaint, not from findings or stipulations of fact.

b. The "Material Published with Knowledge of Falsity" Exclusion does not bar coverage for the allegations of negligent or recklessly indifferent conduct.

***11** First Mercury also asserts that the "Material Published with Knowledge of Falsity" Exclusion— which precludes coverage for "personal and advertising injury," including the publication of material that "slanders or libels" a person, "violates a person's right of

privacy," or "[i]nfring[es] upon another's copyright," "done at the direction of the insured with knowledge of its falsity"— bars coverage for the underlying allegations. *Id.* at 14. I disagree.

For support, First Mercury relies on *Atlas Fencing v. Hartford Ins. Co.*, 2004 WL 1925892 (Conn. Super. Ct. July 23, 2004). There, a competitor sued Atlas Fencing ("Atlas") for an alleged bait-and-switch scheme by which Atlas used the competitor's intellectual property in its advertisements and then sold buyers an Atlas product. *Id.* at *4. Atlas argued that its infringement was non-willful, and therefore that its defense and indemnification was not precluded by a policy exclusion for intentional acts. *Id.* at *5. The Connecticut Superior Court disagreed, reasoning that the competitor's complaint "alleged only volitional acts" and that "[c]opying and distributing copyrighted work of the owner connotes actions that are of the type expected to inflict an advertising injury and which were not accidental." *Id.* at *5, *7.

However, *Atlas* is distinguishable. There, the court reviewed the allegations, and it concluded that the alleged misconduct only included volitional acts. *Id.* at *6. Here, I have recognized that the Underlying Plaintiffs alleged negligent and/or recklessly indifferent conduct. *Atlas*, then, is inapposite for purposes of evaluating whether allegations of negligent or recklessly indifferent conduct may give rise to a duty to defend. In addition, the issue in *Atlas* was whether acts were accidental or not; here, I assess whether the allegations of negligent or recklessly indifferent conduct were merely not intentional.

c. The "Field of Entertainment – Limitation of Coverage" Endorsement does not bar coverage for the allegations of negligent or recklessly indifferent conduct.

First Mercury further argues that the duty to defend is precluded by the "Field of Entertainment – Limitation of Coverage" Endorsement, Doc. No. 16-7, at 15-16, which excludes coverage for "personal or advertising injury" arising out of "[i]nvasion of the right to privacy;" "[i]nfringement of copyright;" "libel, slander or other forms of defamation;" and "unfair trade practices" as applied to business in the field of entertainment, Mr. Happy's Policy, Doc. No. 16-7, at 55. I am not persuaded.

An endorsement is "a term of art," defined as "as 'a writing added or attached to a policy or certificate of insurance which expands or restricts its benefits or excludes certain conditions from coverage.... When properly incorporated into the policy, the policy and the ... endorsement together constitute the contract of insurance, and are to be read together to determine the contract actually intended by the parties." *Dairyland Ins. Co. v. Mitchell*, 320 Conn. 205, 213 (2016) (quoting *Liberty Mutual Ins. Co. v. Lone Star Industries, Inc.*, 290 Conn. 767, 806 (2009)). If an endorsement is inconsistent with the body of the insurance policy, the endorsement generally supersedes the body of the policy and controls. *Israel v. State Farm Mut. Auto. Ins. Co.*, 259 Conn. 503, 510 (2002). However, if an endorsement creates an ambiguity, then the policy must be construed in favor of coverage. *Id.* at 512.

***12** In my view, the "Field of Entertainment – Limitation of Coverage" Endorsement yields ambiguity that, for the purpose of assessing its duty to defend, must be resolved in the Underlying Defendants' favor. I agree with the Northern District of Illinois's analysis of an identical field of entertainment endorsement:

> Adopting First Mercury's position that the endorsement negates its duty to defend [the underlying defendant] in the underlying suit would mean that the policies cover "personal and advertising injury" caused by negligence associated with privacy right or copyright infringement in "[the insured's] 'advertisement[s]' " or with "[t]he use of another's advertising idea in [the insured's] 'advertisement[s],' " yet exclude the very same injury if it arises out of the insured's "advertising[.]" In other words, the policies would grant coverage for "personal and advertising injury" caused by negligence associated with the insured's "advertisement[s]," but the endorsement would remove such coverage if the injury arose from the insured's engaging in "advertising." Given the stark incompatibility of these dueling provisions, the endorsement creates an ambiguity about the scope of coverage that, at least for purposes of the duty to defend, must be resolved in [the underlying defendant's] favor....

Triple Location, 536 F. Supp. 3d at 333 (citations omitted).

I also agree with the Southern District of Florida in its analysis of a materially identical field of entertainment endorsement in a nearly-identical case, whereby an insurer sought a declaratory judgment that it had no duty to defend or indemnify its insured bar owner in an underlying lawsuit alleging that the bar owner had unauthorizedly used eight models' images and likenesses in advertisements. *See Princeton Express v. DM Ventures USA LLC*, 209 F. Supp. 3d 1252, 1254-55 (S.D. Fla. 2016). There, the insurer requested a declaration that its field of entertainment exclusion precluded any duty to defend or indemnify, and the court held that the policy was illusory after concluding that the exclusion "essentially eliminates all advertising injury coverage." *Id.* at 1255-60. "Because the policies provide that they cover advertising injury, and then the Exclusion provides that advertising injury is excluded," the *Princeton Express* court held, "the provisions are completely contradicted" and coverage was not excluded. *Id.* at 1260.

Here, First Mercury does not rebut the commonsense conclusion that the exception set forth in the "Field of Entertainment – Limitation of Coverage" Endorsement swallows the whole. Under Connecticut law, exclusionary language that altogether eliminates coverage renders coverage illusory. *Karas v. Liberty Ins. Corp.*, 335 Conn. 62, 106 (2019). The question is whether the "grant of coverage in [the exclusion or limitation] is broader than the exclusion" itself. *Connecticut Ins. Guar. Ass'n v. Drown*, 134 Conn. App. 140, 153 (2012), *aff'd*, 314 Conn. 161 (2014). In its reply brief, First Mercury's own explanation of the endorsement— that the endorsement "without equivocation, indicates that a 'personal or advertising injury' does not include any 'invasion of the right to privacy' and/or 'libel, slander or other forms of defamation' where it relates to the insured's advertising practices"— demonstrates that the insurer understands that the grant of coverage is narrower than the exclusion, because the policy purports to provide coverage for advertising injury then bars such coverage when the alleged injury arises from advertising. Def.'s Reply, Doc. No. 28, at 7. Such a policy is inherently ambiguous.

***13** Under Connecticut law, "a policy provision offering coverage for a particular peril will not be deemed illusory unless it would not result in coverage under any reasonably expected set of circumstances." *Karas*, 335 Conn. at 108. At oral argument, First Mercury pointed to examples in which the policy would apply, *e.g.*, for a live performance promoting the insured business, for use of the insured's venue by a third-party for a special event, or when an insured falsely accuses a vendor of engaging in criminal activity.[5] The Court must evaluate competing interpretations of a policy from the perspective of a reasonable insured. *Ceci v. National Indem. Co.*, 225 Conn. 165, 168 (1993) ("The provisions of [an insurance policy] cannot be construed in a vacuum.... They should be construed from the perspective of a reasonable layperson in the position of the purchaser of the policy....") (internal citations omitted). In my view, the examples First Mercury provides are outside of the reasonable set of circumstances in which an insured club might expect to be covered. Therefore, they do not rebut my conclusion that coverage under the "Field of Entertainment – Limitation of Coverage" Endorsement appears to be ambiguous or even illusory.

Accordingly, I cannot conclude that the endorsement precludes coverage of the underlying allegations.

d. The Policy does not include an express exclusion for "negligence or other wrongdoing" that may exclude coverage.

Finally, I observe that the Policy does not include an applicable negligence exclusion. For example, in the context of aircraft, auto, or watercraft activities, the Policy expressly excludes coverage for "negligence or other wrongdoing in the supervision, hiring, employment, training or monitoring of others by that insured." Mr. Happy's Policy, Doc. No. 16-7, at 14. Elsewhere, an identical exclusion has barred coverage for a claim of negligent supervision. *E.g.*, *Westfield Ins. Co. v. Matulis*, 421 F. Supp. 3d 331, 347, 350 (S.D.W. Va. 2019).

In this case, although the Policy contained a negligence exclusion directed towards activities, there was no negligence exclusion applicable to the underlying factual allegations. As a general rule, a court will not read into a contract language that its drafters could have and decided not to include.

e. Plaintiffs plausibly allege that First Mercury owed the Underlying Defendants a duty to defend them and breached that duty.

The Plaintiffs plausibly allege that the Underlying Defendants' policies covered the non-intentional allegations in the Underlying Plaintiff's complaints; therefore, Plaintiffs sufficiently allege that First Mercury owed the Underlying Defendants a duty to defend them in the underlying litigation, if only under a reservation of the insurer's rights, to survive this motion to dismiss the declaratory judgment claim with respect to the duty to defend. Furthermore, Plaintiffs allege that First Mercury failed to defend the Underlying Defendants. Therefore, Plaintiffs plausibly allege that First Mercury breached its duty to defend the Underlying Defendants.

Accordingly, First Mercury's motion to dismiss the breach of contract and declaratory judgment claims relating to the duty to defend is denied.

2. Resolving the duty to indemnify is premature.

An insurer asserting that a claim is not covered may "either refuse to defend or it [may] defend under a reservation of its right to contest coverage under the various avenues which would subsequently be open to it for that purpose." *Missionaries of the Company of Mary, Inc. v. Aetna Casualty & Surety Co.*, 155 Conn. 104, 113 (1967). However, if an insurer effectively waives the opportunity to defend under a reservation and then breaches its duty to defend, it "bears the consequences of its decision." *Capstone Bldg. Corp. v. American Motorists Ins. Co.*, 308 Conn. 760, 806 (2013) (quotation marks and citations omitted); *Damron v. Sledge,* 460 P.2d 997, 1001 (Ariz. 1969) ("If the company refuses to defend at all, it must accept the risk[s]...."). In all three jurisdictions at issue here, if the insured was actually liable

for the alleged conduct, the consequences for First Mercury breaching its duty to defend include paying for a reasonable settlement, such as the resolutions in the three underlying actions, and attorneys' fees incurred in defense of the underlying suit and in negotiating a resolution.[6]

***14** First Mercury suggests that the stipulated judgments sufficiently resolve the factual and legal issues to determine that it has no duty to indemnify the Underlying Defendants. For example, First Mercury asserts that the underlying actions were "fully litigated," Def.'s Mot. to Dismiss, Doc. No. 15, at 18, and points to the Texas Judgment to argue that the settlements only reference non-covered conduct, Doc. No. 8, at 5.[7] There, KHG stipulated that its advertisements "depicted Plaintiffs' images in a manner that implied they were promoting the Defendant's club or would appear at Defendant's club on the advertised dates" and did so "without Plaintiffs' consent or permission," "constitu[ting] an unauthorized publication of Plaintiffs' names and likeness," defamatory use, and "an invasion of Plaintiffs' right of privacy in the use of their image and likeness." Tex. Judgment, Doc. No. 16-6, at 4 ¶¶ 2-4. Because KHG stipulated to conduct constituting intentional offenses as a matter of law, First Mercury reasons, the alleged misconduct is not covered by KHG's policy.

I cannot conclude that the underlying judgments have the dispositive or preclusive effect on this litigation that First Mercury suggests. For one, I have not seen the settlement in the Connecticut Action, which was not furnished to the Court by the parties. First Mercury asserts that because Plaintiffs treat the underlying lawsuits as identical, I should treat the Connecticut settlement, sight unseen, as identical too. But I will not presume to know what, if any, stipulations of fact or law the Connecticut settlement contains. Furthermore, although I have access to the terms of the Arizona Judgment, the judgment merely restates the Arizona Plaintiffs' allegations ("Plaintiffs alleged in the Complaint…") and does not appear to find any facts. Ariz. Judgment, Doc. No. 16-5, at 3 ¶ 2. Even the most fleshed-out judgment, the Texas Judgment, does not resolve factual issues essential for determining whether alleged losses fall within the scope of coverage of the policies: how KHG obtained the images, whether KHG or a third-party created and/or published the advertisements, and why KHG or third-party engaged in the allegedly unlawful conduct. *See* Pls.' Opp'n, Doc. No. 19, at 6-7. The duty to indemnify is narrow, including in the context of a stipulated judgment. The Connecticut Supreme Court has advised that trial or a hearing may be necessary to determine the responsibility of the insurer to indemnify the underlying claims. *Capstone Bldg. Corp.*, 308 Conn. at 816-17. First Mercury seeks an end-run around a fact-intensive inquiry, which is not warranted at this time.

Accordingly, First Mercury's motion to dismiss the breach of contract and declaratory judgment claims arising from the duty to indemnify is denied.

C. Connecticut Unfair Trade Practices Act and Connecticut Unfair Insurance Practices Act Claims

First Mercury further moves to dismiss the Plaintiffs' Connecticut Unfair Insurance Practices Act ("CUIPA") and Connecticut Unfair Trade Practices Act ("CUTPA") claims because "a proper denial of coverage under an insurance policy does not constitute a CUIPA or CUTPA violation," Def.'s Mem of Law, Doc. No. 15, at 21 (citing to *Liston-Smith v. CSAA Fire & Cas. Ins. Co.*, 287 F. Supp. 3d 153, 163 (D. Conn. 2017) (*quoting Zulick v. Patrons Mut. Ins. Co.*, 287 Conn. 367, 378 (2008)). The argument is unavailing.

A plaintiff may state a claim under CUTPA, which bars "unfair or deceptive acts or practices in the conduct of any trade or commerce," to enforce an alleged violation of CUIPA, which proscribes "unfair or deceptive act[s] or practice[s] in the business of insurance." *Kim v. State Farm Fire & Cas. Co.*, 2015 WL 6675532, at *5 (D. Conn. Oct. 30, 2015) (citing *Mead v. Burns*, 199 Conn. 651, 663 (1986)). CUTPA/CUIPA claims "are premised" on "a breach of contract." *Kim v. State Farm Fire & Cas. Ins. Co.*, 751 F. App'x 127, 128 n.1 (2d Cir. 2018).

***15** I conclude that Plaintiffs plausibly plead that First Mercury breached its duty to defend the Underlying Defendants. It follows that I have concluded that Plaintiffs plausibly allege that the denial of a defense was improper. Furthermore, I conclude that it would be premature to rule on First Mercury's obligation to indemnify the Underlying Defendants. Because I have not determined that the denial of coverage was proper, I decline to dismiss the Plaintiffs' CUTPA and CUIPA claims at this time.

IV. Conclusion

For the foregoing reasons, First Mercury's motion to dismiss, doc. no. [14], is **denied**.

So ordered.

All Citations

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Footnotes

[1] A district court may consider certain materials without converting a motion to dismiss into one for summary judgment, including any written instrument attached to the complaint as an exhibit or any statements or documents incorporated in the complaint by reference. *Chambers v. Time Warner, Inc.*, 282 F.3d 147, 152-53 (2d Cir. 2002) (citations omitted). In the recitation of the allegations, I supplement the pleadings with references to certain legal documents from the underlying lawsuits, which were appended to the pleadings by the Plaintiffs, *see* Tricario Dec., Doc. No. 16, at 2 ¶ 4, or are incorporated by reference in the Complaint.

[2] Collectively, the Connecticut, Arizona, and Texas Actions are the "Underlying Lawsuits." Collectively, the Connecticut, Arizona, and Texas plaintiffs are the "Underlying Plaintiffs." Collectively, Connecticut, Arizona, and Texas Defendants are the "Underlying Defendants."

[3] The plaintiffs refer to the relevant policy exclusions, but they do not include them in their complaint. *See* Compl., Doc. No. 1, at 8 ¶ 49, 11 ¶ 72, 14 ¶ 97. Nevertheless, this Court may consider them because they are "integral" to the complaint. *See Chambers*, 282 F.3d at 152-53.

[4] To the extent that First Mercury argues that *Triple Location* is "inapposite" and "has no bearing on the instant dispute" because the trial court only addressed the duty to defend and declined to reach indemnification, I only rely on the decision in the context of analyzing the duty to defend. *See* Doc. No. 28, at 12. As a result, First Mercury's attempt to distinguish the decision on that basis is unpersuasive.

[5] First Mercury also criticized the *Triple Location* decision because the company had not raised nor briefed that coverage was excluded due to the "Field of Entertainment – Limitation of Coverage" Endorsement in that case, but First Mercury squarely presents the issue here.

[6] In Connecticut, the consequences of breaching a duty to defend include paying for "any reasonable settlement agreed to by the plaintiff and the insured, and the costs incurred effectuating the settlement up to the limits of the policy." *Capstone Bldg. Corp.*, 308 Conn. at 806. But the insured (or its assignee) must carry its "burden of proving that the settlement is reasonable in proportion to the insurer's liability under its duty to defend." *Id.* at 804-05. If some of the claims at issue would "not independently trigger the insurer's duty to defend," then the breaching insurer's liability is "limited to the portion of the settlement corresponding to claims for which the insurer had a duty to defend," if considered independently. *Id.* at 815 (citing *DaCruz*, 268 Conn. at 688); *see also Black v. Goodwin, Loomis, and Britton, Inc.*, 239 Conn. 144, 153 (1996) (holding that these rules apply to assignees of insureds). On that basis, the insurer may assert that the amount of the settlement was too high. *Capstone Bldg. Corp.*, 308 Conn. at 815. To determine whether a settlement amount was too high, a court may consider "whether there is a significant prospect of an adverse judgment, whether settlement is generally advisable, whether the action is taken in good faith, and whether it is not excessive in amount." *Hartford Roman Catholic Diocesan, Corp.*, 199 F. Supp. 3d at 597 (quoting *Metro. Life Ins. Co. v. Aetna Cas. & Sur. Co.*, 249 Conn. 36, 56 (1999)). That is a highly fact-intensive inquiry, for which a trial or hearing may be needed. *Capstone,* 308 Conn. at 816-17.

In Arizona, when an insurer denies a defense, an insured and an injured party may elect to settle pursuant to a *Damron* agreement, by which "the insured agrees to liability for the underlying incident and assigns all rights against the insurance company to the injured party." *Quihuis v. State Farm Mut. Auto Ins. Co.*, 748 F.3d 911, 912 n.1 (9th Cir. 2014). However, a *Damron* agreement will not "create coverage that the insured did not purchase" and the insurer is only liable for "a liability falling within its policy." *Evanston Ins. Co. v. Murphy*, 544 F. Supp. 3d 879, 884 n.4 (D. Ariz. 2021), *aff'd*, 2022 WL 1078123 (9th Cir. 2022) (citation omitted).

In Texas, "if an insurer wrongfully denies coverage and its insured then enters into an agreed judgment, the insurer is barred from challenging the reasonableness of the settlement amount." *Evanston Ins. Co. v. ATOFINA Petrochemicals, Inc.*, 256 S.W.3d 660, 671 (Tex. 2008).

[7] Notably, First Mercury contradicted that statement at the hearing on the motion to dismiss, stating that the cases were not actually litigated to a verdict.

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