



9th Circuit Finds that Directors' & Officers' Liability Insurance Policy Excludes Coverage for Claims Brought Under the Telephone Consumer Protection Act. (*Los Angeles Lakers v. Federal Insurance Company* (No. 15-55777))

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	2
II. The Telephone Consumer Protection Act	4
III. D&O Coverage for TCPA Claims	4
IV. The Los Angeles Lakers Coverage Litigation in the District Court.....	6
V. The Court of Appeals for the Ninth Circuit Holds in a Split-Decision that Federal's D&O Policy Excludes Coverage for D&O Claims	9
A. The Majority Held that Federal's Invasion of Privacy Exclusion Excluded Coverage for "Privacy-based" Statutory Claims, Like the TCPA	9
B. The Dissent Would Have Found Coverage under the D&O Policy	11
VI. Conclusion	11

I. INTRODUCTION

In June, 2017, we reported on the anticipated decision by the Court of Appeals for the Ninth Circuit in *Los Angeles Lakers, Inc. v. Federal Insurance Company* case,¹ which would decide whether coverage exists under a Directors' and Officers' Liability Policy for a class action filed under the Telephone Consumer Protection Act. With the TCPA's remedy of actual damages² or \$500 per call or \$1,500 per call for a willful violation,³ exposure under the TCPA can be astronomical. Thus, whether a TCPA defendant can find insurance to cover TCPA claims is and has been an area of deep interest for such defendants and their insurance carriers.

The first wave of TCPA coverage litigation dealt with whether the advertising liability provisions of CGL policies covered TCPA claims, with the vast majority of cases finding no coverage.⁴ Non-publicly

¹ 15-55777 (9th Cir. 2015).

² 47 U.S.C. § 227(b)(3)(B) ("an action to recover for actual monetary loss from such a violation, or to receive \$500 in damages for each such violation, whichever is greater").

³ *Hashw v. Department Stores National Bank, et. al.* 182 F.Supp.3d 935, 944 (D. Minn. 2016) ("TCPA also provides for statutory damages of \$500 per violation, in the alternative to actual damages. . .").

⁴ Marks, *Does your D&O policy provide coverage for TCPA claims?*, (28 Jan 2016) (<http://rcmd.com/blog/does-your-do-policy-provide-coverage-tcpa-claims>) ("Defendants in a TCPA action have traditionally sought coverage for this type of claim under the advertising injury or property damage coverage in their General Liability policy. Several courts have argued that there is no coverage for these claims because they are styled as penalties under the statute. Other courts have disagreed as to whether the violation of the TCPA amounts to a violation of the right to privacy dependent upon whether the right to privacy includes the right to seclusion. While some policy holders have had success with this argument, many General Liability carriers are now including a specific exclusion in their policies to address these claims. As a result, policyholders are looking elsewhere for coverage. Specifically, many are turning to their E&O and D&O policies, with limited success"); Wright, Blase & Miko, *A Primer on Insurance Coverage Issues under the Telephone Consumer Protection Act*, (3 March 2015) (<http://www.klgates.com/a-primer-on-insurance-coverage-issues-under-the-telephone-consumer-protection-act-03-03-2015/>) ("Companies and individuals facing TCPA claims have sought insurance coverage for defense costs, as well as the costs of judgment or settlement, under at least three different kinds of insurance policies, commercial general liability ("CGL") policies, errors and omissions ("E&O") or professional liability policies, and

traded corporate policyholders holding D&O policies⁵ then pivoted to these policies to secure insurance coverage.

No D&O coverage case involving TCPA litigation had reached an appellate court. . . *until now*.⁶ Today, the Court of Appeals for the Ninth Circuit – over a strong dissent – found that Federal’s D&O policy excludes coverage for the TCPA claim filed against the Los Angeles Lakers.⁷

Directors and Officers (“D&O”) liability policies. As discussed below, although policyholders have had some success securing coverage under these policies, insurers are increasingly challenging coverage for TCPA claims or outright excluding TCPA liability under their policies. In light of this changing landscape, policyholders should consider their risks and, where appropriate, consider securing policies that specifically cover TCPA liability. The key insurance coverage considerations for traditional policies are considered below, along with a brief discussion on alternative policies”).

⁵ LaCroix, *D&O Insurance: The Question of Coverage for TCPA Claims*, (September 15, 2015) (<http://www.dandodiary.com/2015/09/articles/d-o-insurance/do-insurance-the-question-of-coverage-for-tcpa-claims/>) (“It is probably worth noting that the question of D&O insurance coverage for TCPA claims is largely restricted to private company policyholders. In a TCPA action, the claimants typically name as defendants only the corporate entity that allegedly violated the statute. Entity coverage under public company D&O insurance policies is limited to claims for violations of the securities laws. So if the defendant company is a public company and no individual directors or officers are named as defendants, there will be no coverage for the claim under the company’s D&O insurance policy simply because the claim does not fall within any of the policy’s insuring provisions. Entity coverage under a private company D&O insurance policy is broader than under a public company D&O insurance policy, and so the claim arguably does fall within the entity coverage afforded in a private company policy”).

⁶ Levin & Roffi, *Tipoff for the question of whether D&O policies cover TCPA related claims*, (November 18, 2015) (<http://www.lexology.com/library/detail.aspx?g=5d7bd04f-0ebb-40c6-90cb-693671512f28>) (“This is a game to watch. If the Ninth Circuit reverses the district court’s holding it could solidify insured’s claim to coverage for TCPA claims under D&O policies. If the Ninth Circuit affirms the District Court opinion, however, coverage under many D&O policies for TCPA claims may become more difficult than a half-court buzzer beater”).

⁷ *Los Angeles Lakers, Inc. v. Federal Ins. Co.*, (No. 15-55777) -- F.3d -- , 2017 WL ____ (9th Cir. August 23, 2017).

II. The Telephone Consumer Protection Act

The Telephone Consumer Protection Act was enacted in 1991 to “protect the privacy interests of residential telephone subscribers by placing restrictions on unsolicited, automated telephone calls to the home and to facilitate interstate commerce by restricting certain uses of facsimile machines and automatic dialers.” The TCPA prohibits, generally and in part, calls (and text messages) using an automatic telephone dialing system without the prior express consent of the called party.⁸ Since 1991, the FCC, who is directed to issue regulations implementing the Act, has expanded the applicability of the TCPA.⁹

The TCPA authorizes an award of \$500 per violation; i.e. *per call*,¹⁰ and is a strict liability statute.¹¹ The TCPA permits trebling of statutory damages if the Court finds that the statute was willfully or knowingly violated.¹² Unlike many consumer protection statutes, the TCPA does not provide for the recovery of attorney fees to the prevailing party.¹³

III. D&O Coverage for TCPA Claims

The jurisprudential landscape leading up the *Los Angeles Lakers* appeal was sparse, with only two decisions analyzing D&O coverage for TCPA claims preceding the case.¹⁴ The first case, *Resource Bank v. Progressive Casualty Insurance Co.*, 503 F. Supp. 2d 789, 797 (E.D. Va. 2007), addressed whether D&O coverage existed for a “blast-fax” case

⁸ 47 U.S.C. §227(b)(1)(A)–(D).

⁹ 47 U.S.C. §227(c).

¹⁰ 47 U.S.C. §227(b)(3)(B).

¹¹ See, e.g., *Adamcik v Credit Control Servs., Inc.* 832 F Supp 2d 744, 754 (WD Tex 2011) (Congress mandated at least \$500 per violation, and no less, regardless of underlying behavior of consumer or other equitable considerations).

¹² 47 U.S.C. §227(b)(3)(B).

¹³ See *Holtzman v. Turza*, 2016 WL 3648390, at *1-2 (7th Cir. 2016) (“The Telephone Consumer Protection Act is not a fee-shifting statute.”)

¹⁴ Wright, Blase & Miko, *A Primer on Insurance Coverage Issues under the Telephone Consumer Protection Act*, (3 March 2015) (<http://www.klgates.com/a-primer-on-insurance-coverage-issues-under-the-telephone-consumer-protection-act-03-03-2015/>) (“Coverage under D&O policies for TCPA violations remains a largely untested question.”).

filed under the TCPA. Progressives' D&O policy contained an exclusion that specifically barred coverage for claims based on "invasions of privacy". The District Court concluded that the D&O policy's privacy exclusion was not limited merely to excluding coverage for "secrecy-based" torts, but applied broadly to exclude coverage for all privacy based torts:

First, the plain meaning of "invasion of privacy" encompasses both the seclusional and secrecy variants of the right to privacy. Resource I, 407 F.3d at 640 (quoting *Am. States Ins. Co. v. Capital Assocs. of Jackson County*, 392 F.3d 939, 941-42 (7th Cir.2004)). Second, interpreting "invasion of privacy" in relation to the other harms listed with it in Exclusion A does not narrow its meaning. There is nothing secret about defamation, false light, libel, or slander. These harms result from falsehoods, see Restatement (Second) of Torts § 558 (defamation), § 568 (characterizing libel and slander as species of defamation), § 652E (false light), rather than the revealing of truthful confidential information. That they are included alongside "invasion of privacy" in no way suggests that the draftsman intended to narrow that term's plain meaning. Moreover, other courts have held that similar terms cover TCPA claims. See *Universal Underwriters Ins. Co. v. Lou Fusz Auto. Network, Inc.*, 300 F.Supp.2d 888, 895 (E.D.Mo.2004), aff'd, 401 F.3d 876 (8th Cir.2005)(holding that a policy covering "private nuisance (except pollution), [and] invasion of rights of privacy," without any qualifying terms, encompasses TCPA claims). Thus, the TCPA claims' concern with seclusional privacy places them squarely within the bounds of Exclusion A.

It was seven years later before D&O policies were tested again with respect to TCPA coverage. In *LAC Basketball Club, Inc. v. Federal Insurance Co.*,¹⁵ a California District Court reached the same conclusion as *Resource Bank*, albeit with regard to a text message class action instead of a 'blast-fax" case. The complaint claimed that the Los Angeles Clippers' solicitation for patrons to send text messages that would then be posted on a scoreboard at the game violated the TCPA. The Los

¹⁵ No. CV 14-00113 GAF (FMx), 2014 WL 1623704 (C.D. Cal. Feb. 14, 2014)

Angeles Clippers sought insurance coverage under their D&O policy, which Federal denied based on the policy's invasion of privacy exclusion. The District Court found no coverage, looking to the Court of Appeals for the Ninth Circuit's interpretation of the TCPA's purpose of protecting privacy interests. The District Court ultimately concluded that "[b]ecause the D&O policy excludes claims involving invasion of privacy and because a violation of the TCPA is rooted in the recipient's privacy right, TCPA claims brought against [the Los Angeles Clippers] are excluded from coverage."

IV. The Los Angeles Lakers Coverage Litigation in the District Court

Much like *LAC Basketball Club*, the issue in the *Los Angeles Lakers* case was whether the Lakers' D&O Policy provided coverage for a TCPA class action filed by a Lakers fan, David Emanuel, who received a text message while at the Lakers' home court, the Staples Center. Emanuel saw a message on the scoreboard inviting fans to send text messages to a specific number so that the Lakers would put his personal message on the scoreboard. Emanuel then received a text message inviting him to receive Lakers News alerts. Emanuel filed a class action under the TCPA, claiming that the text message he received illegally attempted to solicit business from him. The Lakers moved to dismiss the claim, which the District Court granted on the basis that Emanuel consented to receive the text message at issue.¹⁶

The Lakers' D&O policy was designed to protect the Lakers and its directors and officers in the event that claims were made against any of them, including claims for "wrongful acts." The Policy defined "wrongful acts" as "any error, misstatement, misleading statement, act, omission, neglect, or breach of duty committed, attempted, or allegedly committed or attempted by ... any Insured Organization[.]" The Policy stated that the Carrier "shall have the right and duty to defend any Claim covered by this Policy." The Policy contained an exclusion for any claim "based upon, arising from, or in consequence of libel, slander, oral or written publication of defamatory or disparaging material, invasion of privacy, wrongful entry, eviction, false arrest, false imprisonment, malicious

¹⁶ Los Angeles Lakers, Inc. v. Federal Ins. Co., No. CV 14-7743 DMG (SHx), 2015 WL 2088865, at *1 (C.D.Cal. April 17, 2015).

prosecution, malicious use or abuse of process, assault, battery, or loss of consortium.”¹⁷

District Judge Dolly Gee began her coverage analysis by evaluating the Carrier’s argument that it had no duty to defend because of the Policy’s invasion of privacy exclusion. The Carrier argued that a TCPA violation is, by its nature, a type of invasion of privacy as supported by the TCPA’s text, legislative history, and established precedent. The Lakers argued, however, that the *Emanuel* lawsuit sought economic damages as well as protection against nuisance, neither of which should have been excluded by the policy’s exclusion. Judge Gee disagreed, holding that “[w]hile it is true that the text of the TCPA does not use the word “privacy,” it is the conceptual wellspring of the TCPA’s protections.”¹⁸ Judge Gee found that the TCPA protects privacy interests, and since the exclusion used the broad language “arising from”, the policy’s exclusion encompassed TCPA claims, however constituted.¹⁹

The Lakers appealed and, after full briefing, the Court of Appeals for the Ninth Circuit heard oral argument on January 18, 2017.²⁰ At oral argument, the Lakers argued that the District Court, in focusing on privacy interests, relied on the wrong section of the TCPA related to calls to residential telephones instead of the section related to telemarketing and calls to cellular telephones under which Emanuel sued. The Lakers reiterated their argument that the TCPA protects

¹⁷ *Id.*, at pp. * 1.

¹⁸ *Id.* at pp. *5.

¹⁹ *Id.* at *8 (“Given courts’ universal interpretation of TCPA claims as implicit invasion-of-privacy claims, the exclusion here encompasses TCPA claims. This is especially true given that the exclusion applies to claims that are “[b]ased upon, arising from, or in consequence of ... invasion of privacy.” Policy at ¶ (C)(5). Under California law, “arising from” is interpreted broadly. *See, e.g., Davis v. Farmers Ins. Grp.*, 134 Cal.App.4th 100, 107, 35 Cal.Rptr.3d 738 (2005) (“[a]rising out of are words of much broader significance than ‘caused by.’ They are ordinarily understood to mean ‘originating from[,]’ ‘having its origin in,’ ‘growing out of’ or ‘flowing from’ or in short, ‘incident to, or having connection with’”). The allegations in the Emmanuel Complaint fit within this broad exclusionary clause”).

²⁰ http://www.ca9.uscourts.gov/media/view_video.php?pk_vid=-0000011004. The following discussion of oral argument is counsel’s interpretation and extrapolation of the comments from the Panel and counsel.

more than just privacy interests, and that Emanuel pleaded two theories: invasion of privacy as well a nuisance/economic loss. The Panel did not appear receptive, noting that the FCC was responsible for promulgating regulations to protect privacy rights. The Panel noted that the *Emanuel* Complaint pleaded both that the TCPA was promulgated to protect his privacy and that the text messages invaded his privacy. The Panel noted that the *Emanuel* Complaint clearly pleaded an invasion-of-privacy based claim, that the Policy excludes invasion of privacy, and that the inquiry should end there. Moreover, the Panel noted that there did not appear to be two legal theories, only two types of harm – each of which still arise out of a unitary privacy-based TCPA theory.

The Carrier responded that the policy exclusion was clear, and applied to exclude coverage the *Emanuel* case on its face. The Carrier argued that the Laker’s search for an economic loss does not change the inquiry from a unitary privacy-based statutory theory. The purpose of the TCPA is to protect privacy rights; the economic harm is merely secondary. The Panel noted, however, that a business purchasing a D&O policy does not have “privacy” interests to protect like consumers do. So, the Panel inquired, wouldn’t a business expect coverage for economic loss claims such as *Emanuel* or blast-fax cases? The Panel asked whether a business always is “out-of-luck” for TCPA claims under D&O policies? The Carrier responded affirmatively, that a business can never have coverage for privacy-based TCPA claims when a D&O policy contains an invasion of privacy exclusion. But, the Carrier argued, the Panel did not need to reach that universal question because as to the case and the policy before the Panel, the *Emanuel* complaint was privacy-based and, therefore, was excluded under the Policy.

///

V. The Court of Appeals for the Ninth Circuit Holds in a Split-Decision that Federal's D&O Policy Excludes Coverage for D&O Claims

A. The Majority Held that Federal's Invasion of Privacy Exclusion Excluded Coverage for "Privacy-based" Statutory Claims, Like the TCPA

The Majority framed the question as follows:

The Policy on its face clearly excludes from coverage claims "based upon, arising from, or in consequence of . . .invasion of privacy." The Policy does not explicitly exclude coverage of TCPA claims, so we must determine whether Emanuel's TCPA claims fall within this exclusion.²¹

Accordingly, with that set-up of the syllogism, if the TCPA was a privacy based tort, then Federal's exclusion would apply. "Federal argue[d that] a TCPA claim is inherently an invasion of privacy claim".²² Undoubtedly, Federal was correct, since the Congressional purpose stated in the TCPA and a multitude of cases have found that the TCPA is a privacy-based statute. The Court of Appeals agreed:

We have before outlined the three elements of a TCPA claim: "(1) the defendant called a cellular telephone number; (2) using an automatic telephone dialing system; (3) without the recipient's prior express consent." [citation omitted] Absent from this list is proof that the call invaded the recipient's privacy. This omission is no mistake. As demonstrated by the explicitly stated purpose of the TCPA, Congress concluded that the calls it prohibited in passing the TCPA were an implicit invasion of privacy. In practice, there may be other interests that the TCPA protects. But these alternative interests do not transform Congress's express intent to craft the TCPA to serve privacy interests. Accordingly, in pleading the elements of a TCPA claim, a plaintiff pleads an invasion of privacy claim.²³

²¹ Slip. Op., at pp. 8.

²² Slip. Op., at pp. 10.

²³ Slip. Op., at pp. 14.

Accordingly, the Court of Appeals gave effect to the intent of the parties:

When Federal received a request from the Lakers to defend them against the Emanuel complaint, Federal correctly identified the two TCPA claims as claims for invasion of privacy. It is evident from the plain language of the insurance contract that the parties intended to exclude all invasion of privacy claims. We recognize that exclusionary clauses are to be construed against the insurer; but here we must reconcile this rule with our canon of giving effect to the intent of the parties in light of a clause that broadly excludes coverage for any claim originating from, incident to, or having any connection with, invasion of privacy. A TCPA claim falls within the category of intrusion on the “right to be let alone” recognized under California law as an invasion of privacy. Emanuel’s claim is unquestionably, at the very least, connected to an alleged invasion of privacy. Therefore, Federal properly concluded that the claims asserted in the Emanuel complaint were excluded from coverage under the Policy. The dissent’s narrow construction of the exclusionary clause conflicts with the clear intent of the contracting parties.²⁴

Nor did the Court of Appeals impose an obligation to defend the *Emanuel* litigation, either, even though the duty to defend is broader than the duty to indemnify. The Court of Appeals explained that the duty defend, “while broad, is not limitless”.²⁵ That Emanuel swore off any personal injury claim and sought only the statutory penalty was of no moment. “[A] TCPA claim is an invasion of privacy claim, regardless of the type of relief sought . . . [and] we will not allow Emanuel to redefine the TCPA by disclaiming any recovery for personal injury.”²⁶ The Court of Appeals held that the Lakers could not “manufacture coverage” by changing their argument to suggest that the Emanuel complaint could have been amended to divorce itself completely from the “policy at the heart of the TCPA””.²⁷

²⁴ Slip Op., at pp. 16-17.

²⁵ Slip Op. at pp. 18.

²⁶ *Id.*

²⁷ Slip Op., at pp. 19.

B. The Dissent Would Have Found Coverage under the D&O Policy

The Dissent's theory, essentially, was that since the TCPA does not have "invasion of privacy" as one of the elements that a TCPA plaintiff must prove, the invasion of privacy exclusion in Federal's D&O policy should not have applied.²⁸ "Because nothing within the words Congress chose suggests that a TCPA plaintiff must prove invasion of privacy, a TCPA claim is not automatically a privacy claim. And because Emanuel expressly disavowed his privacy claims and instead sought recovery under the TCPA, his claims were not common law privacy claims."²⁹ The dissent therefore accused the Majority of setting up the proverbial straw-man only to chop it down: "Judge Smith errs by redefining a TCPA claim as a privacy claim and then invoking the contractual exclusion to deny insurance coverage".³⁰ The Dissent stated that "[t]he proper inquiry here is not whether a TCPA claim is automatically based on invasion of privacy, but whether the underlying claims in this particular case are based on invasion of privacy".³¹ Since Emanuel's TCPA claims against the Lakers were penalty-based and not privacy based, the Dissent would have concluded that the privacy exclusion in Federal's D&O Policy should not have excluded coverage.

VI. Conclusion

The Lakers' creative tactic to trigger insurance when faced with a TCPA claim failed. The Court of Appeals for the Ninth Circuit this has put another roadblock before policyholders attempting to secure insurance coverage for astronomical TCPA claims and put another arrow in the quiver of carriers enforcing the exclusions in their policies that they believe preclude coverage for such claims. Although the subordinate District Courts within the Ninth Circuit are bound by Ninth Circuit's decision, other coordinate federal Courts of Appeals are required by comity only to take a look at the Ninth Circuit's analysis. And, the dissent in *Los Angeles Lakers* provides a road-map upon which policy holders and less carrier-friendly Courts of Appeals might travel.

²⁸ Slip Op., at pp. 21.

²⁹ *Id.*

³⁰ Slip Op., at pp. 25.

³¹ Slip Op. at pp. 28.

By Scott J. Hyman· Mr. Hyman a member of the Texas and California State Bars, is the Member-in-Charge of Severson & Werson's Orange County, California office, and is a Governing Member of the Conference on Consumer Finance Law. Mr. Hyman has published a number of articles on the FDCPA and TCPA and, for the last 18 years, has authored The Fair Debt Collection Practices Act and, since 2013, has co-authored The Telephone Consumer Protection Act in *DEBT COLLECTION PRACTICES IN CALIFORNIA* (CEB 2016). Mr. Hyman authors Severson & Werson's consumer finance weblog, to which he has posted summaries of over 2,000 consumer finance decisions. (www.calautofinance.com) Mr. Hyman received his B.A. with Honors from the Schreyer Honors College of The Pennsylvania State University, and his J.D. with Distinction from the University of the Pacific, McGeorge School of Law.