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"Offer for Sale" - Patent Infringement Lawsuits: New Opportunities for Insurance Coverage, New Controversies

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“OFFER FOR SALE” PATENT INFRINGEMENT LAWSUITS: NEW OPPORTUNITIES FOR INSURANCE COVERAGE, NEW CONTROVERSIES

*David A. Gauntlett**

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I. INTRODUCTION

COURTS analyzing "advertising injury" coverage for patent infringement lawsuits have been faced with a fundamental dilemma—the questions asked by the policy language are rarely answered, one way or the other, on the face of the pleadings, or in documents typically filed in connection with such lawsuits prior to the determination of damages. These questions include:

- (1) whether the elements to establish liability under the asserted intellectual property claim bear a causal nexus to the insured's advertising activities;
- (2) whether the liability theory depends upon facts which fall within the meaning of one or more enumerated "advertising injury" offenses, such as "misappropriation of advertising ideas or style of doing business" or "infringement of copyright, title or slogan"; and

- (3) whether damages are sought in the lawsuit such that the injury suffered will be connected with liability that constitutes an enumerated "advertising injury" offense.

A number of courts have wrestled with these issues in analyzing coverage for different claims of patent infringement lawsuits this year. Cases holding that "patent infringement" itself is not a covered "advertising injury" offense misdirect the appropriate focus of coverage analysis since it is the facts that support a cause of action, not the label asserted in connection therewith, that determine potential coverage. There are, moreover, many varieties of patent infringement claims, some of which involve advertising as an element of both liability and damages, some of which do not.

This article will focus on the most promising offenses in standard form Commercial General Liability Policies issued by ISO:¹ piracy/unfair competition (1976 ISO) and the successor offense of "misappropriation of advertising ideas or style of doing business" (1986 ISO). It will address whether advertising-based "offer for sale" patent infringement claims may trigger liability under any of these "advertising injury" offenses, and if so, how this may trigger a policyholder's right to a defense in such lawsuits.

II. OVERVIEW OF COVERAGE CASE LAW ADDRESSING PATENT INFRINGEMENT LAWSUITS IN 1999

A. SUMMARY OF CASE LAW

Courts are divided on whether the offense of "infringement of title" may include "interference with ownership rights" as a form of "title" infringement. To date, the majority of courts to address this issue have found that this is not a permissible construction.² However, courts so finding do not explain why the rules requiring construction of ambiguous policy language against the insurer are not implicated by the two variant definitions for that offense which they admit are viable—"improper use of another's name or designation on advertisement" or "the name of a literary or artistic work."³

The Federal Circuit recently conceded that the predecessor offense of "piracy" encompassed patent infringement claims.⁴ ISO, the drafter of the policy language in question, opined that there was "no change in scope" between the old and new policy language, thus the "misappropriation

1. The Insurance Services Office ("ISO").

2. *Maxconn, Inc. v. Truck Ins. Exch.*, 88 Cal. Rptr. 2d 750 (Cal. Ct. App. 1999), *modified*, 74 Cal. App. 4th 126 (1999); *U.S. Test, Inc. v. NDE Envtl. Corp.*, 196 F.3d 1376 (Fed. Cir. 1999); *United Nat'l Ins. Co. v. SST Fitness Corp.*, 182 F.3d 447 (6th Cir. 1999); *Mez Indus., Inc. v. Pac. Nat'l Ins. Co.*, 90 Cal. Rptr. 2d 721 (Cal. Ct. App. 1999); *but see Homedics, Inc. v. Valley Forge Ins. Co.*, No. SA CV 99-9281999, U.S. Dist. LEXIS 17317 (C.D. Cal. Oct. 29, 1999), *dismissed*, No. SA CV 99-928-DOC, 2000 U.S. Dist. LEXIS 8920 (C.D. Cal. Feb. 4, 2000).

3. *Maxconn*, 74 Cal. App. 4th at 1278.

4. *U.S. Test*, 196 F.3d at 1382.

tion of advertising ideas" offense replaced "piracy," and "misappropriation of style of doing business" replaced "unfair competition."⁵ If the latter "misappropriation" offenses are ambiguous and insurer pronouncements about their meaning may properly be considered, there is no reason why these generic, lay offenses cannot be interpreted to extend at minimum a duty of defense in the appropriate advertising-based "offer for sale" case.⁶

B. VIEWS EXPRESSED BY COMMENTATORS WHO REPRESENT
INSURERS REGARDING THE AVAILABILITY OF COVERAGE FOR
PATENT INFRINGEMENT LAWSUITS FAIL TO FOCUS ON THE NATURE OF
HOW LIABILITY WILL ENSUE IN THE UNDERLYING ACTION

Insurer coverage attorneys have penned a number of articles on this topic recently.⁷ These articles discuss the recent *Mez* case, and misstate, as did the court, the basis for liability therein. *Mez* was not sued for inducing *Mez's* customer "to take . . . component parts and put them together in a way which infringed Ductmate's patents."⁸ The patent claims at issue dealt with process patent claims. Liability was asserted for inducing the "use" of that process through advertisements which described the elements of the patent owner's invention that were the asserted grounds for liability. Court's conclusions addressing inducements which were grounded on the notion that patent infringement claims did not constitute the type of risk intended to be covered by insurance for "advertising injury" liability failed to note that earlier policy provisions which encompassed coverage for "piracy" have readily been found to encompass patent infringement claims.⁹

Similarly, variant policy provisions such as those issued by Wausau as analyzed by the court in *Elan Pharmaceutical Research Corp. v. Employ-*

5. *Bay Elec. Supply, Inc. v. Travelers Lloyds Ins. Co.*, 61 F. Supp. 2d 611, 617 (S.D. Tex. 1999).

6. *Everett Assocs., Inc. v. Transcon. Ins. Co.*, 57 F. Supp. 2d 874, 880-881 (N.D. Cal. 1999), *stay granted* by No. C-97-4308 SC, 2001 U.S. Dist. LEXIS 2802 (N.D. Cal. Mar. 15, 2001).

7. Susan M. Popik, *amicus curiae* counsel in *Mez*, wrote an article for the Los Angeles Daily Journal entitled "Passing-Off Advertising Injury Policies Don't Cover Inducement of Patent Infringement." Elizabeth M. Medaglia of Jackson & Campbell authored an article appearing concurrently herewith entitled "Advertising Injury Coverage: Recent Case Law Developments Concerning Claims for Insurance Coverage of Patent Infringement Lawsuits." A recent article appearing in the Torts & Insurance Practice Insurance Coverage Litigation Committee Newsletter, Winter 2001, by B. Gerald Cordelli of Robbins, Kaplan, Miller & Ceresi, LLP, Washington, D.C., discusses the *Everett* decision and opines that in light of subsequent California case law its analysis will not support finding a duty to defend for claims of "offer for sale" patent infringement that depend on advertising liability.

8. *Mez*, 90 Cal. Rptr. 2d at 725.

9. See, e.g., *U.S. Fid. & Guar. Co. v. Star Tech.*, 935 F. Supp. 1110 (D. Or. 1996); *New Hampshire Ins. Co. v. R.L. Chaides*, 847 F. Supp. 1452 (N.D. Cal. 1994); *Union Ins. Co. v. Land & Sky, Inc.*, 529 N.W.2d 773, 777 (Neb. 1995), *appeal after remand*, 568 N.W.2d 908 (Neb. 1997); *Omnitel v. Chubb Group of Ins. Cos.*, 26 U.S.P.Q.2d, 1933 (Cal. Super. Mar. 26, 1993).

ers Insurance of Wausau,¹⁰ which included patent infringement as an “advertising injury” offense, certainly evidence that some forms of patent infringement must bear a nexus to advertising; otherwise, such policies would be illusory.

While the *Maxconn* court noted that patent infringement claims were not an articulated “advertising injury” offense, the same is true of trademark, trade dress, and unfair competition, which have been readily found to fall within the ambit of the ambiguous lay offenses of “misappropriation of advertising ideas or style of doing business” or “infringement of title” in appropriate circumstances. Indeed, *Maxconn* relied on *Advance Watch* and its progeny, which was rejected by the same court of appeals which decided *Mez* and *Lebas*. The fact that *Lebas* thereafter cited cases following *Advance Watch* shows the inconsistency of the court’s reasoning on this point. There is nothing about the offense of “misappropriation of advertising ideas or style of doing business” which would limit its ambit to any narrow common law tort.¹¹

Narrow construction of court opinions analyzing patent infringement lawsuits is not limited to insurer coverage counsel. Some intellectual property practitioners have weighed in, accepting poorly reasoned arguments in some coverage cases as the last word regarding potential coverage in this area of law.¹² An article suggests that the Sixth Circuit’s opinion in *United National Insurance Co. v. SST Fitness Corp.*:¹³

- (1) has properly read the meaning of “advertising injury” coverage law in light of applicable rules of policy construction;
- (2) is well reasoned and should be heeded by policyholders; and
- (3) foreclosed opportunities for coverage under offer-for-sale patent infringement claims.

Contrary to the article’s conclusion, the *SST* analysis is anomalous in that it follows authority which has not been found persuasive in virtually every jurisdiction outside the Sixth Circuit. Virtually every other case to interpret coverage for the undefined offenses of “infringement of title” and “misappropriation of advertising ideas or style of doing business” has concluded that the phrases are ambiguous as applied to a range of intellectual property torts and should, therefore, be interpreted against the insurer which drafted the policy and in favor of finding a duty of defense.¹⁴ The logic of the court’s opinion would preclude coverage under

10. 144 F.3d 1372 (11th Cir. 1998).

11. *Sentex Sys. Inc. v. Hartford Accident & Indem. Co.*, 93 F.3d 578, 581 (9th Cir. 1996).

12. A recent February/March 2000 newsletter titled “Ideas on Intellectual Property Law” from Laff, Whitesel & Saret, Ltd. carried an article entitled, “Read Between the Lines.”

13. 182 F.3d 447 (6th Cir. 1999) (applying Ohio law).

14. See *Advance Watch Co., Ltd. v. Kemper Nat’l Ins. Co.*, 99 F.3d 795, 802 (6th Cir. 1996), *reh’g on banc denied*, No. 95-1367/95-1387, 1996 U.S. App. LEXIS 34340 (6th Cir. Dec. 30, 1996); *Flodine v. State Farm Ins. Co.*, No. 99 C 7466, 2001 U.S. Dist. LEXIS 2204, at *23-24 (N.D. Ill. Mar. 1, 2001) (The rule that

“misappropriation of advertising ideas or style of doing business” means only the common-law tort of misappropriation and not trademark or trade dress

any form of intellectual property claim, including trademark.

The *SST* court did not analyze whether “offer for sale” patent infringement claims may bear a causal nexus to the insured’s advertising activities or whether in that context claims for such infringement might potentially fall within one or more of the enumerated “advertising injury” offenses. Indeed, the only court in any published order to address that precise question found for the insured.¹⁵

Patent coverage cases are difficult because they often require careful analysis of the elements in the underlying case that could establish both

infringement, first articulated by the Court of Appeals for the Sixth Circuit in *Advance Watch*, is based on the rationale that the policy language at issue does not specifically list ‘trademark’ in the advertising injury definition. [*Advance Watch Co., Ltd. v. Kemper Nat’l Ins. Co.*, 99 F.3d 795, 803 (6th Cir. 1996).] . . . However, this court agrees with decisions of other courts concluding that *Advance Watch*’s approach conflicts with the rule of contract interpretation followed by many state courts, including those of Colorado and Illinois, that the ordinary meaning of policy terms controls . . .

Id. at *23-24. *Bay Elec. Supply, Inc. v. Travelers Lloyds Ins. Co.*, 61 F. Supp. 2d 611, 616-17 (S.D. Tex. 1999).

Numerous courts throughout the country have agreed with Plaintiffs that coverage for trademark and trade dress infringement claims is provided under the “advertising injury” offense of “misappropriation of advertising ideas or style of doing business.” . . . This court respectfully disagrees with the Sixth Circuit [in *Advance Watch*] and concludes, as did the court in *Industrial Molding*, that the insurance policy at issue [does] not limit [Travelers’] liability to suits arising under the common-law tort of misappropriation “If the drafters of this insurance policy wanted to limit their exposure to “suits arising under the common-law tort of misappropriation” . . . it would have been a simple matter to do so. . . . [T]he court agrees with Plaintiffs that misappropriation of advertising ideas or style of doing business encompasses claims for trademark and trade dress infringement.

Lebas Fashion Imps. v. ITT Hartford Ins. Group, 59 Cal. Rptr. 2d 36 (Cal. App. Dep’t Super. Ct. 1996); *Nortek, Inc. v. Liberty Mut. Ins. Co.*, 858 F. Supp. 1231, 1237 (D.R.I. 1994) (“stating that the misappropriation of advertising ideas or style of doing business offense was intended to cover a form of unfair competition where a company attempts to imitate a competitor’s advertising materials”); *P.J. Noyes Co. v. Am. Motorists Ins. Co.*, 855 F. Supp. 492, 494-95 (D.N.H. 1994) (stating that “the allegations that Noyes used the name ‘Dust Free Precision Pellets’ in their advertising, literature and packing, arguably falls within the ambit of misappropriation of advertising ideas or style of doing business or infringement of a title or slogan”); *Ross v. Briggs & Morgan*, 520 N.W.2d 432 (Minn. Ct. App. 1994), *rev’d on other grounds*, 54 N.W.2d 843 (Minn. 1995) (asserting that Dr. Ross’ competitive advertising fell within the policy’s coverage for the “advertising injury” offenses of “infringement of title” as well as “unauthorized taking of advertising ideas or style of doing business”).

15. See *Everett*, 57 F. Supp. 2d at 874. (The court emphasized that the duty to defend finding would stand but concluded that no indemnity was appropriate. The latter decision was impacted by the court’s erroneous belief that, bound as it was to follow definitive decisions by California courts of appeal, the court in *Maxconn* had definitively found that no form of “offer for sale” patent infringement, even if it bore an advertising nexus, could fall within any construction of the 1986 ISO policy provision. To the contrary, the court, on rehearing in *Maxconn*, clarified that its analysis was limited to infringement of title and did not reach the “misappropriation of advertising ideas or style of doing business” offense which lead to settlement of the case on remand. See *Maxconn*, 74 Cal. App. 4th at 1271. Absent such a conclusion, there would have been no reason for the court to remand the case. Moreover, if *Maxconn* had been determinative, the court in *Mez Industries, Inc. v. Pacific National Ins. Co.*, 76 Cal. App. 4th 856 (1999) would not have expressed no opinion as to whether “offer for sale” infringement claims might trigger a defense under the 1986 ISO policy).

causal nexus and evidence of an enumerated “advertising injury” offense. The simplistic analysis of the *SST* court, while providing a bright line which is easy for courts to apply, does not properly interpret the policy language in light of applicable rules of policy construction. In sum, the insurer analysis referenced fails to confront the character of patent infringement allegations premised on an “offer for sale” where advertising is the sole basis for liability and the circumstances which in some instances may permit coverage adjudications in favor of insureds under such fact scenarios.

C. WHY *EVERETT* SETS FORTH THE MORE COGENT AND ANALYTICALLY APPROPRIATE ANALYSIS

Policyholder efforts to procure insurance benefits in patent infringement lawsuits have been subject to a number of setbacks. Nevertheless, in *Everett*,¹⁶ Judge Conti breached the wall of unfavorable case law. In analyzing an “offer for sale” patent infringement lawsuit, the court found it significant that the liability in the underlying action would depend solely upon the insured’s advertising activities as they related to the “offer for sale” claim. The court reasoned:

Under the *Clark* court’s express ruling, *Everett* could have been held liable at trial for damages for patent infringement solely by virtue of its having advertised infringing products. In light of this, it is difficult to say how Transcontinental could prove the absence of any potential for advertising injury coverage.¹⁷

Analyzing the pertinent “advertising injury” offense in this context, the court stated:

Like patent infringement in the case at hand, trademark infringement was not specifically enumerated as an “advertising injury” in the language of the Lebas policy. Therefore the Court had to determine whether the misappropriation clause was ambiguous, and could reasonably be construed by the insured to cover trademark infringement absent express use of the term. . . . This Court agrees with the Lebas Court that the language of the misappropriation clause is ambiguous and subject to more than one reasonable interpretation.¹⁸

While the court does not translate the elements of the “misappropriation” offense into other, simpler English components and then apply that newly defined phrase to the claims before it, the court’s finding that liability and damages (for price erosion) were purely advertising-based and realization that in this context the “misappropriation” offense was ambiguous supports finding a defense.

16. *Id.*

17. *Id.* at 884 (citing *Montrose Chem. Corp. v. Superior Court*, 861 P.2d 1153, 1160 (Cal. 1993)).

18. *Id.* at 880.

III. ANALYSIS OF THE ELEMENTS OF THE THREE-PART TEST TO ESTABLISH “ADVERTISING INJURY” COVERAGE

A. THE DISTINCT CHARACTER OF OFFENSE-BASED “ADVERTISING INJURY”/“PERSONAL INJURY” INSURANCE COVERAGE

The coverage issues posed by offense-based “advertising injury” and “personal injury” coverage require a more precise level of analysis than a simple reference to what a particular court believes should constitute “advertising injury” or “personal injury.” In contrast to coverage for “property damage” or “bodily injury,” “advertising injury” and “personal injury” coverage is offense, not conduct-based and may include within their ambit a number of potential torts.¹⁹ The fact that the offenses themselves do not track recognized common law or statutory torts in many instances under either the 1976 ISO, 1986 ISO or 1998 ISO forms has perplexed many courts.²⁰ As a consequence, these courts have failed to apply the rule that policies must be interpreted as they are understood by a lay person, not an insurance expert or attorney.²¹ They have also made much of the absence of the term “patent infringement” from policy language, failing to recognize that such an approach turns on its head standard rules of policy construction.²²

B. THE THREE-PART TEST

Disagreements between policyholders and insurers as to constructions of policy language emanate from a fundamental disagreement about articulation, as well as construction of the test for establishing potential coverage. A surprisingly large number of “advertising injury” coverage

19. Speaking directly to this issue, in *Tinseltown Video, Inc. v. Transp. Ins. Co.*, 71 Cal. Rptr. 2d 371 (Cal. Ct. App. 1998), the court stated:

In the world of liability insurance, personal injury coverage applies to injury which arises out of the commission of certain enumerated acts or offenses. [Citations omitted.] Coverage thus is triggered by the offense, not the injury or damage which a plaintiff suffers. [Citations omitted.]

To the extent the listed offenses [in the policy] are framed in generic terms, they should be construed broadly to encompass all specific torts which reasonably could fall within the general category.

Id. at 377-78 (citing *Fibreboard Corp. v. Hartford Accident & Indem. Co.*, 16 Cal. App. 4th 492 (1993)).

20. *Frog, Switch & Mfg. Co. v. Travelers Ins. Co.*, 193 F.3d 742 (3d Cir. 1999) (applying Pennsylvania law and stating that “*Advance Watch* has been sharply criticized for ignoring the real contours of intellectual property litigation, which often proceeds under a bewildering variety of different labels covering the same material facts”).

21. *McCormack Baron Mgmt. Servs., Inc. v. Am. Guar. & Liab. Ins. Co.*, 989 S.W.2d 168, 171 (Mo. 1999): (“Noting that the word ‘offense’ cannot be read to limit coverage only to a particular ‘cause of action’ or ‘claim.’ The word ‘offense’ simply does not have this meaning in either common usage or legal usage.”)

22. *Pardee Constr. Co. v. Ins. Co. of the West*, 92 Cal. Rptr. 2d 443, 457 (Cal. Ct. App. 2000) (“If the parties had intended coverage to be limited to the [extent] suggested by the defendants [the insurers], language clearly embodying that intention was available . . .”) (quoting *Philadelphia Elec. Co. v. Nationwide Mut. Ins. Co.*, 721 F. Supp. 740, 742 (E.D. Pa. 1989)).

cases do not even posit a test for evaluating a coverage in light of the pertinent policy language. This oversight was corrected in 1993 by the well-reasoned opinion of Judge Patel of the Northern District of California in *New Hampshire Insurance Co. v. Foxfire, Inc.*²³

It provides, in essence, that there be: (1) advertising activity by the policyholder; (2) a claim which falls within one or more of the enumerated advertising injury offenses; and (3) a causal nexus between the offense and the advertising activity. The third element has generated the most controversy. Is the causal nexus between injury and offense or offense and advertising? Perusal of the policy language reveals that it is the latter. Recent case law confirms that the causal nexus called for by the policy language is between “offense” and “advertising activity,” not “injury” and “advertising activities.”²⁴

C. THE LIMITED ROLE OF EXCLUSIONS IN EFFECTING THE SCOPE OF “ADVERTISING INJURY” COVERAGE FOR ADVERTISING-BASED PATENT INFRINGEMENT LAWSUITS

Insurers often rely on CGL policy exclusions for “advertisers, broadcasters, or publishers,”²⁵ the “knowledge of [the advertising’s] falsity,”²⁶

23. 820 F. Supp. 489 (N.D. Cal. 1993).

24. *Peerless Lighting Corp. v. Am. Motorists Ins. Co.*, 98 Cal. Rptr. 2d 753, 760-761 (Cal. Ct. App. 2000) (“(The Policy Only Covers Offenses ‘Committed in the Course of Advertising’) . . . The Supreme Court held this language requires that ‘advertising injury’ must have a causal connection with the insured’s ‘advertising activities’ before there can be coverage. . . . Thus, *Bank of the West* suggests a two-part test for determining whether an offense was committed ‘in the course of advertising.’ First, the promotion of the product or service at issue must constitute ‘advertising’ within the meaning of the policy language; and second, the ‘advertising activities’ must have in some sense caused the ‘advertising injury.’”). See also 1998 ISO “EXPLANATION OF CHANGES”

Revised Advertising Offenses:

Currently, the causal connection between the offense and the act of advertising is found in the “Insuring Agreement.” This insurance applies to “advertising injury” caused by an offense committed in the course of advertising of goods, products or services. (p. 17)

Impact:

The change from the undefined term “advertising activities” to a defined term “advertisement” is intended to strengthen the necessary causal connection between the covered offenses and the insured’s advertisements.” (p. 21)

25. In an illustrative case pertinent to cyberspace risks, a federal district court found that policyholder DeLorme’s alleged infringement of Rand McNally’s trademark with its Tripmaker CD was within the meaning of the “misappropriation of advertising ideas or style of doing business” offense. *Am. Employers Ins. Co. v. Acadia Ins. Co.*, 39 F. Supp. 2d 64, 77 (D. Me. 1999) (“Asserting that other courts interpreting the same policy language have concluded that the misuse of another’s trademark constitutes ‘misappropriation’ of a ‘style of doing business’ . . . [and] can be described as an action for ‘infringement of a copyright, title, or slogan’ . . .”). The court, however, disallowed coverage because it held that DeLorme’s business of designing and printing atlases and maps and developing computer mapping software and databases constituted publishing and that, therefore, the alleged infringement fell within the insurance policy exclusion for any offense committed by an insured “in the business of publishing.” *Id.* at 84.

26. See *Elcom Tech., Inc. v. Hartford Ins. Co.*, 991 F. Supp. 1294, 1298 (C.D. Cal. 1997) (“[Phoenix’s false advertising claim] can be proved by establishing that Elcom acted with

and “first publication,”²⁷ to bar coverage. Although many courts have found these common exclusions to be inapplicable to intellectual property torts, the scope of the latter is unsettled. Thus, in *Arnette Optic Illusions, Inc.*,²⁸ the court refused to follow the narrow construction urged in *Applied Bolting Technology Products, Inc. v. United States Fidelity & Guaranty Co.*,²⁹ stating:

The exclusion provision refers to the “oral or written publication of material.” It mimics the provisions of the policy that relate to advertising injury involving libel, slander, and invasion of privacy. In each case, advertising injury is defined as the “oral or written publication of material” that is slanderous or libelous or invades privacy. . . . Given the duplicative language of the provision, it is a reasonable construction of the provisions that it only applies to libel, slander and invasion of privacy³⁰

IV. MEETING ELEMENTS ONE AND THREE OF THE THREE-PART TEST AS APPLIED TO CLAIMS FOR ADVERTISING-BASED PATENT INFRINGEMENT

A. SOME CLAIMS OF PATENT INDUCEMENT MAY BEAR A CAUSAL NEXUS TO THE POLICYHOLDER’S ADVERTISING ACTIVITIES

Careful review of patent infringement law reveals that a number of patent infringement cases bear a distinct causal nexus to advertising such that advertising is the sole or sufficient basis for asserting liability. Claims for inducement of infringement may be purely based upon advertising, as many courts have found.

For example, the leading treatise on patent law states under a section entitled “Instruction and Advertising” that “[n]umerous decisions find active inducement where a defendant selling products capable of either innocent or infringing use provides through labels, advertising or other sales methods instructions and directions as to infringing use.”³¹

reckless indifference in advertising the ezPHONE as the only patented wireless telephone jack on the market. Therefore, the knowledge of falsity exclusion does not apply . . .”).

27. See *Arnette Optic Illusions, Inc. v. ITT Hartford Group*, 43 F. Supp. 2d 1088, 1096 (C.D. Cal. 1998).

28. *Id.*

29. 942 F. Supp. 1029 (E.D. Pa. 1996), *aff’d without op.*, 118 F.3d 1574 (3d Cir. 1997).

30. *Applied Bolting*, 942 F. Supp. at 1037.

31. 4 CHISUM, PATENTS, Contributory Infringement § 17.04[4][f] (1995) (emphasis added, citations omitted). See also *Applied Biosystems, Inc. v. Cruachem, Ltd.*, 772 F. Supp. 1458, 1466-67 (D. Del. 1991) (“Asserting that a cause of action for inducing patent infringement arises out of advertising”); *Saes Getters S.P.A. v. Ergenics Inc.*, 17 U.S.P.Q.2d (BNA) 1581, 1586 n.9 (D.N.J. 1990) *aff’d*, 914 F.2d 270 (Fed. Cir. 1990)

Concluding that the mere sale of an ingredient for use in a process claimed in a process patent did not *ipso facto* constitute infringement. . . . However, if instructions are provided to users of the material that they should use it in accordance with the claimed process, infringement may be found . . . advertising alone can state claim for infringement if the advertisement actively induces another to infringe.

Rexnord, Inc. v. Laitram Corp., 6 U.S.P.Q.2d (BNA) 1817, 1842 (E.D. Wis. 1988) (The court found liability under 35 U.S.C. § 271(b) can be established where a party takes active

B. "OFFER FOR SALE" BASED DIRECT PATENT INFRINGEMENT LAWSUITS WHICH DEPEND UPON PROOF OF THE POLICYHOLDER'S ADVERTISING ACTIVITIES MAY TRIGGER A DEFENSE UNDER STANDARD FORM ISO "ADVERTISING INJURY" COVERAGE

1. *TRIPS Expands U.S. Patent Law Protection and Potential Coverage to Include an "Offer for Sale," Which Claims May Bear a Clear Nexus to a Policyholder's Advertising Activities*

As amended thereby, 35 U.S.C. § 271(a) now provides: "[W]hoever without authority makes, uses, *offers to sell*, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefore, infringes the patent."³²

The exclusive rights conferred upon a patent holder include a right to sue for direct patent infringement arising from acts of "offering for sale" for either apparatus or process patent claims, pursuant to Article 28, the General Agreement on Tariffs and Trade ("GATT"), effective January 1, 1996,³³ enacted on December 8, 1994 ("Uruguay Round") (i.e. "one year after the date on which the World Trade Organization Agreement entered into force with respect to the United States").³⁴

President Clinton signed GATT, including the agreement known as the Trade Related Aspects of Intellectual Property Rights ("TRIPS"), exactly one year after the Act, on December 8, 1994.³⁵ The requisite number of member nations did not become signatories until December 30, 1994, so that the effective date of the Act was January 1, 1996.³⁶

steps to induce infringement through advertising or by providing instructions); *Sims v. Mack Trucks, Inc.*, 459 F. Supp. 1198 (E.D. Pa. 1978) (Asserting that promotion of the advantages of and the marketing and sales of an item causing and encouraging others to produce an infringing product constitutes inducing patent infringement); *Johnson & Johnson v. W.L. Gore & Assocs., Inc.*, 436 F. Supp. 704 (D. Del. 1977) (Making a finding of inducement where "Gore sells UPTFE tape to third parties for use in making threaded pipe joints and supplies instructions, on the packaging and advertising materials, as to how to make the patented joint."); *Saf-Gard Prods., Inc. v. Serv. Parts, Inc.*, 370 F. Supp. 257 (D. Ariz. 1974) (Concluding that advertising and otherwise promoting the use of the accused devices in the infringing combination constitutes inducing infringement).

32. 35 U.S.C.S. § 271 (2001) (emphasis added).

33. Uruguay Round Agreements Act, Pub. L. No. 103-465, title V, subtitle C, 108 Stat. 4809.

34. Uruguay Round Action § 334(a). See Kenneth J. Burchfiel, "U.S. GATT Legislation Changes Patent Term," 77 J. PAT. & TRADEMARK OFF. SOC'Y 222, No. 3 (March 1995).

35. Uruguay Round Agreements Act, Pub. L. No. 103-465 (1994).

36. The purpose of the amendment to 35 U.S.C. § 271(a) was to bring the United States into compliance with the World Trade Organization Uruguay Round which the United States Congress signed into law on December 8, 1994. The import of these changes is to permit an action for direct patent infringement for "offering for sale" and "importation of a product" covered by an apparatus claim and to amend § 271(g)'s definition to cover offering for sale and importation of a product covered by a process patent claim.

2. *Applicable Pre-GATT Insurance Coverage Case Law Addressing Patent Infringement Claims Support Finding a Defense Following the Expansion of the Definition of Patent Infringement to Include Acts of "Offering for Sale"*

In *Everest & Jennings, Inc. v. American Motorists Insurance Co.*,³⁷ the court explained the rationale for its denial of a defense or indemnity to claims of direct patent infringement under advertising injury policy provisions covering "misappropriation of advertising ideas or style of doing business." Therein, it stated:

To compel an insurer to defend under an advertising injury provision, the insured must demonstrate a causal connection between plaintiff's claim in the underlying action and the defendant/insured's advertising. . . . Noting that the statutory definition of patent infringement refers only to the making, using or selling of the product, we reason that "unless Dr. Jensen's claim was that Iolab infringed his patent in its advertising *in a manner independent of a sale* of the intraocular lens, the Jensen loss is not a form of piracy arising out of or committed in advertising and is not covered under the policies."³⁸

This analysis, in turn, depended upon Judge Lynch's finding in *National Union Fire Insurance Co. v. Siliconix, Inc.*,³⁹ that claims of the direct patent infringement could not be premised upon mere acts of advertisement. The court found that, although advertising may be connected with pertinent acts of sale, absent evidence that they form an independent basis for liability there is no duty to defend.⁴⁰

The *Siliconix* court's reasoning relied on previous patent law cases such as *Ling-Temco-Vought, Inc. v. Kollsman Instrument Corp.*⁴¹ and *Merry Manufacturing Co. v. Burns Tool Co.*⁴² Those patent cases referenced the distinguishable issue of whether venue could lie under the previous patent statute where there was advertising but no subsequent sale.

Although the *Siliconix* court's reliance on this authority to reach its conclusion is debatable, even assuming that this analysis has merit, the expansion of statutory liability to include acts of "offering for sale" provides a distinct and independent basis for liability which in many fact scenarios will have a clear nexus to the policyholder's advertising activities.

3. *Pertinent Patent Case Law Addressing "Offer for Sale" Exposure Reveals That Advertising Alone Could be a Sufficient Basis for Establishing Liability*

The first Federal Circuit decision interpreting "offer for sale" under § 271(a), *3D Systems, Inc. v. Aarotech Laboratories* stated:

37. 23 F.3d 226, 299 (9th Cir. 1994).

38. *Iolab Corp. v. Seaboard Sur. Co.*, 15 F.3d 1500, 1505-06 (9th Cir. 1994). *Id.* at 1506 (emphasis added).

39. 726 F. Supp. 264 (N.D. Cal. 1989).

40. *Id.* at 272.

41. 372 F.2d 263 (2d Cir. 1967).

42. 206 F. Supp. 53, 62 (N.D. Ga. 1962), *aff'd*, 335 F.2d 239 (5th Cir. 1964).

[T]he tort of patent infringement due to an “offer to sell” is a federal statutory creation which is not limited by California contract law. The statutory character of the “offer to sell” requires us to “look back to federal law on the conceptualization” of the “offer to sell” itself. Here infringing solicitation letters “conveyed . . . a description of the allegedly infringing merchandise and the price.”⁴³

In *Rotec Industries, Inc. v. Mitsubishi Corp.*,⁴⁴ the Federal Circuit defined “offer for sale” under 35 U.S.C. § 271(a) according to its ordinary meaning revealed by traditional sources of authority under federal (and not state) common law holding it includes communications to third parties, such as by advertising and is not inconsistent with its analysis.

C. RECENT COVERAGE CASE LAW REVEALS THAT WHILE NOT ALL “OFFERS FOR SALE” DEPEND ON ADVERTISING, ADVERTISING CAN BE A DISTINCT BASIS FOR “OFFER FOR SALE” PATENT INFRINGEMENT

Advertising, by its nature, inherently constitutes an offer for sale, where the advertising creates a reasonable belief in the purchaser that the invention subject to patent is being offered for sale. This is because advertising constitutes an objectively manifest attempt at exploitation.⁴⁵

The *Everett* case explained why, in a fact pattern analogous to that here, an advertisement creates a distinct liability for an “offer for sale” and thereby creates exposure under that provision.⁴⁶ As the Third Circuit recently opined,

For example, suppose the underlying complaint alleges patent infringement, and alleges that the plaintiff lost sales because the insured aggressively advertised the infringing product. Standard tort principles (not to mention common sense) tell us that the advertising was a cause in fact of at least a portion of the plaintiff’s damages. Courts that reason that the injury could have taken place without the advertising, . . . are misstating the relevant tort liability principles⁴⁷

Other coverage cases are in accord on this point.⁴⁸

43. 160 F.3d 1373, 1379 (Fed. Cir. 1998).

44. 215 F.3d 1246, 1255 (Fed. Cir. 2000).

45. *Envirotech Corp. v. Westech Eng’g, Inc.*, 904 F.2d 1571 (Fed. Cir. 1990).

46. *Everett*, 57 F. Supp. 2d at 883-884.

The *Clark* Court found that the new “offer to sell” language in the Patent Act made advertising of the patented product a separate act of infringement . . . the *Clark* Court . . . went on to conclude that corrective advertising damages could be appropriate and recoverable for the patent infringement claim, and so, the Court would not exclude evidence relevant to the issue.

47. *Frog, Switch & Mfg. Co.*, 193 F.3d at 750 n.8 (applying Pennsylvania law).

48. *Maxconn*, 88 Cal. Rptr. 2d at 754.

([T]he amendment of the statute has nullified the argument that patent infringement could not arise out of the insured’s advertising activities as a matter of law. . . . Indeed, the sole allegation of wrongful conduct in the complaint is that Maxconn, without authorization, offered for sale in an advertising brochure certain products that made use of a protected patented invention.)

Homedics, 1999 U.S. Dist. LEXIS 17317, at *6.

V. MEETING ELEMENT TWO OF THE THREE-PART TEST

A. INSURER ARGUMENTS CONCERNING WHY NO "ADVERTISING INJURY" OFFENSES CAN ENCOMPASS ANY FORM OF PATENT INFRINGEMENT LAWSUIT FAIL TO ADDRESS THE BASIS FOR ESTABLISHING LIABILITY IN THE UNDERLYING ACTION

The real contest comes over element two. Insurers urge arguments as to why such coverage may not arise under a pertinent "advertising injury" offense. First, the offense of "infringement of title" cannot be deemed to extend to claims for patent infringement because its fair meaning encompasses taking of literary or business names or appellations used by a company to promote its goods and services.⁴⁹ Second, that the offense of "misappropriation of advertising ideas or style of doing business" is ambiguous in the context of trademark infringement claims which inherently involve advertising activity is not so as to patent infringement claims because the absence of the word "patent" in the policy makes this offense not sufficiently flexible in that context to encompass patent infringement lawsuits.⁵⁰ Third, whatever range of meanings the "misappropriation of advertising ideas or style of doing business" offense is conceptually able to encompass in the context of trademark infringement claims, there can be no factual assertion that an "offer for sale" patent infringement claim involves a taking of an advertising idea or style of doing business.⁵¹

(There is a causal connection between Plaintiff's advertising activity and Nikken's patent infringement claim. . . . Here, because plaintiff may be held liable for damages for patent infringement in the Nikken Action solely by virtue of its advertising activity, there is a causal connection between plaintiff's advertising and Nikken's patent infringement claim.)

Mez, 90 Cal. Rptr. 2d at 728 n.8 ("Congress amended the Patent Act to include 'offers to sell' (e.g., advertising) as conduct which could constitute patent infringement . . . would appear to have nullified the argument that direct patent infringement could not arise out of an insured's advertising activities."); *Advanced Polymer*, 97 F. Supp. 2d at 921 n.5.

(We also note that effective January 1, 1996, after the relevant dates of the policies at issue here and thus immaterial to this case, Congress modified the definition of patent infringement to include "offers to sell," a change that at least one court has found relevant to deciding whether patent infringement is the type of offense that could occur in the course of advertising.)

49. See *Maxconn*, 88 Cal. Rptr. 2d at 754; *Palmer v. Truck Ins. Exch.*, 21 Cal. App. 4th 1109 (Court 1999).

50. *Owens-Brockway Glass Container, Inc. v. Int'l Ins. Co.*, 848 F. Supp. 363, 367-369 (E.D. Cal. 1995), *aff'd*, 94 F.3d 652 (9th Cir. 1996) (finding in the context of claims where no advertising link existed between the asserted patent infringement allegations of direct infringement and the insured's liability for patent infringement, the court determined that the "advertising injury" offenses of the "misappropriation of advertising ideas or style of doing business" and "infringement of copyright, title or slogan" were unambiguous and could not be extended to encompass the instant patent infringement claims); *Simply Fresh Fruit, Inc. v. Cont'l Ins. Co.*, 94 F.3d 1219, 1222 (9th Cir. 1996) (analyzing advertising-deficient patent infringement allegations, the court found no duty to defend). Insurers also cite to unpublished Ninth Circuit opinions that assert "there is no case law to support the notion that patent infringement, even infringement based upon an 'offer for sale,' amounts to either misappropriation of advertising ideas or style of doing business." *Franklin Miller, Inc. v. Commerce Indus. Ins. Co.*, No. CV-97-8784 CAS, 2000 WL 1529240 (9th Cir. Oct. 16, 2000) (unpublished opinion).

51. *Advanced Polymer Tech., Inc.*, 97 F. Supp. 2d 913 (S.D. Ind. 2000) (declining to follow *Everett* and relying upon *U.S. Test* and holding that "infringement of . . . title" of-

For the reasons addressed hereafter, each of these arguments falls of its own weight where the facts reveal that an infringer's advertisement promotes that which the patent owner claims as his invention.

B. THE PREDECESSOR "ADVERTISING INJURY" OFFENSE OF
"PIRACY," IN THE 1976 ISO POLICY AND SOME UMBRELLA POLICY
PROVISIONS, CANNOT BE LIMITED TO PLAGIARISM OR COMMON
LAW MISAPPROPRIATION

One of the most notorious examples of improper construction of "advertising injury" coverage is the Ninth Circuit's opinion in *Iolab Corp. v. Seaboard Surety Co.*⁵² Although the court's opinion that indemnity was barred for claims of direct patent infringement based on sale of a product was unremarkable in light of prior case law, its analysis of the scope of the "piracy" offense was unnecessary to receive this result. The court posited a definition of "advertising injury" coverage which permitted indemnity for the same only when an advertisement, text or logo formed the basis for liability.⁵³ The court claimed that the offense of piracy was limited to common law misappropriation or plagiarism.⁵⁴ Under this analysis, coverage for the offense of libel or slander would only be implicated in a fact scenario where an advertisement, itself, contained language, which language had within its boundaries all elements sufficient to establish liability under the elements of libel and slander.

Further, plagiarism is not a legal cause of action, but an ethical term of art deemed to be limited to acts that breach certain ethical rules applying to conduct of academics, and others with like professions. No express elements exist to be met before liability can be established. Like other offenses within its ambit, "advertising injury" coverage necessarily includes a number of torts not the least of which are copyright infringement. It bears noting that copyright infringement is included as a separate offense within the same policy. This leads to evident redundancy in the definition. Common law misappropriation, as a derived meaning for piracy, is equally problematic because it has been found to fall within the ambit of unfair competition, another enumerated offense within the policy. Further, as noted, it is separately described as an offense in variant policy definitions issued contemporaneously with that authored by ISO.

fense does not provide coverage for patent infringement claims even under the 1996 Patent Act changes and that on the facts before it the "misappropriation" offense did not extend to the claims asserted).

52. 15 F.3d 1500 (9th Cir. 1994).

53. *Id.*

54. The court's ruling ignores a plethora of prior court decisions and dictionary definitions, as well as the fact that other variant policy forms defined those offenses separately from piracy indicating thereby that it must have other meanings in the context of "advertising injury" coverage than that recognized by the court.

C. THE CASES UPON WHICH THE INSURERS RELY FAIL TO PROPERLY ANALYZE THE SCOPE OF THE "ADVERTISING INJURY" OFFENSES, OR TO TAKE INTO ACCOUNT SPECIFIC STATEMENTS BY ISO TO REGULATORY AUTHORITIES REGARDING THE SCOPE AND MEANING OF SUCH COVERAGE

In connection with its issuance of new policy language in 1986, ISO noted that the policy language was simplified with no change in scope.⁵⁵ This statement would lead a reasonable policyholder to believe that "advertising injury" coverage does *not* differ in scope from that offered by insurers covering the offenses of "piracy" and "unfair competition."⁵⁶

As the Matthew Bender treatise acknowledges, a reasonable policyholder would be led to believe that the "advertising injury" coverage would *not* differ in scope from that for the offenses previously labeled "piracy." Moreover, dictionary definitions clarify that the generic offense of "misappropriation of advertising ideas" is broad enough to encompass claims for patent infringement.

D. PROPER ANALYSIS OF COVERAGE ISSUES REQUIRES A FOCUS ON A LAY PERSON'S UNDERSTANDING OF THE MEANING OF POLICY PROVISIONS

More thoughtful cases look to the actual offense language in light of its plain meaning as deduced by laypersons through reference to dictionary definitions and consider policy language in the context of the policy as a whole.⁵⁷ Such cases reveal that its meaning is far broader than common

55. ISO's previous "advertising injury" is set out in its 1976 ISO Broad Form Endorsement. See ISO Circulars discussing the Broad Form Comprehensive General Liability Endorsement.

56. As a treatise observed:

In an appropriate factual setting, this language may also cover claims of patent infringement (*i.e.* an alleged wrongful taking of any concept used to publicize a business or wrongful taking of the manner in which a particular commercial activity is conducted). Indeed, the Insurance Services Office (ISO), a regulatory organization that issues policy forms routinely adopted by industry members, widely disseminated an explanatory form entitled "ISO General Liability Policy Revision—Highlights of Current and Revised Contracts." It noted in its analysis of the new policy language in item 11 titled "Personal and Advertising Injury:"

Coverage in basic policy, simplified with no change in scope. Coverage triggered, as in current policy, by offense committed during policy period.

MATTHEW BENDER, INTELLECTUAL PROPERTY COUNSELING AND LITIGATION, ch. 29, § 29.01 p. 29 (2000).

57. See *Sequoia Ins. Co. v. Royal Ins. Co.*, 971 F.2d 1385, 1389 (9th Cir. 1992) (applying California law) ("Where a term's meaning is ambiguous, we may consult dictionary definitions."); *Mich. Millers Mut. Ins. Co. v. Bronson Plating Co.*, 519 N.W.2d 864, 869 (Mich. 1994) ("In determining what a typical lay person would understand a particular term to mean, it is customary to consult dictionary definitions."), *reh'd denied*, 530 N.W.2d 745 (1994); *Ottumwa Hous. Auth. v. State Farm Fire & Cas. Co.*, 495 N.W.2d 723, 728 (Iowa 1993) ("In searching for the ordinary meaning of undefined terms in a policy, we commonly refer to dictionaries."); *Sec. State Bank v. Aetna Cas. & Sur. Co.*, 825 F. Supp. 944, 947 (D. Kan. 1993) ("The fact that a policy does not define each term used within it does not somehow make the undefined term ambiguous."); *McLeod v. Nationwide Mut.*

law misappropriation, assuming these wrongful acts could even properly function as torts. Thus, Judge Lynch in the seminal 1989 case posits that the plain meaning of the word "piracy" could encompass, in addition to patent infringement, trademark infringement, trade secret misappropriation, interference with prospective economic advantage, as well as copyright infringement.⁵⁸ The issue would then be whether there are any torts which could bear a nexus to the insurer's advertising activities sufficient to trigger coverage within the policy.

E. INSURER CONTENTIONS REGARDING THE LIMITED SCOPE OF "ADVERTISING INJURY" POLICY LANGUAGE EVIDENCE A FAILURE TO FOCUS UPON THE ELEMENTS OF THE TORT CLAIMS ANALYZED

In sum, insurers have engaged courts in a rear guard action urging revisionist policy analysis in order to avoid coverage despite clear policy language compelling a contrary result. If, as insurers contend, they never anticipated what the scope of coverage might be if the policy language issued, the clear remedy is that they presently adopt it, restriction of the coverage on a foregoing basis. That action, however, cannot but establish that the policies in place before these amendments and endorsements were properly broad enough to provide the coverage which policyholders can plainly see upon reading the policy language in light of the elements of the pertinent offenses charged against them.

The problem in judicial construction originates at the point when the court asks, "Where is the 'advertising injury'?" That is, in fact, the ultimate conclusion to be established, not a question that leads to part of the pertinent coverage analysis. This follows because the policy language does not define the scope of coverage to be whatever the court envisions constituted an "advertising injury" in the case before it. Rather, it requires a proper, detailed and explicit application of a test derived from the policy language, *i.e.*, proper application of the three part test, to the claims asserted against the policyholder.

VI. NONE OF THE PATENT COVERAGE CASES WHICH INSURERS TYPICALLY RELY UPON JUSTIFY DENYING A DEFENSE FOR ALL "ADVERTISING BASED" PATENT INFRINGEMENT CLAIMS

Insurer arguments, *vis-à-vis* the alleged lack of coverage for patent infringement lawsuits, should be rejected for the following reasons:

First, for the reasons noted by the Supreme Court of Nebraska analyzing Nebraska law in *Union Insurance Co. v. Land & Sky, Inc.*,⁵⁹ a defense

Ins. Co., 444 S.E.2d 487, 491-92 (N.C. Ct. App. 1994) ("In the absence of policy definitions, the court must define a term or phrase 'consistent with the context in which it is used and the meaning accorded it in ordinary speech.' In doing so, courts are encouraged to use 'standard, non-legal dictionaries' as a guide.").

58. *Nat'l Union Fire Ins. v. Siliconix, Inc.*, 729 F. Supp. 77 (N.D. Cal. 1989).

59. 529 N.W.2d 773 (Neb. 1995).

could arise for claims of patent infringement that may depend on advertising alone to establish liability, such as those for inducement and "offer for sale" infringement.⁶⁰

Second, the majority of cases upon which the insurers rely analyze direct patent infringement claims for the sale of a product covered by a utility patent claim in an analysis of the duty of indemnity, not as a defense.⁶¹

Third, some cases analyzing advertising-based patent infringement claims, such as those for inducement, have failed to find a defense focused on the offense of "infringement of . . . title," not "misappropriation of advertising ideas or style of doing business" as urged herein.⁶²

Fourth, the majority of trial judges to address the issue have found advertising-based patent infringement claims, such as those based on inducement, covered where the covered offense was the predecessor offense of "piracy" or "unfair competition." Reversals of these rulings have typically depended on public policy concerns limited to allegations of inducement which do not impact "offer for sale" liability.⁶³ Indeed, absent Insurance Code § 533 considerations, many courts have found that inducement of patent infringement claims trigger coverage where "piracy" or "unfair competition" offense language is in place.⁶⁴ No such argument can be applied to "offer for sale" patent claims that do not

60. *R.L. Chaides Constr.*, 847 F. Supp. at 1458 ("Inducement, defined as infringement by § 271[b] is the active and knowing aiding or abetting of another's direct infringement"); *C.R. Bard, Inc. v. Advanced Cardiovascular Sys. Inc.*, 911 F.2d 670, 675 (Fed. Cir. 1990) (holding that inducement constitutes infringement under § 271(b) and advertising has been found to be a sufficient basis for a claim of inducement); *Omnitel*, 26 U.S.P.Q.2d at 1937-38.

61. *Iolab*, 15 F.3d at 1505-06 ("[The] infringement, was not a form of piracy arising out of or committed in advertising and thus was not covered by the policies."); *Everest*, 23 F.3d at 229 ("E&J concedes that Burke's complaint alleges infringement based on manufacture or sale only, and does not even mention E&J's advertising . . . under the plain language of the policy, E&J could not reasonably expect coverage.").

62. *U.S. Test*, 196 F.3d at 1381-82. (The court did not analyze the misappropriation offense or draw any conclusions about liability therein but did note that "piracy" could incorporate patent infringement claims under Louisiana law. Pursuant to ISO pronouncements, the new offense of "misappropriation of advertising ideas" has no change in scope from "piracy"; thus its analysis supports finding a duty to defend on these facts.)

63. *Omnitel*, 26 U.S.P.Q.2d at 1935 (holding that coverage arises for inducing contributory patent infringement claims); *Cont'l Ins. Co. v. Del Astra Indus., Inc.*, 25 U.S.P.Q.2d 1317 (N.D. Cal. 1992), *rev'd on other grounds*, 35 F.3d 570 (9th Cir. 1994) (holding that coverage arises for inducing/contributory patent infringement claims); *Big Sur Waterbeds, Inc. v. Maryland Cas. Co.*, No. CV92-4298-WMB, 1992 U.S. Dist. LEXIS 22596, at *12 (C.D. Cal. Dec. 29, 1992) ("There is a wide range of authority for the idea that piracy or unfair competition can be construed to include patent infringement."); *Aetna Cas. & Sur. Co. v. Watercloud Bed Co.*, No. CV 88-200AHS, 1988 WL 252578, at *6-7 (C.D. Cal. Nov. 17 1988) ("piracy" and "unfair competition" encompass patent infringement).

64. *St. Paul Fire & Marine Ins. Co. v. Advanced Interventional Sys., Inc.*, 824 F. Supp. 583, 587 (E.D. Va. 1993) ("Pillco's second claim, that AIS induced others to infringe Pillco's patents by advertising its infringing product, . . . does clear one of the hurdles, because any successful claim premised on that theory would certainly 'result from' the advertising of AIS's products.") *aff'd on alternative grounds*, 21 F.3d 424 (4th Cir. 1994).

implicate any scienter in order to establish liability.⁶⁵

Fifth, cases acknowledge that advertising-based patent infringement claims for inducement and “offer for sale” infringement may bear a causal nexus to the insured’s advertising activities and that the “piracy” or “unfair competition” offense may encompass patent claims but deny a defense because the claims at issue do not depend on advertising.⁶⁶

Sixth, cases relying on an overly technical reading of the scope of the undefined offenses of “piracy” are contrary to the reasonable expectations of a layperson’s understanding of that generic and lay offense which does not track any single recognized common law or statutory torts.⁶⁷ In *Iolab*, the court properly points out that the issue is not what the isolated term “piracy” could mean, but what “piracy” “occurring in the course of advertising activity” reasonably could mean. The court then erroneously concludes, however, that viewed in context, piracy cannot encompass patent infringement because the claims for direct infringement based on sale of a product could not bear a causal nexus to the insured’s advertising activities.⁶⁸

65. *Mez Indus., Inc. v. Pac. Nat’l Ins. Co.*, 76 Cal. App. 4th 856, 866 n.8 (Cal. Ct. App. 1999) (“[T]his statutory change would appear to have nullified the argument that direct patent infringement could not arise out of an insured’s advertising activities.”).

66. *Davila v. Arlasky*, 857 F. Supp. 1258, 1263 (N.D. Ill. 1994).

(While inducing infringement may involve advertising activity, that does not appear to be true here Because the plaintiffs have failed to demonstrate any causal connection between the alleged patent infringement and any advertising activity, we find that the Insurers and Great Southwest are not obligated under their policies to defend or indemnify.)

R.L. Chaides Constr., 847 F. Supp. at 1458 (“Inducement, defined as infringement by section 271(b), is the active and knowing aiding or abetting of another’s direct infringement.”); *U.S. Fid. & Guar. Co. v. Star Tech., Inc.*, 935 F. Supp. 1110 (D. Or. 1996); *Owens-Brockway Glass Container, Inc. v. Int’l Ins. Co.*, 884 F. Supp. 363, 365 (E.D. Cal. 1995) (noting that the insured stipulated that there was no advertising component to the assertion of liability against it, both for direct and inducement of patent infringement); *Gencor Indus., Inc. v. Wausau Underwriters Ins. Co.*, 857 F. Supp. 1560, 1564 (M.D. Fla. 1994) (While the court gave scant reference to inducement of the patent infringement claim, the parties conceded that there was no exposure for advertising conduct under the claims asserted against them.); *Fluoroware, Inc. v. Chubb Group of Ins. Cos.*, 545 N.W.2d 678, 682 (Minn. Ct. App. 1996) (analyzing briefly inducement claims but finding no causal nexus implicated by the facts asserted).

67. *Tradesoft Tech., Inc. v. Franklin Mut. Ins. Co.*, 746 A.2d 1078, 1086 (N.J. Super. Ct. App. Div. 2000) (following the discredited *Advance Watch* line of cases under New Jersey law, the court held that the proposition that the “misappropriation” offenses do not even extend to trademark, much less any other tort); *Iolab*, 15 F.3d at 1506 (“‘piracy’ means misappropriation or plagiarism found in the elements of the advertisement itself—in the text form, logo, or pictures rather than in the product being advertised”). Subsequent cases rely on this analysis of *Iolab* in denying a defense for inducing for patent infringement claims based on “piracy.” *Atl. Mut. Ins. Co. v. Biotech Corp.*, 857 F. Supp. 423, 429-430 (E.D. Pa. 1994); *Gencor*, 857 F. Supp. at 1566; *I.C.D. Indus., Inc. v. Fed. Ins. Co.*, 879 F. Supp. 480, 485 (E.D. Pa. 1995).

68. *But see, e.g., Siliconix*, 729 F. Supp. at 79 (finding that the term “piracy” could incorporate patent infringement, but not addressing claims for inducement of patent infringement); *Owens-Brockway*, 884 F. Supp. at 365 (noting that policy terms including “unfair competition” or “piracy” are somewhat open ended terms on which expansive claims of coverage have traditionally been laid, in contrast to the policy language analyzed by the court in *Owens-Brockway*); *Siliconix*, 726 F. Supp. at 272 (In a companion decision, the court refused to consider whether claims for inducing patent infringement, might also fall

Seventh, the analysis of a number of decisions relied upon by the court erroneously presume that patent infringement cannot trigger "advertising injury" coverage because liability premised on advertising is not available for any version of this tort.⁶⁹

Eighth, many issues raised by the insurers are inconsistent with their contentions that coverage for piracy cannot encompass claims for patent infringement.⁷⁰ Insurers would have courts narrowly rewrite the applicable policy language to provide limitations on coverage inconsistent with the representations of their principal drafter, the Insurance Services Office, regarding the scope of these policies to the majority of state insurance regulators.

Ninth, the insurers fail to consider the nature of this "advertising injury" coverage in a Commercial General Liability policy sold to a manufacturer or distributor which expressly excludes coverage for advertisers, and the aspects of patent infringement liability for "offer for sale" patent infringement claims like those asserted against Coustic herein which implicate the "misappropriation" offenses.⁷¹ Patent infringement coverage cases that properly address the mechanism for assertion of liability in the underlying action reveal why coverage may arise.⁷² So too, copyright infringement coverage cases that look at how liability may manifest itself in

within the logic of its argument that allegations of patent infringement even though they might constitute "piracy" and could bear a causal relationship to the insured's advertising activities, so as to trigger a defense).

69. See *Flodine*, 2001 U.S. Dist. LEXIS 2204, at *27-33.

(Generally, however, "style of doing business" and "advertising idea" should not be interpreted to cover wrongful takings that occur independently of advertising and are merely propagated, compounded, or contributed to by advertising, such as patent infringement or trade secret theft claims. *Flodine's* alleged offenses occurred in the course of advertising her products, because the tags functioned as mini-ads that were tied to the products, clearly promotional in nature yet distinct from the products themselves).

See *Black's Law Dictionary* (6th ed. 1990) (defining advertising to include statements "printed on or contained in any tag or label attached to or accompanying any merchandise").

70. In an Excess Overlay Indemnity Policy, Aetna acknowledged that "piracy" and "plagiarism" are separate and distinct offenses. By force of the same argument relied on by Aetna, if "piracy" were interpreted to refer to "plagiarism," the term "piracy" would be surplusage in its Excess Overlay Policies, as typically issued to a variety of policyholders. Moreover, if piracy encompasses "idea misappropriation," then what does this distinct offense in Aetna and Hartford's policy cover? If Aetna truly understood "piracy" to mean the same thing as "plagiarism," or "idea misappropriation" for that matter, it certainly would not have included both terms in its referenced excess policy.

71. *SST Fitness Corp.*, 182 F.3d at 450 (The court, purporting to apply Ohio law, followed the *Advance Watch* decision analysis limiting misappropriation to common law misappropriation, contrary to California law, as specifically observed in *Lebas*.); *Heritage Mut. Ins. Co. v. Advanced Polymer Tech., Inc.*, 97 F. Supp. 2d 913, 927 (S.D. Ind. 2000) (without analyzing "offer for sale" patent infringement claims, holding that the advertising nexus to patent infringement did not implicate acts involving sale of products through advertisements depicting elements of that which was protected by the patent infringement claims at issue).

72. *Everett*, 57 F. Supp. 2d at 884.

([U]nder the *Clark* Court's express ruling, *Everett* could have been held liable at trial for damages for patent infringement solely by virtue of its having advertised infringing products. In light of this, it is difficult to say how *Trans-*

the underlying action properly analyze whether the “offense” of copyright infringement may bear a causal nexus to the plaintiff’s claims in a given fact scenario.⁷³

Tenth, should the insurers have desired to avoid any potential for coverage of patent infringement lawsuits, they could have sought to expressly exclude patent infringement actions.⁷⁴

VII. DESPITE INSURER ARGUMENTS TO THE CONTRARY, RECENT CALIFORNIA COVERAGE CASES WHICH AROSE AFTER *EVERETT* DO NOT UNDERCUT ITS SALIENT ANALYSIS OF THE UNDERLYING “OFFER FOR SALE” PATENT INFRINGEMENTS AS A KEY PILLAR OF ITS COVERAGE ANALYSIS

A. THE *MAXCONN* CASE

Maxconn, Inc. v. Truck Insurance Exchange,⁷⁵ in which the court found

continental could prove the absence of any potential for advertising injury coverage.).

EKCO Group, Inc. v. Travelers Indem. Co. of Ill., Civil No. 99-236-JD, 2000 U.S. Dist. LEXIS 17702, at *32-33 (D.N.H. Nov. 29, 2000).

(Courts have also held that the definition of advertising injury as an injury arising out of the “misappropriation of advertising ideas or style of doing business” does not include claims of patent infringement. . . . As is discussed above, however, this court is not persuaded by the narrow analysis of the misappropriation definition. . . . “Infringement of a design patent requires that the designs have the same general visual appearance, such that it is likely that the purchaser would be deceived into confusing the design of the accused article with the patented design.” *Goodyear Tire & Rubber Co. v. Hercules Tire & Rubber Co., Inc.*, 162 F.3d 1113, 1118 (Fed. Cir. 1998). The design patent claim alleged in the underlying suit here is sufficiently similar to the trade dress infringement claim to permit a reasonable insured to expect coverage for the same reasons previously discussed in the context of trade dress infringement.).

73. *Interface, Inc. v. Standard Fire Ins. Co.*, Civil Action No. 1:99-CV-1485-MHS, 2000 U.S. Dist. LEXIS 10419, at *8 (N.D. Ga. Aug. 10, 2000).

(According to CAF’s complaint, Interface infringes its copyrights every time it displays, produces, distributes or sells carpet bearing the infringing pattern. Under the Copyright Act, infringement occurs when ‘any of the exclusive rights of the copyright owner’ are violated. 17 U.S.C. § 501. These exclusive rights include ‘(1) the right to reproduce the copyrighted work in copies . . . ; (2) to prepare derivative works based upon the copyrighted work; (3) to distribute copies . . . to the public by sale or other transfer of ownership . . . ; and (5) to display the copyrighted work publicly.’ 17 U.S.C. § 106. Under CAF’s theory, then, anytime Interface does any of the aforementioned activities with respect to carpets bearing the infringing pattern, CAF is injured.” (omissions in text).

74. Indeed, Aetna sought to do precisely that in its primary policy form which had virtually identical language to the policy sold by Hartford herein, but also included an express exclusion for patent infringement claims. *See Aetna Cas. & Sur. Co. v. Centennial Ins. Co.*, 838 F.2d 346, 349 (9th Cir. 1988); *Pardee Constr. Co. v. Ins. Co. of the West*, 77 Cal. App. 4th 1340, 1360 (Cal. Ct. App. 2000) (quoting *Philadelphia Elec. Co. v. Nationwide Mut. Ins. Co.*, 721 F. Supp. 740, 742 (E.D. Pa. 1989) (“If the parties had intended coverage to be limited to the [extent] suggested by the defendants [the insurers], language clearly embodying that intention was available.”)).

75. 74 Cal. App. 4th 1267 (Cal. Ct. App. 1999).

no duty to defend arose from an "offer for sale" patent infringement claim.

The court conceded that these claims established a causal nexus to the insured's advertising activities. It reasoned:

For purposes of this appeal, Truck concedes that the Amphenol complaint alleges conduct by Maxconn that occurred in the course of its advertising activities. Indeed, the sole allegation of wrongful conduct in the complaint is that Maxconn, without authorization, offered for sale in an advertising brochure certain products that made use of a protected patented invention.⁷⁶

The only issue before the court was whether the offense of "infringement of title" could encompass the pertinent "offer for sale" patent infringement claims. In ruling against the policyholder, the court purported to rely upon prior precedent. However, none of the cases the court cited were apposite for the simple reason that with one exception, these cases all found that there was no causal nexus to the insured's advertising activities.⁷⁷

The one exception to this trend is *St. Paul Fire Marine Insurance Co. v. Advanced Interventional Systems, Inc.*⁷⁸ Therein, the court conceded that claims for inducement could bear a causal nexus to the insured's advertising activities, but concluded that neither St. Paul's offenses for "infringement of . . . title" nor "unauthorized taking of advertising ideas" could encompass such claims. This was because the court believed that the first offense's omission of patent infringement meant it could not be included therein and that the later offense was limited only to the statutory tort of trade dress infringement. Neither narrow view of these general lay offenses has withstood scrutiny.⁷⁹

In its modified opinion, the *Maxconn* court recognized that its ruling regarding "infringement of title" did not preclude the court from revisiting, on remand, the issue of whether the offense of "misappropriation of advertising ideas or style of doing business" might encompass "offer for sale" patent infringement claims. Its opinion was expressly limited to analyzing the only offense urged in the lower court—"infringement of . . . title." Although the court found that this offense could not reasonably accomplish the concededly advertising-based "offer for sale" patent infringement claims, it did not address the issue of whether that offense in this context was ambiguous. This is especially troublesome if the court finds that this offense can have two distinct reasonable meanings, thereby

76. *Id.* at 1274.

77. See *Owens-Brockway*, 884 F. Supp. at 367; *Gencor*, 857 F. Supp. at 1564; *Herman Miller, Inc. v. Travelers Indem. Co.*, 162 F.3d 454, 455 (6th Cir. 1998); *Julian v. Liberty Mut. Ins. Co.*, 682 A.2d 611, 616 (Conn. App. Ct. 1996).

78. 824 F. Supp. 583 (E.D. Va. 1993), *aff'd without op.*, 21 F.3d 424 (4th Cir. 1994).

79. *McCormack Baron Mgmt. Servs., Inc. v. Am. Guar. & Liab. Ins. Co.*, 989 S.W.2d 168 (Mo. 1999) (en banc); *Fibreboard*, 16 Cal. App. 4th 492 (Cal. Ct. App. 1993).

conceding its ambiguity under applicable California law.⁸⁰

Equally unpersuasive is the *Maxconn* court's reliance on narrow case law from the Sixth Circuit which is inconsistent with the way a reasonable layperson would believe the phrase should be interpreted.⁸¹ The court's deficient analysis is highlighted by its discussion of *Sentex*.⁸² It criticizes the *Sentex* court's 1995 trial court opinion because it did not distinguish cases decided after that decision. In the end the court's argument relies on one legal argument to justify its analysis—"the absence of an expression or word in a policy is clearly an appropriate consideration in the interpretation of contracts."⁸³ However, this approach assumes that the insurer used tort terms to define offenses. Clearly they did not do so.⁸⁴

B. THE *MEZ* CASE

1. *The Court's Analysis Applies Only to Claims of Inducement Under California Coverage Law, Not "Offer For Sale" Patent Infringement Exposure*

The *Mez*⁸⁵ court's opinion independently confirms the view that patent infringement claims pursuant to § 271(a) which predate the GATT Amendment effective January 1, 1996, and based solely on acts of sale would not trigger a defense based on prior case law. Its opinion stopped there. The *Mez* court specifically distinguished "offer for sale" patent infringement claims based on the court reasoning in *Everett*.⁸⁶

80. Thus the court states: "We conclude that the term infringement of title is a reference to any infringement of a legally protected name, appellation or designation . . ." *Maxconn*, 74 Cal. App. 4th at 1269.

The term "infringement of title" is part of a list that includes copyright and slogan. In company with these terms, "title" apparently refers to a name, such as a name of a literary or artistic work, rather than to ownership of an invention or other thing . . . We recognize that there is a split of authority concerning whether the word *title* must be narrowly interpreted to apply only to the title of an artistic or literary work or may refer to any type of name or designation, including that of a business. Here we determine only that *title* is a reference to a legally protected name, appellation or designation.

Id. at 1276, 1277 n.4.

81. See *Lebas Fashion Imports of U.S.A., Inc. v. ITT Hartford Ins. Group*, 50 Cal. App. 4th 548, 562 (Cal. Ct. App. 1996).

82. See *Maxconn*, 74 Cal. App. 4th at 1267-69.

83. *Id.* at 1279.

84. See *McCormack Baron*, 989 S.W.2d at 171 ("The word 'offense' cannot be read to limit coverage only to a particular 'cause of action' or 'claim.' The word 'offense' simply does not have this meaning in either common usage or legal usage.").

85. *Mez Indus., Inc. v. Pac. Nat'l Ins. Co.*, 90 Cal Rptr. 2d 721 (Cal. Ct. App. 1999).

86. The *Mez* court explained:

Assuming arguendo that the *Everett* court reached a proper result, *a matter on which we express no opinion*, this statutory change would appear to have nullified the argument that direct patent infringement could not arise out of an insured's advertising activity. However, the Amendment has no impact on the issue before us because the alleged misconduct of *Mez* occurred prior to 1996 and *Mez* makes no claim for coverage based upon *Ductmate's* allegations of patent infringement. (Emphasis added.)

Id. at 866 n.8.

While the *Mez* court does spend time analyzing why claims for “infringement of . . . title” may not provide coverage in an inducement of patent infringement case, it does not engage in any extended analysis respecting the “misappropriation of advertising ideas or style of doing business” offense. This despite the fact that it was that offense that the *Everett* court specifically found ambiguous and sufficiently broad when interpreted against the insurer who drafted it to encompass claims of “offer for sale” patent infringement.

Given the *Mez* court’s express reference to *Everett* and failure to take issue with *Everett*’s analysis of the causation element in an “offer for sale” patent case, it makes little sense to find that the court definitively foreclosed coverage for “offer for sale” patent infringement claims under the “misappropriation of advertising ideas or style of doing business” offense.

To the extent the court’s view is that the *Mez* decision provided otherwise, it is appropriate to note the *Mez* court’s refusal to extend liability to a patent inducement claim was based on its misunderstanding of how liability attaches thereunder. Critical to the *Mez* court’s analysis was its belief that “damages would flow . . . through the sale of [Mez’s] products.”⁸⁷ This is directly contrary to the facts in *Everett* and here, in which advertising alone creates both liability and a damage remedy for “offer for sale” patent infringement.⁸⁸

2. *Mez’s Limited Analysis of Patent Inducement Claims Does Not Perforce Bar Potential Coverage for Advertising-Based “Offer for Sale” Patent Infringement Claims Under the “Misappropriation” Offenses Pertinent Here*

Mez offers no substantive analysis of why the “misappropriation” offenses, even though they embrace multiple, reasonable definitions, may not encompass claims for advertising-based “offer for sale” infringement, much less advertising-based claims for inducement.

As the *Mez* court noted,

We . . . use the same criteria as we did in *Lebas*, but in the context of the facts in this case, we reach an entirely different result. We do not see how *Mez*’s inducement of the infringement of Ductmate’s particular patents reasonably could be considered to be the misappropriation of an “advertising idea” or “style of doing business.” . . . In the context of the facts and circumstances of this case, the policy terms . . . could not be reasonably read by a layperson to include either patent infringement or the inducement thereof.⁸⁹

87. *Id.* at 877.

88. See *Everett*, 57 F. Supp. 2d at 883-84 (“[Corrective] advertising damages could be appropriate and recoverable for the patent infringement claim . . . therefore, . . . *Everett* could have been held liable . . . for damages for patent infringement solely by virtue of its having advertised infringing products.”)

89. *Mez Indus., Inc. v. Pac. Nat’l Ins. Co.*, 76 Cal. App. 4th 856, 870 (Cal. Ct. App. 1999).

The *Everett* court's order cites this language in part but then takes the further step of finding that the *Mez* court limited the reasoning of *Lebas* to a trademark infringement scenario. This is not so. It simply did not find the inducement scenario, again based on its misperception of how liability would flow therein, to fall within the misappropriation offenses.

The *Mez* court was misled by erroneous factual statements in the insurer's brief therein. Contrary to the insurer's characterizations of how liability would attach in the underlying action in *Mez*, inducement liability is complete when an advertisement induces "use" potentially constituting direct infringement by another. Specification of a competing product would be actionable as "use" without any sale of the component product; an inducement of such "use" by advertising is independently actionable.⁹⁰ The subheading above for all of the above is contrary to the contentions of *Hartford*.

One court concedes that the misappropriation "offenses" may have more than one reasonable meaning, noting:

[t]ogether the misappropriation of advertising ideas would mean the unauthorized taking of an idea about the solicitation of business. The Complaint filed by Intermatic never suggests that Lamson took its advertising idea without authorization. The Complaint and the May 13 Pretrial Order allege infringement of a patent, clearly different from a claim alleging that Lamson took an idea about how to solicit business or advertise a product.⁹¹

The court does not explain, however, why an "offer for sale" patent infringement case could not be about the patent owner's ability to exclude others from "offering for sale" via advertisements the inventive idea.

3. *The Mez Court Did Not Find That Its Analysis in Lebas Only Supported a Finding That Trademark Infringement Could Reasonably Be Construed by a Insured Layperson to Constitute an "Advertising Idea" or "Style of Doing Business"*

Properly understood in light of the liability which would attach under the advertising-based "offer for sale" patent infringement, where a defendant advertised that which the patent owner claims as his invention, such claims may fall within a reasonable definition of the offense of "misappropriation of advertising ideas."

First, ISO, which drafted the policy language at issue, did not limit its scope to known categories of risk (i.e., specifically defined intellectual property torts).

Second, the *Mez* opinion did not adopt any singular plain meaning for the misappropriation offenses in an advertising-based inducement of pat-

90. *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1535 (Fed. Cir. 1992) (holding that infringer's advertising before infringing product was "offered for sale" supported damage for sale as "price erosion").

91. *Lamson & Sessions Co. v. Ins. Co. of N. Am.*, No. 1:99 CV 1013, 2000 U.S. Dist. LEXIS 10042, at *19 (N.D. Ohio, June 13, 2000).

ent infringement setting or otherwise. "This policy's language, given its ordinary meaning, does not limit itself to the misappropriation of an actual advertising text. It is concerned with 'ideas,' a broader term."⁹² It may also properly include, as the Third Circuit recently found: "[A]n idea about advertising . . . (the idea of claiming a revolutionary new design as an enticement to customers), . . . an 'idea for calling public attention to a product or business, especially by proclaiming desirable qualities so as to increase sales or patronage'" or "an idea about the solicitation of business."⁹³

Third, under the linguistic logic of the policy language, its meaning may include "the taking of the subject matter of that which is advertised (ideas causing advertising, ideas for advertising)."⁹⁴ "Advertising ideas" may be understood as a gerund (verb plus its subject) as in "considering alternatives." Such phrases have the interpretation of the act or process of Verbing NOUN. The phrase is a complex nominal (noun-noun compound). It can have at least a dozen interpretations. So understood, it is appropriate to look at the ambiguity of the various meanings which the misappropriation phrase can have as analyzed in the context of advertising-based "offer for sale" patent infringement claims.

Fourth, a number of courts have found forms of patent infringement readily create coverage where the policy at issue covered the predecessor "advertising injury" offense of "piracy."⁹⁵

C. NO PUBLISHED CASE LAW APPLICABLE IN CALIFORNIA SUPPORTS DENIAL OF A DEFENSE FOR ALL PATENT CLAIMS UNDER THE "MISAPPROPRIATION" OFFENSE, NO MATTER WHAT THE RELATIONSHIP BETWEEN THE THEORY OF RECOVERY UNDER THE PATENT CLAIMS ASSERTED AND THE DEFENDANT'S ADVERTISEMENTS

The alleged wrongful conduct in either a design patent or trademark infringement claim may constitute a "misappropriation of an advertising idea" because the character of the public's association of a particular set of product features with a source may be confused to the extent that an alleged misappropriation may be implied where patent claims are asserted regarding same.

92. *Sentex*, 93 F.3d at 580.

93. *Frog, Switch & Mfg. Co.*, 193 F.3d at 749.

94. *Id.*

95. *U.S. Test*, 196 F.3d at 1382 ("[P]atent infringement is often referred to as piracy in that the infringer is considered to have pirated the patented invention."); *Omnitel*, 26 U.S.P.Q.2d at 1933 (coverage arises for inducing contributory patent infringement claims); *Aqua Queen Mfg. v. Charter Oak Fire Ins.*, 830 F. Supp. 536 (C.D. Cal. 1993), *rev'd on other grounds*, 46 F.3d 1138 (9th Cir. 1995) (holding that coverage arises for direct patent infringement claims); *Cont'l Ins. Co. v. Del Astra Inds.*, 25 U.S.P.Q.2d 1317 (N.D. Cal. 1992) (holding that coverage arises for inducing/contributory patent infringement claims); *Watercloud Bed*, 1988 WL 252578, at *6-7 (holding that "piracy" and "unfair competition" encompass patent infringement); *Big Sur Waterbeds*, 1992 U.S. Dist. LEXIS 22596, at *12 ("There is a wide range of authority for the idea that piracy or unfair competition can be construed to include patent infringement.").

The *Mez* court decision is not controlling because the court specifically refused to address “offer for sale” patent infringement claims, distinguished *Everett*, and did not discuss the scope of misappropriation as it would apply in the distinct context of a case premised upon advertising as a basis for both liability and damages. This followed because it improperly presumed that an inducement claim would be premised on an act of sale of product, not its advertisement. It is clearly not the case with regard to “offer for sale” patent infringement liability.

Claims of advertising-based “offer for sale” patent infringement based on the “use” of the description of process patents in the advertising of an accused defendant may constitute “misappropriation of advertising ideas” because the description of a process patent constitutes an advertising idea that is inherent in the rights granted to a patent holder. In this context, the absence of the word “patent” is no more significant than the absence of the word “trademark.”⁹⁶

Any court rulings that urge that there must be an express allegation of “misappropriation of advertising ideas or style of doing business,” when no torts exist under that rubric, is nonsensical.⁹⁷ Further, a number of courts have found that patent infringement lawsuits may trigger a duty to defend under CGL language that preceded that issued herein covering the offenses of “piracy” and “unfair competition.”⁹⁸

VIII. CASE LAW WHICH DIRECTLY ADDRESSES THE SCOPE OF THE “MISAPPROPRIATION” OFFENSES TO CLAIMS FOR ADVERTISING-BASED PATENT INFRINGEMENT AND UNFAIR COMPETITION EVIDENCES WHY, IN CONSORT WITH THE *MEZ* ANALYSIS, A DEFENSE COULD BE TRIGGERED

A. ANALOGOUS DESIGN PATENT CLAIMS BASED ON AN “OFFER FOR SALE” MAY FALL WITHIN THE “MISAPPROPRIATION” OFFENSE AS THE ONLY COURT TO SUBSTANTIVELY ADDRESS THAT ISSUE SO FOUND

In *EKCO Group, Inc. v. Travelers Indemnity Co. of Illinois*,⁹⁹ the court, analyzing a 1986 ISO policy under New Hampshire law, found that there

96. *Lebas Fashion Imports of USA, Inc. v. ITT Hartford Ins. Group*, 50 Cal. App. 4th 548, 566 n.13 (Cal. Ct. App. 1996) (citing *Union Ins. Co. v. Knife Co., Inc.*, 897 F. Supp. 1213, 1216 (W.D. Ark. 1995)).

(Those draftsman had it within their power to make clear the full scope of the coverage offered as well as any limitations they wished to place thereon. Their failure to do so cannot justify our rejection of an insured’s objectively reasonable expectations as to coverage which arise from the words chosen by the drafters).

97. *Lebas*, 50 Cal. App. 4th at 560, 565; *Tinseltown Video, Inc. v. Transp. Ins. Co.*, 61 Cal. App. 4th 184, 195 (Cal. Ct. App. 1998) (citing *Fibreboard Corp. v. Hartford Accident & Indem. Co.*, 16 Cal. App. 4th 492, 515 (Cal. Ct. App. 1993) (“To the extent the listed offenses [in the policy] are framed in generic terms, they should be construed broadly to encompass all specific torts which reasonably could fall within the general category.”)).

98. See *Lebas*, 50 Cal. App. 4th at 565 n.13.

99. No. 99-236-JD, 2000 U.S. Dist. LEXIS 17702 (D.N.H. Nov. 29, 2000) *rev’d*, No. 01-1029, 2001 U.S. App. LEXIS 26295, (1st Cir. Dec. 10, 2001).

was indemnity for the patent design claim. The court stated, "More recently, in light of the amendment of § 271 in 1996 to include 'offers to sell' as actionable infringement, courts have found that patent infringement based on allegations of offers to sell may be causally related to advertising."¹⁰⁰

Concluding that the causal nexus was met on the facts before it, the court found:

The allegations pertaining to infringement of the design patent are substantially the same as the allegations of trade dress infringement. The appearance of the tea kettles was a form of advertising used to call public attention to the kettles for purposes of selling them. EKCO infringed Chantal's design patent when the infringing kettles were offered for sale and sold. Therefore, the patent infringement claimed in the complaint was caused, in part, by EKCO offering for sale its tea kettles that were advertised by appearance to be Chantal tea kettles.¹⁰¹

On December 10, 2001, the First Circuit¹⁰² reversed the prior ruling, focusing on the perceived absence of a casual nexus between EKCO's advertising and the concededly triggered offense of "misappropriation of advertising ideas or style of doing business."¹⁰³ The court observed that "a distinctively designed teapot could, assuming secondary meaning, be seen as both a concrete product and as an insignia triggering a favorable association in the public's mind with the manufacturer, just as an ordinary trademark devise or name might do."¹⁰⁴ The court presumed that the case was one about "product copying," and noted that "surely no one imagines that a policy covering 'advertising injury' was intended to provide coverage for ordinary patent violations."¹⁰⁵

The court's restrictive definition of advertising would limit it to instances of "oral or written publication of material" despite the fact that this phrase does not modify the "misappropriation" coverage at issue. The court creates a new test not retrieved from a careful reading of the policy language, to wit, that there must be some casual connection running from the offense through the advertising to the injury."¹⁰⁶

In analysis directly contrary to that of the majority of jurisdictions to address the issue, it stated:

Nothing in the Chantal complaint suggests that it was concerned with EKCO's design of its brochures or annual reports or that the

100. *Id.* at *34-35 (citing *Heritage Mut. Ins.*, 97 F. Supp. 2d at 921 n.5; *Everett*, 57 F. Supp. 2d at 881-83).

101. *Id.* at *36.

102. *EKCO Group v. Travelers Indemnity Co.*, No. 01-1029, 2001 U.S. App. LEXIS 26295 (1st Cir. Dec. 10, 2001).

103. The court did note that: "Needless to say, the advertising injury provision is, at least in certain applications, unclear and has provoked a good deal of litigation." *Id.* at *5-*6.

104. *Id.* at *9 (citing *I.P. Lund Trading ApS & Kronin, Inc. v. Kohler Co.*, 163 F.3d 27, 51-52 (1st Cir. 1998) (concurring opinion)).

105. *Id.* at *12.

106. *Id.* at *14-*15.

graphics or typography were invented by or borrowed from Chantal. The misappropriation offenses charged by Chantal in its complaint were the physical reproduction and sale of a look-alike teapot by EKCO. The physical reproduction and sale were not done “in the course of” making brochures or annual reports. The latter is advertising, to be sure, but not where the offenses charged by Chantal occurred.¹⁰⁷

The insurer bears the burden to choose clear effective terminology. The fact that it is difficult to actuarially protect against advertising injury risks is an inherent element of offense-based coverage. It applies as equally to any construction of the copyright infringement coverage as that at issue in this case for the amorphous and diffuse lay offense of “misappropriation of advertising ideas or style of doing business.” It is of no moment in insurance coverage analysis.

B. UNPUBLISHED CASES DENYING COVERAGE FOR “OFFER TO SALE” PATENT INFRINGEMENT CLAIMS UNDER THE “MISAPPROPRIATION” OFFENSES DO NOT WITHSTAND CLOSE ANALYSIS

The deficient analysis of court opinions that have not followed this logic are well illustrated by *Lamson & Sessions Co. v. Indemnity Insurance Co. of North America*.¹⁰⁸

First, the court stated:

By analogy, Plaintiff’s argument that “misappropriation of style of doing business” is likewise without merit. Again, assuming the definition of misappropriation to be an unauthorized taking or use of interests, the definition of “style of doing business” in the broadest sense is the comprehensive style of operating a company. Nothing in the Complaint filed by Intermatic or the May 13 Pretrial Order suggest that Intermatic was alleging that Lamson took without authorization the comprehensive style of operating the company.¹⁰⁹

Second, the word “comprehensive” appears nowhere in the policy form. To import a new limiting term not written by the insurer is to re-draft the policy for its benefit, directly contrary to rules of policy construction. Where the manner of advertising of an allegedly copycat product created damage exposure for “corrective advertising” or “price erosion,” reading the “misappropriation” offenses to encompass such claims is hardly a far stretch.¹¹⁰

107. *Id.* at *15-*16.

108. No. 1:99 CV 1013, 2000 U.S. Dist. LEXIS 10042 (N.D. Ohio June 13, 2000).

109. *Id.* at *20-21.

110. See *Heritage Mut. Ins.*, 97 F. Supp. 2d at 926 (noting that “misappropriation of advertising ideas” could encompass the “wrongful taking of an idea about the solicitation of business,” but found it inapplicable because “Environ’s complaint fails to even hint at APT’s wrongful taking of any Environ idea about how to solicit business or advertise the piping product.” The court intimated that, if there was proof that Environ claimed that the use of the phrase “patent pending” was “an advertising idea” such that the insured took an “idea about advertising,” such allegations could create coverage.).

Third, the court's analysis is based on a misunderstanding of patent law. To-wit, it states, "The problem with this argument is that a patent protects technical achievement, not ideas."¹¹¹ A protectable invention is simply the embodiment of an idea with some practical and functional benefit.¹¹² Indeed, a business methodology may be patented. There is no "technical achievement" required.

Fourth, the *Lamson* court relied on Sixth Circuit authority, limiting the meaning of the "misappropriation" offense to common law misappropriation. This is not good law in the majority of jurisdictions.

Fifth, the "offer for sale" patent infringement coverage cases the court cites fail, as does the court, to weigh the significance of the fact that, in many "offer for sale" patent infringement lawsuits, liability and damages are dependent on advertising alone.

In *Franklin Miller, Inc. v. Hartford Casualty Insurance Co.*,¹¹³ the court opined that a patent does not provide similar protection as does a trademark for an advertising idea or style of doing business.¹¹⁴ But the court did not analyze what protection would be provided under an "offer for sale" analysis or appreciate that advertising liability for the sole act of promoting goods, products and services duplicative of those protected by the patent claims was within the scope of patent protection.

The Hartford court did not determine if the "misappropriation" offense could cover the alleged infringing advertisement of the inventive idea that is the heart of patented inventions.¹¹⁵

111. *Lamson*, 2000 U.S. Dist. LEXIS 10042, at *20 (citing 35 U.S.C. § 101 (1994)).

112. *Rotec*, 215 F.3d at 1255 ("[A]n object of the patent law as important as providing incentives to invent: disclosing new ideas to the public."); *Burroughs Wellcome Co. v. Barr Labs., Inc.*, 40 F.3d 1223, 1227-28 (Fed. Cir. 1994) ("Conception is the . . . completion of the mental part of invention. . . [Conception requires] an idea that was definite and permanent enough that one skilled in the art could understand the invention."), *cert. denied*, 516 U.S. 1070 (1996); *Festo Corp. v. Shoketsu Kinzoku*, 234 F.3d 558, 638 (Fed. Cir. 2000) ("The encouragement of invention and investment in new ideas and their embodiments is a primary function of patent systems aimed at the national purpose of development of new industries, improved productivity, increased employment, and overall economic growth as well as technologic advance.").

113. No. CV-97-8784 CAS (AN), 1998 U.S. Dist. LEXIS 18601 (C.D. Cal. July 13, 1998).

114. *Id.* at *10-12.

115. *Homedics, Inc. v. CIGNA Fire Underwriters Ins. Co.*, No. SA CV 99-1352 DOC (AN), 2000 U.S. Dist. LEXIS 8927, at *8-9 (C.D. Cal. Jan. 21, 2000) (analyzing "offer for sale" patent infringement but without appreciating that advertising could create liability, and setting forth a factual showing to constitute a "misappropriation of an advertising idea or style of doing business."); *Epoch Pharmaceuticals, Inc. v. Fed. Ins. Co.*, No. 98-35667, 1999 U.S. App. LEXIS 29472, at *4 (9th Cir. Nov. 4, 1999) (applying Washington law); *Precision Automation, Inc. v. West Am. Ins. Co.*, No. D-99-35184, 1999 U.S. App. LEXIS 31378, at *4 (9th Cir. Nov. 24, 1999) (applying Oregon law) (noting that no court had yet addressed the "offer for sale" nexus to misappropriation of advertising ideas or style of doing business and in so finding expressly did not consider the *Everett* court's analysis finding it ambiguous and reaching a contrary conclusion based on an understanding of the underlying tort elements asserted therein).

IX. A RECENT ILLINOIS FEDERAL COURT DECISION ANALYZING STATUTORY ALLEGATIONS THAT STATE ANALOGOUS CLAIMS TO A SUIT FOR "PALMING OFF"/ UNFAIR COMPETITION PROVIDES A COGENT RATIONALE WHICH SUPPORTS FINDING A DEFENSE UNDER THE "MISAPPROPRIATION" OFFENSES ON THE FACTS HEREIN

In *Flodine v. State Farm Insurance Co.*,¹¹⁶ the court distinguishes coverage for cases analyzing patent and trade secret claims under the "misappropriation" offenses. The court explained, "[g]enerally, however, 'style of doing business' and 'advertising idea' should not be interpreted to cover wrongful takings that occur independently of advertising and are merely propagated, compounded, or contributed to by advertising, such as patent infringement or trade secret theft claims."¹¹⁷ The general presumption of "no coverage" is clearly premised on the absence of advertising as the basis for liability. Advertising, however, may not only be a basis for liability but for damage as well as in an "offer for sale" patent infringement case.¹¹⁸ While the presence of a causal connection based on advertising does not in and of itself answer the question as to the proper scope of the misappropriation offense, it at least makes an "offer for sale" based patent infringement claim a worthy candidate for further coverage consideration.

Analyzing a particular statutory offense for falsely representing that goods marketed and promoted were "authentic Indian-made," the *Flodine* court found such claims analogous to "passing off."¹¹⁹ The same can be said of patent infringement claims based upon the patent owner's right to exclude infringers from "offering for sale" via their advertisements the substance of an invention which is protected by patent claims.¹²⁰ Numerous International Trade Court cases have held that patent infringement is an unfair method of competition.¹²¹ "Advertising idea" has been described as encompassing a "valuable but uncopyrightable idea which plaintiff has uncovered by great effort and expense."¹²² One court expressly described the coverage provided by this offense as

116. No. 99 C 7466, 2001 U.S. Dist. LEXIS 2204 (N.D. Ill. March 1, 2001).

117. *Id.* at *27.

118. See *Everett*, 57 F. Supp. 2d. at 884.

([U]nder the *Clark* Court's express ruling, *Everett* could have been held liable at trial for damages for patent infringement solely by virtue of its having advertised infringing products. In light of this, it is difficult to say how Transcontinental could prove the absence of any potential for advertising injury coverage.)

119. *Flodine*, 2001 U.S. Dist. LEXIS 2204, at *35.

120. *Hurn v. Oursler*, 289 U.S. 238, 247 (1933) ("[T]he claims of infringement and of unfair competition averred in the present bill of complaint are not separate causes of action, but different grounds asserted in support of the same cause of action.")

121. *Motorola, Inc. v. Varo, Inc.*, 656 F. Supp. 716, 717 (N.D. Tex. 1986); *Yttro Corp. v. X-Ray Mktg. Ass'n, Inc.*, 559 A.2d 3 (N.J. Super. Ct. App. Div. 1989); *Dolori Fabrics, Inc. v. Limited, Inc.*, 662 F. Supp. 1347 (S.D.N.Y. 1987).

122. *Merchants Co. v. Am. Motorists Ins. Co.*, 794 F. Supp. 611, 618 (S.D. Miss. 1992) (citing *Decorative Aides Corp. v. Staple Sewing Aids*, 497 F. Supp. 154 (S.D.N.Y. 1980)).

encompassing “misappropriation of intellectual property.”¹²³ In *Flodine*, the court found the “misappropriation” offense to encompass statutory allegations that emulated “palming off” claims.¹²⁴ Analogously, allegations that assert liability for advertising dependent on an “offer for sale,” a protected inventive concept, fairly nest within the one reasonable construction of the “misappropriation” offense and therefore triggers a defense.

X. CONCLUSION

The core problem is not only with courts who have interpreted coverage, but with counsel who have carelessly addressed issues respecting how a policy should be interpreted. Policyholder counsel who have failed to focus on the elements of the torts at issue and the relationship that they bear to establishing liability based on advertisement bear no small measure of responsibility for erroneous court rulings in this respect. Equally at fault are insurer coverage counsel who have no familiarity with the intellectual property torts they are requested to analyze and who misconstrue what the appropriate elements should be. It is incumbent upon all parties charged with the responsibility of evaluating coverage to take their proper roles to engage in the appropriate analytic exercise and offer meaningful and sustainable interpretations of coverage that will promote predictability in this key coverage area.

123. *Dugger v. Upledger Inst.*, 795 F. Supp. 184, 188 (E.D. La. 1992).

124. *Flodine*, 2001 U.S. Dist. LEXIS 2204 at *32 and *36.

(*Flodine*'s alleged offenses, the marketing and promotion of products as “authentic Indian-made,” reasonably fall within the common meaning of “style of doing business” or “advertising idea.” Capitalizing upon the goodwill associated with Indian-made products is a marketing idea concerned with how to persuade consumers to buy certain goods. . . . [These] alleged activities . . . also harmed competitors by using a marketing concept that others had an exclusive right to use. This kind of harm is reasonably included in “misappropriation of the style of doing business.”).