

Offensive and Defensive Insurance Coverage for Patent Infringement Litigation: Who Will Pay?

I. INTRODUCTION

In a strongly worded decision issued in Los Angeles federal court on January 27, 1997, U.S. District Court Judge Edward Rafeedie imposed a \$115.2 million judgment against high-tech giant Rockwell International Corp. ("Rockwell") in a patent infringement suit brought by Celeritas Technologies Ltd. ("Celeritas").¹ Doubling the earlier jury award of \$57.6 million, Judge Rafeedie indicated that Rockwell's willful bad-faith in its business dealings with Celeritas, as well as its conduct in the courtroom, warranted such damages.² The judge characterized Rockwell's witnesses as "liars . . . [and] hedgers" and concluded that Rockwell's "intent was there from the beginning to misappropriate the technology."³

At issue in this case was a complex technology used in computer modems that permitted computer transmissions through cellular phone networks at speeds close to those of regular telephone circuits.⁴ According to both companies, Celeritas presented the technology to Rockwell engineers in September 1993, under a non-disclosure agreement.⁵ Rockwell, which controls 70% of the world's modem market, contended that "the technology was not developed by Celeritas, that it was in the public domain and had already been used by other companies, and that the patent was improperly issued."⁶ By contrast, Glenn Ray and Michael Dolan, the sole employees of Celeritas, asserted that "[they] had gone to [Rockwell] with the technology [Rockwell] tested it, told [them] to jump in a lake, and put it in their chip sets anyway."⁷ Although Celeritas was issued a patent in January 1995, Rockwell proceeded to integrate this technology into its modem chips dur-

¹ See Andre Mouchard, *Judge Plans to Double Rockwell Fine, Courts: The Verdict that Celeritas Won Against the Technological Giant Would Balloon to \$115.2 Million*, ORANGE COUNTY REG., Jan. 30, 1997, at C01.

² *Id.*

³ Frederick Rose, *Rockwell International Plans to Appeal Steep Award in Celeritas Cellular Case*, WALL ST. J., Jan. 31, 1997, at A4.

⁴ *Id.*

⁵ *Id.*

⁶ Greg Miller, *Tiny Firm Gets Award Doubled in Rockwell Case Courts: Celeritas Stands to Collect About \$115.2 Million. High-Tech Giant Says it Will Appeal the Judgment*, L.A. TIMES, Jan. 31, 1997, at D1.

⁷ Greg Miller, *Irvine Firm May Get \$57 Million in Rockwell Suit Courts: Tiny Celeritas had Accused High-Tech Giant of Stealing Technology Used in Computer Modems*, L.A. TIMES, Jan. 1, 1997, at D1.

ing 1995 and 1996 without a license or royalty arrangement with Celeritas.⁸

Celeritas, a closely held two-person firm, recently was forced to protect its cutting-edge computer technology. In addition to the Rockwell litigation, Celeritas settled a similar patent infringement suit against AT&T in 1996, receiving \$6 million in compensatory damages.⁹ Despite its success in both cases, the legal battles staged against AT&T and Rockwell were costly to Celeritas.¹⁰ With regard to the Rockwell case, Celeritas' president, Glenn Ray, stated that "the company had to lay off one employee and turn to consulting work to stay afloat while battling Rockwell in court."¹¹ Consequently, "[t]he company's growth plans were stymied."¹²

The financial hardship faced by Celeritas as a result of the patent infringement litigation against AT&T and Rockwell demonstrates the significant burden shouldered by companies in the area of intellectual property. For small, start-up high-tech companies, protecting their intellectual property from the illegal exploitation of larger competitors can lead to financial ruin.¹³ "Anyone who has been involved in an intellectual property case as counsel or as a party will tell you it is an expensive experience."¹⁴ In particular, patent suits are among the most cumbersome and expensive cases in the legal system because they typically involve complicated technology requiring a tremendous amount of research for litigation and extensive expert testimony.¹⁵ In fact, "[t]he spiraling cost of enforcing patent rights is one of the most significant problems facing the United States patent system."¹⁶

Many businesses have recognized that patent infringement rights are extremely important in an increasingly competitive marketplace. For instance, on February 13, 1997, Motorola Inc., the world's third-largest modem manufacturer, agreed to settle a patent infringement suit it filed in September 1995 against Rockwell, the largest global producer of semi-conductor chips used in com-

⁸ Rose, *supra* note 3.

⁹ *It's a David v. Goliath Infringement Verdict for Tiny Cellular Phone Company*, W. LEGAL NEWS, Jan. 6, 1997, at 14,047.

¹⁰ *Id.*

¹¹ Miller, *supra* note 7.

¹² *Id.*

¹³ See Richard L. Antognini, *What You Need to Know About Intellectual Property Coverage*, 31 TORT & INS. L. J. 895 (1996).

¹⁴ *Id.*

¹⁵ See Patti Verbanas, *Lawsuits Increase as Intellectual Property Definitions Change*, CORP. CASHFLOW MAG., Sept. 1, 1995, at 9; Edward Felsenthal, *Business of AIG Offer Insurance Policy For Defendants in Patent Cases*, WALL ST. J., Jan. 7, 1997, at B9.

¹⁶ John Fuisz, *The Advertising Injury*, INTELL. PROP., Summer 1996, at 23.

puter modems.¹⁷ Motorola accused Rockwell of infringing six of its patents relating to computer modem technology.¹⁸ As part of the settlement agreement, Rockwell received licenses to the Motorola patents at issue in the case.¹⁹ In addition, Motorola and Rockwell announced their plan to jointly develop the 56-kilobit per second ("56Kbps") modem transmission technology.²⁰ "The technically separate agreements are a valuable, strategic step for Rockwell, which is lining up allies in a battle with U.S. Robotics Corp. for dominance in new computer connections that transmit at 56,000 digital bits a second over ordinary telephone lines—nearly twice as fast as most current connections."²¹ As a result of this alliance, Motorola expected to introduce the modems based on Rockwell's 56Kbps technology in early March 1997.²²

On the same day that Motorola settled its patent litigation with Rockwell and agreed to cooperate on developing an emerging generation of higher-speed modems, it brought a similar patent infringement action against U.S. Robotics Corp.²³ In its complaint, Motorola alleged that U.S. Robotics, the leading producer of computer modems, infringed several of Motorola's patents for high-speed modem technology, including the new 56Kbps modem technology.²⁴ Because "Rockwell and U.S. Robotics are dueling to establish their competing technologies as a new standard for fast modems[,] Motorola's lawsuit increases the pressure on U.S. Robotics and emphasizes that Motorola has fully sided with Rockwell in the contest."²⁵ In its battle against Rockwell to gain a piece of this year's \$5 billion high-speed computer modem market, U.S. Robotics allied itself with Texas Instruments Inc., another large manufacturer of semi-conductor chips.²⁶ U.S. Robotics anticipated releasing its 56 Kbps modem at the end of February 1997.²⁷

¹⁷ Greg Miller, *Rockwell Modem Technology Gets Timely Boost from Motorola*, L.A. TIMES, Feb. 14, 1997, at D5.

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Rockwell, Motorola Settle Patent Dispute and Set Modem Pact*, WALL ST. J., Feb. 13, 1997, at B7.

²¹ *Id.*

²² Bob Woods, *Motorola Files Against U.S. Robotics*, NEWSBYTES NEWS NETWORK, Feb. 13, 1997, available in 1997 WL 9490599.

²³ *Id.*

²⁴ See Bob Woods, *U.S. Robotics Reacts to Motorola Suit*, NEWSBYTES NEWS NETWORK, Feb. 14, 1997, available in 1997 WL 9490822; Lee Hawkins, Jr., *U.S. Robotics' "X2" Modem to be Out "Within Days." Rewrite of Chip Code Permits 56,000 Bits Per Second Speeds, Firm Says*, MILWAUKEE J. SENTINEL, Feb. 24, 1997, at 7.

²⁵ *Motorola Files Suit Against U.S. Robotics, Escalating Modem War*, WALL ST. J., Feb. 14, 1997, at B22.

²⁶ See *supra* note 20.

²⁷ Hawkins, *supra* note 24.

The race for dominance in the 56Kbps modem market between the Motorola-Rockwell team and the U.S. Robotics-Texas Instruments team shows how expensive patent infringement litigation can be used as a strategic tool to undercut the competition.

The lines of [patent] ownership often are blurred, and companies may face suits brought by competitors seeking to gain market share, stifle competition or collect damages and royalties. In fact, companies known to be aggressive about patent infringement litigation are discovering that they can make more money exploiting their patents than they can selling their products.²⁸

Consequently, in a fast-growing, fiercely competitive high-tech market, like the 56Kbps modem market, the high cost of defending against patent infringement claims has forced policyholders to pursue insurance coverage aggressively.²⁹ Without the financial assistance of insurance companies, alleged patent infringers undoubtedly would find it difficult to defend themselves because of the exorbitant out-of-pocket expenses of legal fees and potential damage awards.³⁰ Although "insurers are one of the biggest payers of legal expenses incurred by defendants in lawsuits . . . they have generally balked at the idea that so-called comprehensive-general-liability policies include patent coverage."³¹

In general, larger companies can afford to maintain patent litigation, which can cost several hundred thousand dollars.³² Unfortunately, small companies and individuals who pursue judicial recourse for patent infringement claims often do not have the necessary capital to sustain a long court battle against a well-financed opponent.³³ Because a business's most valuable asset is frequently its intellectual property, and protection of such an asset is essential in firmly establishing its market position against its competitors, insurance coverage of intellectual property is becoming in-

²⁸ Verbanas, *supra* note 15.

²⁹ *Id.*

³⁰ See Leslie Scism, *Insurers Spread Safety Net to Small Holders of Patents*, WALL. ST. J. (Europe), Nov. 26, 1996, at 4.

³¹ *Id.*

³² *Id.*

³³ *Id.*

creasingly important from both an offensive³⁴ and defensive³⁵ perspective.³⁶

In the late 1980s, policyholders began to seek coverage for claims involving intellectual property, including patent infringement, under the "advertising injury" provision included in their Comprehensive General Liability policies.³⁷ Unfortunately, "[s]uch claims have led to sharp disagreement between insurers and their insureds over the scope of advertising injury coverage."³⁸ At the present time, a majority of courts have denied "advertising injury" coverage for patent infringement claims and, accordingly, have ruled that an insurer has no duty to defend or indemnify an insured who is alleged to have committed patent infringement.³⁹ In addition, it was not until recently that several insurance companies even attempted to introduce a form of offensive coverage for patent infringement claims. Therefore, in an age where technology is growing exponentially, the scarcity of any form of insurance coverage for patent infringement claims is extremely troublesome.

The purpose of this Note is first to demonstrate that "advertising injury" coverage generally has not triggered an insurer's duty to defend or indemnify an insured involved in a patent infringement suit. Section II outlines the availability of defensive insurance coverage for patent infringement litigation under the "advertising injury" provision of a company's general liability insurance policy. This section shows the variations in policy language providing coverage for "advertising injury" under the 1976 Broad Form Endorsement to the 1973 Comprehensive General Liability policy and under the 1986 Commercial General Liability policy form. Moreover, the four requirements of "advertising injury" coverage are enumerated and explained by using recent intellectual property cases as descriptive illustrations.

Another goal of this Note is to emphasize the importance of establishing offensive insurance coverage for insured businesses,

³⁴ The need for offensive insurance coverage for patent infringement suits is demonstrated in the litigation between Celeritas and Rockwell as previously discussed in this section.

³⁵ The patent infringement cases between Motorola and Rockwell and between Motorola and U.S. Robotics, discussed in this section, exemplify the necessity for defensive insurance coverage for patent infringement claims.

³⁶ Oliver P. Colvin, *It's Not too Late for a "Spring Cleaning" of Your Legal Affairs*, BUS. J. (San Jose), July, 29, 1996, available in 1996 WL 10047381.

³⁷ Gale White, *Advertising Injury and Personal Injury Coverage*, 519 PRAC. L. INST./LITIG. 183, 189 (1995). Comprehensive General Liability policies explained *infra*.

³⁸ *Id.*

³⁹ See David Halbreich et al., *Intellectual Property on the Internet: Surfing through Liability and Coverage Issues*, 1 MEALEY'S EMERGING INS. DISP. 21, 31 (1996).

especially small high-tech companies, which otherwise would be unable to afford the protection of its valuable patents against an infringer. Section III offers a brief overview of the present availability of offensive patent infringement coverage. Finally, Section IV concludes that businesses, insurers, and courts must address the overall failure of insurance policies to provide coverage for patent infringement litigation. Without insurance coverage, a vital sector of the American economy will suffer.

II. DEFENSIVE INSURANCE COVERAGE FOR PATENT INFRINGEMENT ACTIONS

A. "Advertising Injury" Coverage in General

The most common type of liability insurance coverage for businesses is Comprehensive (or Commercial) General Liability ("CGL") insurance.⁴⁰ CGL policies are form policies developed by the Insurance Service Office ("ISO"), whose primary purpose is to write standard policy forms for the insurance industry.⁴¹ The two most significant versions of the CGL form are the 1973 and 1986 editions. Both of these general CGL insurance policies provide businesses with liability coverage for claims of bodily injury and property damage.⁴² Traditionally, businesses obtained insurance coverage for risks beyond the scope of the basic CGL policy by purchasing additional policies or endorsements.⁴³ In 1976, the ISO introduced a new Broad Form Comprehensive General Liability Endorsement ("BFE" or "1976 Endorsement") to be used in conjunction with the standard 1973 CGL policy ("1973 CGL Policy").⁴⁴ This endorsement enlarged the broad coverage already provided by the CGL policy by offering to insure, among other things, against "advertising injury," which is the language often construed to include patent infringement and other intellectual property claims.⁴⁵ The ISO changed its approach to advertising

⁴⁰ Terri D. Keville, *Advertising Injury Coverage: An Overview*, 65 S. CAL. L. REV. 919 (1990). Prior to 1986, this type of insurance was known as "Comprehensive" General Liability insurance. *Id.* at n.1. In 1986, the insurance industry revised this policy and changed its name to "Commercial" General Liability policy. *Id.*

⁴¹ Bradford P. Lyerla & Manual A. Abascal, *Insurance Coverage for Intellectual Property Claims: The California vs. The New York Approach*, 19 AIPLA Q. J. 189, 192 (1991).

⁴² William J. Robinson, *Insurance Coverage of Intellectual Property Lawsuits*, 17 AIPLA Q. L. 122, 123 (1989).

⁴³ Keville, *supra* note 40, at 926.

⁴⁴ *Id.* See Jordan S. Stanzler, *Insurance Coverage for Intellectual Property Disputes: Analysis of Recent Developments*, 10 COMPUTER L. 23 (1993).

⁴⁵ Keville, *supra* note 40, at 926.

injury coverage in 1986, by incorporating such coverage within the main insurance contract ("1986 CGL Policy").⁴⁶

B. *Availability of Coverage for Patent Infringement Under "Advertising Injury"*

1. Differences in Policy Language

a. Policy Language Providing Coverage for "Advertising Injury" Under the 1976 BFE

The insuring clause⁴⁷ of a 1976 [BFE] to the 1973 ISO [CGL] Policy [provides that] [t]he Company will pay on behalf of the insured all sums which the insured shall become legally obligated to pay as damages because of personal injury or advertising injury to which this insurance applies, sustained by any person or organization and arising out of the conduct of the named insured's business, within the policy territory, and the company shall have the right and duty to defend any suit against the insured seeking damages on account of such injury, even if any of the allegations of the suit are groundless, false or fraudulent, and may make such investigation and settlement of any claim or suit as it deems expedient.⁴⁸

The 1976 Endorsement defines "advertising injury" as an "[i]njury arising out of an offense committed during the policy period occurring in the course of the named insured's advertising activities if such injury arises out of such libel, slander, defamation, violation of right of privacy, piracy, unfair competition, or infringement of copyright, title or slogan."⁴⁹

⁴⁶ David P. Brooks, *Advertising Injury: Getting the Most Out of Your Insurance Policy*, 14 HASTINGS COMM. & ENT. L. J. 389, 401 (1992).

⁴⁷ The "insuring clause" sets the foundation of the agreement between the insured and the insurer and generally determines the scope of the policy. Robinson, *supra* note 42, at 125. The insuring clause identifies the insured or insureds who are afforded coverage, the activities and events for which coverage is provided, and the types of damages which are payable under the policy. *Id.* at 125-26. In the case of standardized provisions in a form insurance contract, particular attention must be paid to the language of the contract and to the "reasonable expectations" of the insured at the time the insurance contract was executed. *Id.* at 125. In addition, ambiguities generally are construed in favor of the insured. *Id.* at 127.

⁴⁸ David A. Gauntlett, *Insurance Coverage of Intellectual Property Lawsuits: An Overview for Intellectual Property Practitioners and Corporate Counsel*, 350 PRAC. L. INST./PAT. 825, 863 (1992).

⁴⁹ *Id.*

b. Policy Language Providing Coverage for "Advertising Injury"
Under the 1986 CGL Policy

In 1986, the ISO revised the 1973 CGL Policy and incorporated an amended definition of "advertising injury" directly into the standard insurance form, removing it from the supplementary endorsement. According to this modified 1986 CGL Policy, "advertising injury" insurance applies only if caused by an offense committed: (1) in the "coverage territory" during the policy period; and (2) in the course of advertising your goods, products or services.⁵⁰ The policy defines "advertising injury" as an injury arising out of one or more of the following offenses: (1) oral or written publication of material that slanders or libels a person or organization or disparages a person's or organization's goods, products, or services; (2) oral or written publication of material that violates a person's right of privacy; (3) misappropriation of advertising ideas or style of doing business; or (4) infringement of copyright, title, or slogan.⁵¹

C. *Required Elements of the "Advertising Injury" Analysis*

Under either the 1976 BFE or the 1986 CGL Policy form, "advertising injury" coverage is available only after all four of the following requirements are met: (1) the offense claimed is a covered offense; (2) the covered offense arises out of the advertising activities of the insured; (3) the covered offense occurs in the course of the advertising activities of the insured; and (4) the covered offense occurs during the policy period. The failure to meet elements (1) and (3) is the reason why "advertising injury" coverage is often denied for patent infringement claims.

1. The Covered Offense Qualification

The 1976 Endorsement and the 1986 CGL Policy create "offense-based" coverage.⁵² This means that a claim invokes "advertising injury" coverage only when the complaint against the insured alleges or potentially can allege one of the specifically enumerated offenses contained in the definition of "advertising injury."⁵³

⁵⁰ Jordan S. Stanzler, *Insurance Coverage for Intellectual Property Disputes: Analysis of Recent Developments*, 10 COMPUTER L. 23, 24 (1993).

⁵¹ Keville, *supra* note 40, at 927.

⁵² Gauntlett, *supra* note 48, at 865.

⁵³ *Id.*

a. Covered Offenses Under the 1976 BFE

(1) *Piracy*. Unlike copyright infringement, patent infringement is not specifically included in the list of covered offenses in the "advertising injury" provision of the 1976 Endorsement. Nevertheless, some courts have had little difficulty in broadly construing the undefined covered offense of "piracy" to extend coverage to patent infringement claims.⁵⁴ In fact, of the offenses enumerated in the 1976 Endorsement, only "piracy" has been interpreted to include patent infringement.⁵⁵ For example, in *Union Insurance Co. v. Land and Sky, Inc.*,⁵⁶ the court concluded that the term "piracy" was susceptible to more than one reasonable interpretation and therefore must be construed in favor of the insured.⁵⁷ In so holding, the court carefully considered the opposing viewpoints of the insured and insurer. L&S, the insured, cited several dictionary definitions which supported the claim of ambiguity regarding the term "piracy."⁵⁸ *The Sixth Edition of Black's Law Dictionary* defines "piracy" as the "unlawful reproduction or distribution of property protected by patent and trademark laws;" *Webster's Encyclopedic Unabridged Dictionary of the English Language*, 1989 edition, defines "piracy" as "the unauthorized appropriation or use of a . . . patented work;" and *The Oxford English Dictionary*, 1989 edition, defines "piracy" as the "infringement of the rights conferred by a patent or copyright."⁵⁹ L&S also presented the language used by Union in the excess policy to demonstrate the ambiguity in the primary policy.⁶⁰ Because Union parenthetically excluded from coverage patent infringement claims in the excess policy, L&S argued that this "exclusion of patent coverage . . . create[d] an ambiguity regarding whether

⁵⁴ *Id.*

⁵⁵ Halbreich et al., *supra* note 39, at 33.

⁵⁶ 529 N.W.2d 773 (Neb. 1995). Union Insurance Company ("Union") brought this declaratory relief action seeking a declaration that it had no duty to defend or indemnify Land and Sky, Inc. ("L&S"), who was involved in a patent infringement suit. *Id.* at 774. Charles Prior Hall ("Hall") held a patent on a waterbed mattress, frame, and heater. *Id.* at 774-75. L&S, a manufacturer of flexible liquid storage containers used as waterbed mattresses, advertised its products to wholesale and retail markets, and distributed product instructions pamphlets. *Id.* at 775. In 1991, Hall brought the underlying action against L&S for patent infringement under 35 U.S.C. § 271. *Id.* L&S tendered its defense to its insurer, Union, who subsequently claimed no obligation arose under the terms of the policy to indemnify or defend its insured in the patent infringement suit. *Id.* The district court granted Union's motion for summary judgment and held that Union was not obligated to defend or indemnify L&S. *Id.* at 774.

⁵⁷ *Id.* at 777.

⁵⁸ *Id.* at 776.

⁵⁹ *Id.*

⁶⁰ *Id.* at 777.

patent infringement [was] included in the primary policy."⁶¹ Consequently, L&S declared that patent infringement fell within the scope of coverage for "piracy."

Union's position, on the other hand, was that "common-law definitions should apply, not dictionary definitions . . . [because] the scope of advertising injury clearly does not include patent infringement when read in the context of the list of other, covered, torts."⁶² In response to Union's assertions, the court distinguished this case from others in which "piracy" was construed to be ambiguous, by recognizing that those other courts "did not have to consider the additional evidence of an ambiguity present in this case—the express exclusion of patent infringement coverage in the excess policy."⁶³ The court found that the "inconsistency in the two policies create[d] an ambiguity regarding the meaning of the term 'piracy,'" and therefore, held in favor of the insured.⁶⁴

Moreover, in *United States Fidelity & Guaranty Co. v. Star Technologies, Inc.*,⁶⁵ the Oregon District Court also construed the term "piracy" as ambiguous and held in favor of the insured.⁶⁶ In following the same procedural analysis performed by the *Union* court, this court considered the opposing arguments of the policyholders and the insurer. Ultimately, the court reasoned that while the various dictionary definitions offered by the insured were the more reasonable construction of the term "piracy," it could not overlook the viability of the insurer's contention that "within the context of the 'advertising injury' definition, 'piracy' could reasonably de-

⁶¹ *Id.*

⁶² *Id.*

⁶³ *Id.*

⁶⁴ *Id.*

⁶⁵ 935 F. Supp. 1110 (D. Or. 1996). *United States Fidelity & Guaranty Co. ("USF&G")* brought this declaratory action against *Star Technologies, Inc. ("Star")* and its directors and officers seeking a declaration that it had no duty to defend under any of the insurance policies held by Star. *Id.* at 1112. Star is a designing and manufacturing company for high-performance scientific computers. *Id.* Robert C. Compton, Herbert Shaw, Alan O. Maxwell, Ralph R. Shaw, Francis Jungers, Robert C. Mathis, Carl E. Ravin, and Larry Ingsversen ("Star Directors") were all directors and officers of Star. *Id.* USF&G issued CGL insurance policies, including coverage for "advertising injury," to Star, which also provided such coverage for all Star Directors as "additional insureds." *Id.* From 1984 to 1985, Star developed, manufactured, and sold a high-performance computer called the "reconstruction processor," which was used in computer tomography ("CT") scanners to produce medical images. *Id.* at 1112-13. One of the components of this computer is a computer board known as the "back projector," which improves the resolution of the CT scanner images. *Id.* at 1113. Ronald G. Walters ("Walters") was the sole inventor of the back projector, for which he was issued a patent in May 1995. *Id.* Before Walters received the patent, Star had sold and delivered approximately 4,000 reconstruction processors incorporating Walters' back projector; only four computers were delivered after May 1995. *Id.* In the underlying action, Walters filed a patent infringement suit against Star. *Id.*

⁶⁶ *Id.*

scribe only misappropriation in the advertisement itself."⁶⁷ Consequently, the court characterized the term "piracy" as ambiguous and concluded that coverage extended to patent infringement.⁶⁸

In addition, the "piracy" issue also was adjudicated in favor of the policyholder in *National Union Fire Insurance Co. v. Siliconix Inc.*⁶⁹ In that case, the court recognized that four of the eight dictionaries cited by the parties defined "piracy" as encompassing patent infringement claims.⁷⁰ Because "piracy" was capable of two or more reasonable constructions, the court held the policy language as ambiguous and interpreted it broadly to afford the greatest possible protection to the insured.⁷¹ Likewise, in *New Hampshire Insurance Co. v. R.L. Chaides Construction Co.*,⁷² the court, in citing *Siliconix*, held that "absent a more limiting definition of the term 'piracy' in the policy itself, the term is ambiguous and therefore broad enough to include patent infringement."⁷³

Contrary to the view generally held by policyholders that "piracy" should be interpreted as an ambiguous term, in *Atlantic Mutual Insurance Co. v. Brotech Corp.*,⁷⁴ the court determined that "[t]he issue [was] not what the isolated term 'piracy' could mean, but what 'piracy' occurring in the course of advertising activity reasonably could mean. Placed in context, the intended meaning of the language [was] clear."⁷⁵ To further support its contention, the court cited *Iolab Corp. v. Seaboard Surety Co.*,⁷⁶ where the Ninth Circuit stated that "[i]n the context of policies written to protect against claims of advertising injury, 'piracy' mean[t] misappropriation or plagiarism found in the elements of the advertisement itself—in its text form, logo, or pictures—rather than in the product being advertised."⁷⁷ The *Brotech* court recognized that a "term

⁶⁷ *Id.* at 1114.

⁶⁸ *Id.*

⁶⁹ 729 F. Supp. 77 (N.D. Cal. 1989). See case summary *infra* note 217.

⁷⁰ *Siliconix*, 729 F. Supp. at 79.

⁷¹ *Id.*

⁷² 847 F. Supp. 1452 (N.D. Cal. 1994).

⁷³ *Id.* at 1456 (citing *Siliconix*, 729 F. Supp. at 79). See case summary *infra* note 208.

⁷⁴ 857 F. Supp. 423 (E.D. Pa. 1994). Atlantic Mutual Insurance Company ("Atlantic Mutual") brought this declaratory action against its insured, Brotech Corporation ("Brotech") for a declaratory judgment and ruling that under two CGL policies, Atlantic Mutual had no duty to defend or indemnify Brotech in an underlying patent infringement action. *Id.* at 425. In March 1995, Rohm & Haas ("R&H") filed the underlying action against Brotech for patent infringement. *Id.* at 426. R&H alleged that beginning in 1981, Brotech had infringed its patents by selling or using the patented products. *Id.* Brotech tendered its defense to Atlantic Mutual pursuant to two CGL policies, which included coverage for advertising injury. *Id.* Atlantic Mutual denied any obligation to defend or indemnify Brotech. *Id.*

⁷⁵ *Id.* at 428.

⁷⁶ 15 F.3d 1500 (9th Cir. 1994).

⁷⁷ *Id.* at 1506.

[was] ambiguous if reasonable people, considering it in the context of the entire policy, could fairly ascribe different meanings to it . . . however, [a court] should not torture the language of the policy to create ambiguities."⁷⁸ Therefore, it was determined in both *Brotech* and *Iolab* that as a matter of law, patent infringement was not reasonably encompassed in the term "piracy" as used in the respective policies.⁷⁹

(2) *Unfair Competition*. "Courts have struggled with the scope and meaning of coverage for the undefined 'advertising injury' offense of 'unfair competition.'"⁸⁰ The tension between the broad statutory definition and the narrow, traditional common law definition of "unfair competition" has provoked judicial discord as to how "unfair competition" should be interpreted in insurance policies.⁸¹ Despite this tension, most courts have adopted the more restrictive common law interpretation of "unfair competition."⁸² Specifically, with regard to claims of patent infringement, courts generally have concluded that "unfair competition" in the context of "advertising injury" does not provide coverage for patent infringement claims.⁸³

Although it was not a case involving a patent infringement claim, the highly publicized California Supreme Court case of *Bank of the West v. Superior Court*⁸⁴ is an appropriate place to commence a

⁷⁸ *Brotech*, 857 F. Supp. at 427 (citing *Northbrook Ins. Co. v. Kuljian Corp.*, 690 F.2d 368, 372 (3d Cir. 1982); *Eastern Associated Coal Corp. v. Aetna Cas. & Sur. Co.*, 632 F.2d 1068, 1075 (3d Cir. 1980)).

⁷⁹ See *Brotech*, 857 F. Supp. at 428; *Iolab*, 15 F.3d at 1506.

⁸⁰ David A. Gauntlett, *Changing Winds: Recent Decisions Favor Policyholders in Intellectual Property Coverage Claims*, 5 COVERAGE 20, 24 (1995).

⁸¹ Kirk A. Pasich, *Recent Developments Regarding Advertising Injury and Personal Injury Coverage*, 6 COVERAGE 28, 30 (1996).

⁸² See *Bank of the West v. Superior Court*, 833 P.2d 545, 552 (Cal. 1992).

⁸³ See *id.*; *Gencor Indus., Inc. v. Wausau Underwriters Ins. Co.*, 857 F. Supp. 1560 (M.D. Fla. 1994); *A. Meyers & Sons Corp. v. Zurich Am. Ins. Group*, 545 N.E.2d 1206 (N.Y. 1989); *Aetna Cas. & Sur. Co. v. Superior Court*, 23 Cal. Rptr. 2d 442 (Cal. Ct. App. 1993); *Classic Corp. v. Charter Oak Fire Ins. Co.*, No. CV-93-5655JMI(CTX), 1995 WL 295824, at *1 (C.D. Cal. Feb. 22, 1995); *Fluoroware, Inc. v. Chubb Group of Ins. Cos.*, 545 N.W.2d 678 (Minn. Ct. App. 1996); *Brotech*, 857 F. Supp. at 423.

⁸⁴ 833 P.2d 545 (Cal. 1992). *Bank of the West* was originally decided on November 15, 1990, and published at 275 Cal. Rptr. 39 (Cal. Ct. App. 1990). On December 17, 1990, the court granted rehearing. On January 4, 1991, the court vacated its earlier decision and rendered another similar opinion at 226 Cal. App. 3d 835. The California Supreme Court granted review. In this case, *Bank of the West* ("Bank") sought insurance coverage under the "advertising injury" clause in connection with its settlement of a consumer class action suit. *Id.* at 548. The Bank developed the "Coast Program" to finance automobile insurance premiums for consumers who preferred to pay in installments. *Id.* The Bank did not advertise its program directly to consumers, but informed insurance agents that it would lend money to finance insurance premiums and that it would pay fees to agents who referred business to the Bank. *Id.* When a consumer expressed a desire to extend payment, the insurance agent would ask for a down payment, obtain the consumer's power of attorney, and apply for the loan with the Bank in the consumer's name. *Id.* Subsequently, the consumer was supposed to receive notice from the Bank stating its acceptance of the loan and

discussion on "unfair competition" as it relates to "advertising injury" coverage. Before *Bank of the West*, the case law demonstrates that a majority of the courts generally accepted the traditional common law definition of "unfair competition," which referred to the tort of "palming off," that is, "usurping the commercial advantage of another by deceptively substituting one's own goods for those of the competitor."⁸⁵ *Bank of the West* was a landmark decision in the realm of "advertising injury" litigation, in part because it significantly bolstered the trend of judicial acceptance of the common law definition of "unfair competition."

In *Bank of the West*, the California Supreme Court rejected the California Court of Appeals' decision that "unfair competition" was ambiguous under the CGL policy and could refer either to statutory or common law claims.⁸⁶ It found that the appellate court's "decision in this case [stood] virtually alone among published opinions in holding that the CGL policy's standard language cover[ed] claims under a state statute prohibiting unfair business practices."⁸⁷ The court added that the "authority against coverage for such claims [was] overwhelming."⁸⁸

The Bank took issue with the majority holding that "insurance coverage for 'advertising injury' due to 'unfair competition' [was] limited to claims under the common law and exclude[d] statutory claims."⁸⁹ According to the Bank, the phrase "unfair competition" was ambiguous because the CGL policy failed to define it and, therefore, should be construed against the insurer.⁹⁰ The Califor-

the terms of the agreement, including interest rates, fees, and penalties. *Id.* Until receiving such notice, many consumers were unaware of Coast Program's existence and the fact that they had received a loan with a high interest rate which could not be canceled. *Id.* Many consumers filed suit, alleging violations of, among other things, California's Unfair Business Practices Act. The bank settled the suit and contended that the settlement price constituted damages for unfair competition that had occurred in the course of the Bank's advertising. *Id.* at 550. Although the Bank believed that under the advertising injury endorsement the insurer had an obligation to indemnify it, the California Supreme Court rejected the Bank's allegations.

⁸⁵ Keville, *supra* note 40, at 928. See *Bank of the West*, 833 P.2d at 551.

⁸⁶ *Id.* at 549.

⁸⁷ *Id.* at 550.

⁸⁸ *Id.* (citing *Seaboard Sur. Co. v. Ralph Williams' N.W. Chrysler Plymouth, Inc.*, 504 P.2d 1139 (Wash. 1973); *Ruder & Finn, Inc. v. Seaboard Sur. Co.*, 422 N.E.2d 518 (N.Y. 1981); *Pine Top Ins. v. Public Util. Dist. No. 1*, 676 F. Supp. 212 (E.D. Wash. 1987); *Globe Indem. Co. v. First Am. State Bank*, 720 F. Supp. 853 (W.D. Wash. 1989); *Westfield Ins. Co. v. TWT, Inc.* 723 F. Supp. 492 (N.D. Cal. 1989); *Boggs v. Whitaker, Lipp & Helea, Inc.*, 784 P.2d 1273 (Wash. Ct. App. 1990); *Aetna Cas. & Sur. Co. v. Trans World Assurance Co.*, 745 F. Supp. 1524 (N.D. Cal. 1990); *Tigera Group, Inc. v. Commerce & Indus. Ins.*, 753 F. Supp. 858 (N.D. Cal. 1991); *Nationwide Mut. Ins. Co. v. Dynasty Solar, Inc.*, 753 F. Supp. 853 (N.D. Cal. 1990)).

⁸⁹ *Bank of the West*, 833 P.2d at 551.

⁹⁰ *Id.*

nia Supreme Court responded to the Bank's contention of ambiguity by indicating that

[t]he Bank ha[d] invoked this rule of construction too early in the interpretive process. While insurance contracts ha[d] special features, they [were] still contracts to which the ordinary rules of contractual interpretation appl[ied]. The fundamental goal of contractual interpretation [was] to give effect to the mutual intention of the parties. If contractual language [was] clear and explicit, it govern[ed]. On the other hand, "[i]f the terms of a promise [were] in any respect ambiguous or uncertain, it must be interpreted in the sense in which the promisor believed, at the time of making it, that the promisee understood it. This rule, as applied to a promise of coverage in an insurance policy, protect[ed] not the subjective beliefs of the insurer, but rather, "the objectively reasonable expectations of the insured." Only if this rule [did] not resolve the ambiguity [did] we then resolve it against the insurer.⁹¹

Essentially, "a court that is faced with an argument for coverage based on assertedly ambiguous policy language must first attempt to determine whether coverage is consistent with the insured's objectively reasonable expectations" by interpreting the language in the context of that instrument as a whole.⁹²

Having clarified the appropriate rules of insurance policy interpretation, the court subsequently attempted to determine the meaning of the undefined phrase "unfair competition." "The policy [did] not purport to cover 'unfair competition' in the abstract; instead, it cover[ed] 'damages' for 'advertising injury' caused by 'unfair competition.' Read in this context, the term 'unfair competition' [could] only refer to a civil wrong that [could] support an award of damages."⁹³ The court concluded that damages were not available under the Unfair Business Practices Act for "unfair competition" and consequently, a claim under the Unfair Business Practices Act was not covered under the "advertising injury" provisions.⁹⁴ The court held that

[t]he Unfair Business Practices Act [did] not authorize an award of damages, and a definition of "unfair competition" that [could] not support a claim for damages [could] not reflect the objectively reasonable expectations of the insured. Accordingly, [the court held] that the policy term "unfair competition" [did]

⁹¹ *Id.* at 551-52 (citations omitted).

⁹² *Id.* at 552.

⁹³ *Id.*

⁹⁴ *Id.* at 557.

not refer to conduct that violate[d] the Unfair Business Practices Act. . . . Because the context elucidate[d] the meaning, there [was] no need to resort to the rule that ambiguities [were] resolved against the insurer.⁹⁵

Accordingly, the California Supreme Court reversed the decision of the court of appeals.

In turning to case law pertaining to the coverage of patent infringement claims under the "unfair competition" offense of the 1976 Endorsement, the California Court of Appeals in *Aetna Casualty & Surety Co. v. Superior Court*⁹⁶ ruled that "unfair competition" could not include a claim of patent infringement, and therefore, no basis for coverage under the "unfair competition" clause was established.⁹⁷ In this case, Somma sued Watercloud for the infringement of their patented waterbed mattress.⁹⁸ The appellate court rejected Watercloud's argument that a basis for coverage existed under the common law tort of "unfair competition" because there was evidence that it was "passing off" its goods as those of Somma.⁹⁹ The court asserted that "the CGLs cover[ed] only unfair competition occurring in connection with Watercloud's advertising activity, not that of another retailer."¹⁰⁰ With regard to Watercloud's advertising activities, the court stated that "the evidence indicated that far from passing off its goods as those of Somma, Watercloud touted itself as 'the flotation industry's pioneer in the engineering of soft-sided waterbeds' and stated it had created 'a new way of sleeping' and . . . [was] 'proud to put the Watercloud name upon it.'"¹⁰¹ Ultimately, the *Aetna* court determined that Somma's patent infringement claim against Watercloud did not constitute "unfair competition" as that term was defined by the Cal-

⁹⁵ *Id.*

⁹⁶ 23 Cal. Rptr. 2d 442 (Cal. Ct. App. 1993). In 1987, Somma Mattress Company ("Somma") brought a patent infringement action against Watercloud Bed Company, Inc. ("Watercloud"). *Id.* at 444. Somma alleged that it had patented a water bed mattress and that Watercloud had sought a license under the patent to manufacture and sell such mattresses. *Id.* When Somma denied Watercloud's licensing request, Watercloud allegedly began to manufacture, use, offer for sale, and sell copies of the water mattresses in direct competition with Somma. *Id.* The infringements were alleged to have been willful and deliberate acts on the part of Watercloud. *Id.* Watercloud tendered its defense to its insurance company, Aetna Casualty and Surety Company ("Aetna"). *Id.* at 445. Aetna refused to defend or to indemnify Watercloud. *Id.* After the underlying action was settled, Watercloud brought a declaratory action against Aetna, seeking a declaration stating that Aetna had a duty to defend and reimburse Watercloud for costs and fees of the underlying patent infringement action. *Id.*

⁹⁷ *Id.* at 446.

⁹⁸ *Id.* at 444.

⁹⁹ *Id.* at 446.

¹⁰⁰ *Id.*

¹⁰¹ *Id.*

ifornia Supreme Court in *Bank of the West* and, therefore, was not covered under the "unfair competition" language in the policy's "advertising injury" clause.¹⁰²

Likewise, in *Gencor Industries, Inc. v. Wausau Underwriters Insurance Co.*,¹⁰³ the Florida district court found it "absurd to suggest that 'piracy' and 'unfair competition' encompass[ed] any form of patent infringement, considering that the word 'patent' [did] not appear in the immediately antecedent clause 'or infringement of copyright, title or slogan.'"¹⁰⁴ Moreover, the Florida court adopted the holding of the California Supreme Court in *Bank of the West* that "the majority of published opinions . . . h[e]ld that insurance coverage for 'advertising injury' due to 'unfair competition' [was] limited to claims under the common law and excludes statutory claims."¹⁰⁵ Having found no evidence to support a claim for the common law tort of "palming off," the *Gencor* court concluded that in the context of the insurance policies at issue in this case, "unfair competition" did not encompass patent infringement.¹⁰⁶

In following the same line of precedent, the Pennsylvania district court, in *Brotech*,¹⁰⁷ ruled that patent infringement was not reasonably encompassed within the common law definition of "unfair competition" as used in the context of "advertising injury."¹⁰⁸ The court indicated that a "contextual analysis compel[led] the conclusion that patent infringement [was] not an intended or reasonably

¹⁰² *Id.*

¹⁰³ 857 F. Supp. 1560 (M.D. Fla. 1994). In the underlying action, Standard Havens Products, Inc. ("SHP") brought an action for breach of a confidential relationship and unfair competition against Gencor Industries, Inc. ("Gencor"). *Id.* at 1562. Gencor filed a counterclaim seeking a declaration that the patent was invalid or unenforceable. *Id.* In its response to Gencor's counterclaim, SHP alleged that Gencor had infringed its patent. *Id.* At trial, SHP prevailed on its claim of patent infringement. *Id.* Subsequently, Gencor sued its five insurers, seeking a declaration that under its liability policies the insurers had an obligation to defend Gencor in the patent infringement action against SHP. *Id.* Gencor contends that SHP's claim of patent infringement was covered under the "advertising injury" provisions of its insurance policies. *Id.* The insurers deny any duty to defend or indemnify Gencor under the terms of the policies. *Id.*

¹⁰⁴ *Id.* at 1565.

¹⁰⁵ *Id.* at 1566. See *Bank of the West v. Superior Court*, 833 P.2d 545, 551 (Cal. 1992).

¹⁰⁶ 857 F. Supp. at 1566.

¹⁰⁷ 857 F. Supp. 423 (E.D. Pa. 1994). In 1990, Rohm & Haas brought an action against Brotech Corporation ("Brotech") for patent infringement. *Id.* at 426. Brotech tendered its defense to Atlantic Mutual Insurance Company ("Atlantic"). *Id.* Atlantic refused to defend and to indemnify Brotech in the Rohm & Haas litigation. *Id.* Brotech made similar requests of Lexington Insurance Company ("Lexington") and Planet Insurance Company ("Planet") also to no avail. *Id.* Each of the insurers denied Brotech's assertion that the patent infringement action was encompassed by the "advertising injury" provisions in the respective liability policies. *Id.* Atlantic brought a declaratory action against Brotech seeking a ruling that under its policies, it owed no duty to defend or to indemnify Brotech for any liability it may incur in the underlying patent infringement action. *Id.* at 425.

¹⁰⁸ *Id.* at 429.

perceived meaning of the term 'unfair competition' in light of the fact that it was listed in the policy provision among other specified common law torts including slander, libel, defamation, and violation of the right to privacy.¹⁰⁹ Because Pennsylvania law had long recognized "unfair competition" as an independent action from patent infringement, the district court denied coverage for patent infringement under the "unfair competition" offense contained in the policy's "advertising injury" provision.¹¹⁰

Finally, in *Classic Corp. v. Charter Oak Fire Insurance Co.*,¹¹¹ the District Court for the Central District of California concluded that "[n]o reasonable layperson would read 'unfair competition' in the context of 'advertising injury' and conclude that it refer[red] to direct patent infringement, contributory patent infringement or inducement of patent infringement."¹¹² In adopting the common law interpretation of "unfair competition," the court held that patent infringement had no connection to the common law tort of "passing off," and as a result did not fall within the offense "unfair competition" as used in the "advertising injury" provision.¹¹³ Because patent infringement was not covered as "advertising injury," Charter Oak had no duty to defend or indemnify Classic in the underlying patent infringement action in which it was involved.¹¹⁴

b. Covered Offenses Under the 1986 CGL Policy

(1) *Misappropriation of Advertising Ideas or Style of Doing Business.* The 1986 ISO CGL Policy form made two important changes to the definition of "advertising injury." The terms "piracy" and "unfair competition" were removed from the definition of "advertising injury," and were replaced by the offense of "misappropriation of advertising ideas or style of doing business."¹¹⁵ This change in policy language is significant to patent infringement litigation because it eliminates the only two specifically enumerated offenses under which arguments traditionally were made to include patent in-

¹⁰⁹ *Id.* at 428.

¹¹⁰ *Id.* at 428-29.

¹¹¹ No. CV-93-5666JMI(CTx), 1995 WL 295824, at *1 (C.D. Cal. Feb. 22, 1995). Charles Prior Hall ("Hall") brought an action against Classic Corporation ("Classic") for patent infringement. *Id.* Classic filed a declaratory action against Charter Oak Fire Insurance Company ("Charter Oak") alleging that Charter Oak had a duty to defend Classic in the patent infringement action against Hall. *Id.* Charter Oak had issued Classic a CGL insurance policy, which included coverage for "advertising injury." *Id.* Charter Oak denied any contractual obligations to Classic in terms of defense and indemnification. *Id.*

¹¹² *Id.* at *2.

¹¹³ *Id.*

¹¹⁴ *Id.* at *3, *4.

¹¹⁵ Keville, *supra* note 40, at 927.

fringement under "advertising injury" coverage. Because "misappropriation of advertising ideas or style of doing business" is undefined, the actual breadth of this clause is uncertain. In contemplating the legal effects of this policy change, some experts contend that this new language should be construed broadly to include most intellectual property claims, including patent infringement.¹¹⁶ Contrary to this view, others support a narrow reading of this phrase, encompassing only those tortious offenses listed in the policy.¹¹⁷

As a result of the continued circulation of pre-1986 insurance policies containing the language of the "advertising injury" provision of the 1976 Endorsement, issues surrounding the new CGL policies have not yet been exhaustively interpreted by the courts.¹¹⁸ However, a few recent decisions have been reported in which courts addressed the scope of this new language. In general, these courts refused to find that the offenses enumerated in the 1986 CGL Policy encompass patent infringement.¹¹⁹

In *Saint Paul Fire & Marine Insurance Co. v. Advanced Interventional Systems, Inc.*,¹²⁰ the Eastern District Court of Virginia ruled that "[p]atent infringement involving only the patents used in the manufacture of a single device does not even approach the showing of pervasive similarity in the overall manner of doing business that courts have previously recognized as necessary to successfully prove misappropriation of a 'style of doing business.'"¹²¹ In rejecting the insured's contention that "misappropriation of style of doing business" covered a patent infringement claim, the court construed this offense to mean the misappropriation of a competitor's "comprehensive manner of operating its business."¹²² There-

¹¹⁶ See Stanzler, *supra* note 50, at 28.

¹¹⁷ See *Saint Paul Fire & Marine Ins. Co. v. Advanced Interventional Sys., Inc.*, 824 F. Supp. 583, 585 (E.D. Va. 1993).

¹¹⁸ See Lyerla & Abascal, *supra* note 41, at 192.

¹¹⁹ See *Atlantic Mut. Ins. Co. v. L.A. Gear, Inc.*, No. BC38042 (Cal. App. Dep't Super. Ct. Feb. 28, 1992) (The court held that a patent infringement suit may create a potential for liability under the provisions covering "misappropriation of style of doing business," triggering an insurer's duty to defend the underlying patent infringement action.).

¹²⁰ 824 F. Supp. 583 (E.D. Va. 1993), *aff'd*, 21 F.3d 424 (4th Cir. 1994). The underlying action involves a patent infringement claim brought by Pillco Limited Partnership ("Pillco") against Advanced Interventional Systems, Inc. ("AIS"). *Id.* at 584. In 1992, Pillco filed a complaint against AIS alleging that a laser angioplasty device manufactured by AIS had induced patent infringement by causing others to use the devices. *Id.* The case was settled prior to an adjudication on appeal. *Id.* AIS tendered its defense to its insurer, St. Paul Fire & Marine Insurance Company ("St. Paul"). *Id.* St. Paul denied any obligation to defend or indemnify AIS, on the grounds that patent infringement was not covered under the CGL policy issued to AIS. *Id.*

¹²¹ *Id.* at 585.

¹²² *Id.*

fore, in the absence of any allegation that AIS appropriated an element of the patent owner's "style of doing business," other than the patents involved in the manufacture of the laser angioplasty device, the court found AIS' argument meritless.¹²³ In addition, because patent infringement was not an offense specifically enumerated under the policy, the court stated that:

it [was] nonsense to suppose that if the parties had intended the insurance policy in question to cover patent infringement claims, the policy would explicitly cover infringements of "copyright, title or slogan," but then include patent infringement, sub silentio, in a different provision, by reference to "unauthorized taking of . . . [the] style of doing business."¹²⁴

Accordingly, the court held that nothing in the policy permitted the conclusion that the parties contemplated that patent infringement fell within the scope of "advertising injury" coverage.¹²⁵

The Ninth Circuit evidently agreed with the decision in *Advanced*, as exemplified by the decisions in *Everest & Jennings, Inc. v. American Motorists Insurance Co.*¹²⁶ and *Travelers Indemnity Co. v. Levi Strauss & Co.*¹²⁷ In each of these cases, the Ninth Circuit concluded that under California law, patent infringement did not come within "advertising injury" coverage and did not trigger the insurers' duty to indemnify or defend the insureds.¹²⁸ *Everest* involved a patent on a wheelchair owned by Burke, while *Travelers* concerned a patent for stone-washed apparel owned by GTFC.¹²⁹ After examining the facts of each case and the respective policy language, the court determined that neither of the patent infringement claims occurred as a result of advertising activities, but instead involved the making, using, or selling of the patented invention.¹³⁰ California previously subscribed to the view that

¹²³ *Id.* at 584-85.

¹²⁴ *Id.* at 586.

¹²⁵ *Id.* at 587.

¹²⁶ 23 F.3d 226 (9th Cir. 1994). Burke Incorporated ("Burke"), a wheelchair manufacturer, brought an action against its competitor, Everest & Jennings ("E&J"), alleging patent infringement. *Id.* at 227. E&J tendered its defense to its insurer, American Motorists Insurance Company ("AMICO"). *Id.* AMICO rejected the contention that under the CGL policy issued to E&J, it had any obligation to defend or indemnify E&J for patent infringement. *Id.* E&J instituted an action against AMICO for declaratory relief. *Id.*

¹²⁷ No. CV91-16747, 1994 WL 395861, at *1 (9th Cir. July 29, 1994). Levi Strauss & Company ("Levi Strauss") was sued for patent infringement by Greater Texas Finishing Corporation ("GTFC"). *Id.* Levi Strauss contended that Travelers Indemnity Company ("Travelers"), its liability insurer, was obligated to defend and indemnify it under the terms of three CGL policies, which contained "advertising injury" provisions, issued to Levi Strauss. *Id.* Travelers denied having any such obligation. *Id.*

¹²⁸ *Everest*, 23 F.3d at 229; *Travelers*, 1994 WL 395861, at *1, *2.

¹²⁹ *Everest*, 23 F.3d at 227; *Travelers*, 1994 WL 395861, at *1.

¹³⁰ *Everest*, 23 F.3d at 229; *Travelers*, 1994 WL 395861, at *1.

"[t]he patentee [was] not injured because a product incorporating its invention [was] advertised, but because the infringer without consent, used or sold a product utilizing a protected invention."¹³¹ Therefore, the Ninth Circuit ultimately concluded in *Everest* and *Travelers* that patent infringement was not covered by the "misappropriation of advertising ideas or style of doing business" provisions contained in the subject policies.¹³²

Similarly, in *Gencor*,¹³³ the Florida district court rejected Gencor's argument that "patent infringement and inducement come within the ambit of the listed 'offenses' of 'misappropriation of advertising ideas or style of doing business.'" ¹³⁴ To support its ruling, the Florida court cited the *Advanced* court for its observation that if the parties had intended the insurance policy to include patent infringement, they would have done so by explicitly providing for it in the same clause which covers the infringement of "copyright, title or slogan."¹³⁵ In the absence of such explicit language, the court concluded that Gencor's insurers had no obligation to defend Gencor in the underlying patent infringement action.¹³⁶

Moreover, the California District Court for the Eastern District, in *Owens-Brockway Glass Container, Inc. v. International Insurance Co.*,¹³⁷ found that "[w]hatever ambiguity may inhere in the term 'style of doing business,' it cannot fairly be stretched to cover patent infringement when the term of 'patent' [was] never whispered and when 'advertising injury' [was] at issue."¹³⁸ The court indicated that it was unreasonable to interpret the phrase "style of doing business," to refer to patent infringement when examined in

¹³¹ *Aetna Cas. & Sur. Co. v. Superior Court*, 23 Cal. Rptr. 2d 442, 446 (Cal. Ct. App. 1994).

¹³² *Everest*, 23 F.3d at 228-29; *Travelers*, 1994 WL 395861, at *2.

¹³³ 857 F. Supp. 1560 (M.D. Fla. 1994). See case summary *supra* note 103.

¹³⁴ *Id.* at 1564. See *Saint Paul Fire & Marine Ins. Co. v. Advanced Interventional Sys., Inc.*, 824 F. Supp. 583, 585-87 (E.D. Va. 1993).

¹³⁵ *Id.* (citing *Advanced*, 824 F. Supp. at 586).

¹³⁶ *Gencor*, 857 F. Supp. at 1565.

¹³⁷ 884 F. Supp. 363 (E.D. Cal. 1995). B&H Manufacturing Company ("B&H") brought a patent infringement action against Owens-Brockway Glass Container, Inc. ("Owens"), seeking damages and injunctive relief for the alleged infringement of B&H's two patents on its "wrap-shrink" bottle-labeling technology. *Id.* at 364. B&H and Owens negotiated a settlement in which Owens paid \$22.5 million in satisfaction of the judgment against it for past royalties. *Id.* In return, B&H agreed to grant Owens a non-exclusive license for future use of its patents. *Id.* After the settlement, Owens requested coverage from its insurer, International Insurance Company ("IIC"), for the \$22.5 million. *Id.* IIC denied coverage and Owens filed an action for declaratory relief. *Id.* Owens sought a declaratory judgment that the patent infringement damages fell within the scope of the "advertising injury" provision in IIC's issued policies. *Id.* at 365.

¹³⁸ *Id.* at 369.

the context of its use and common sense.¹³⁹ Significantly, the court noted that

there [was] the glaring absence of the word "patent" anywhere in the policy language defining advertising injury. The language defining "advertising injury" include[d] "slander," "libel," "right of privacy," "advertising ideas," "style of doing business," and "copyright." These [were] specific terms connected to well known legal categories, just as a claim of patent infringement [was] a distinct legal claim. But there [was] not a mention of "patent" anywhere in the definition or elsewhere in the policy. Surely if coverage for patent infringement were anticipated there would be some mention of the term itself just as "copyright" [was] explicitly listed.¹⁴⁰

Therefore, since there was nothing about the term "advertising injury" that suggested coverage of patent infringement, the court ruled in favor of the insurer.¹⁴¹

(2) *Infringement of Copyright, Title, or Slogan.* Few cases discuss the "infringement of copyright, title, or slogan" language of the 1986 CGL "advertising injury" provision. Like the phrase "misappropriation of advertising ideas or style of doing business," "infringement of copyright, title, or slogan" is also undefined. "Policyholders have tried to expand the meaning of this phrase by asserting that 'title' means ownership rights, as in title to real property."¹⁴² The courts, however, have not been receptive to such attempts to expand the scope of protection under this clause.

In *Brotech*,¹⁴³ the Pennsylvania district court determined that a "plain reading of the term 'infringement of copyright, title or slogan' in the course of advertising activities . . . would exclude a claim of patent infringement."¹⁴⁴ Brotech contended that "infringement of title" included patent infringement because a patent is property to which title may be acquired.¹⁴⁵ The court pointed out, though, that under Brotech's overly expansive interpretation, an insurer "could be liable under this provision for an insured's theft, misappropriation or conversion of any personal property of another if such were then advertised for sale."¹⁴⁶ Concluding that

¹³⁹ *Id.* at 367.

¹⁴⁰ *Id.* See *Advanced*, 824 F. Supp at 586.

¹⁴¹ *Owens*, 884 F. Supp. at 367, 369.

¹⁴² *White*, *supra* note 37, at 205.

¹⁴³ 857 F. Supp. 423 (E.D. Pa. 1994). See case summary *supra* note 74.

¹⁴⁴ *Brotech*, 857 F. Supp. at 423, 429.

¹⁴⁵ *Id.*

¹⁴⁶ *Id.*

patent infringement could not reasonably be encompassed in "infringement of title," the court held that the insurer had not breached its duty to defend or indemnify Brotech under the two CGL policies at issue.¹⁴⁷

In *Clary Corp. v. Union Standard Insurance Co.*,¹⁴⁸ the California Court of Appeals affirmed the lower court's ruling that the insurer had no duty to defend claims of patent infringement under the "advertising injury" coverage of the 1986 CGL Policy form.¹⁴⁹ In so holding, the appellate court reasoned that "infringement of title" should be limited to cases where the offense was in some way related to the advertising activities.¹⁵⁰ It concluded that "[t]o read 'infringe' as synonymous with slander or disparagement torture[d] the word in the context of advertising activity."¹⁵¹ The court defined "infringement of title" as referring to:

claims based on the confusion of names or designations. The word "title" denote[d] "a descriptive or general heading" or "distinguishing name," such as "Roto-Rooter" Coverage for infringing on someone else's "title" (that is, name) ma[de] perfect sense in the context of advertising injury protection for infringement of copyright or slogan: advertisements themselves [were] likely to be the source of any claim based on one business masquerading as another.¹⁵²

The court stated that the "tougher question [was] whether the concept of 'title' extend[ed] to 'title' in the legal sense, as in 'title to' a piece of property."¹⁵³ As previously discussed, the *Brotech* court rejected as "inherently too broad the reading of title to mean legal title in the sense of property ownership."¹⁵⁴ This court took the *Brotech* decision one step further and indicated that it was critical to read the language in context in order to obtain the proper interpretation of the insurance policy.¹⁵⁵ Having invoked this method of analysis, the court determined that:

¹⁴⁷ *Id.* at 429-30.

¹⁴⁸ 33 Cal. Rptr. 2d 486 (Cal. Ct. App. 1994). In 1990, Mitek Holdings ("Mitek") sued the Clary Corporation ("Clary") for patent infringement. *Id.* at 489. Clary requested defense of the patent infringement suit from Union Standard Insurance Company ("Union"). *Id.* at 490. Union refused to provide Clary with a defense or any form of indemnification relating to the patent infringement action. *Id.* Clary brought a declaratory action against Union seeking relief. *Id.*

¹⁴⁹ *Id.* at 490-95.

¹⁵⁰ *Id.* at 494.

¹⁵¹ *Id.*

¹⁵² *Id.* at 492.

¹⁵³ *Id.*

¹⁵⁴ *Id.* at 493; see *Atlantic Mut. Ins. Co. v. Brotech Corp.*, 857 F. Supp. 423, 429 (E.D. Pa. 1994).

¹⁵⁵ *Clary*, 33 Cal. Rptr. 2d at 493.

[e]ven in its broadest sense, to disparage a title one must do something to identify the third party's property, and indicate that the title to that property is no good. This [was] not the sort of thing in which advertising [was] likely to be involved. It strain[ed] the imagination to believe that any sane business would spend its advertising dollars disparaging its competitors' title to their products.¹⁵⁶

Accordingly, "infringement of title" did not reasonably refer to legal title in this case and thus, the underlying patent infringement suit did not raise any infringement of title claims against Clary.¹⁵⁷

Finally, in a 1996 decision, the Connecticut Court of Appeals, in *Julian v. Liberty Mutual Insurance Co.*,¹⁵⁸ found that in the context of the policy at issue, "the inclusion of the phrase infringement of title in the definition of the advertising injury [did] not create a reasonable expectation on the part of an insured for liability coverage of patent infringement claims."¹⁵⁹ Recognizing that most courts have concluded that "title" did not include the right of ownership of property embodied in a patent, the court declared that "[i]t [was] . . . absurd to suggest that the phrase 'infringement of . . . title,' . . . encompass[ed] patent infringement or inducement to infringe. Basic common sense dictate[d] that if these policies covered any form of patent infringement, the word 'patent' would appear in the quoted 'infringement' clauses."¹⁶⁰ Furthermore, this court was "not inclined to chart new pathways in the law with respect to an interpretation of a single word in an insurance policy that excludes coverage for one special category of claims, when that interpretation has been approved by every court that has considered the issue."¹⁶¹ Accordingly, the court ruled in favor of the insurer.

¹⁵⁶ *Id.* at 494.

¹⁵⁷ *Id.*

¹⁵⁸ 682 A.2d 611 (Conn. App. Ct. 1996). Coilmate, Inc. ("Coilmate") manufactured and sold a machine known as the Coilmate decoiler. *Id.* at 612. Joseph Julian ("Julian") was the president and sole stockholder of Coilmate. *Id.* In 1991, Kenturo Takahashi brought a patent infringement action against Coilmate and Julian. *Id.* Coilmate and Julian tendered their defense to Liberty Mutual Insurance Company ("Liberty") and it refused to do so. *Id.* at 613. Liberty contended that a patent infringement suit was not included within the coverage afforded by the "advertising injury" provision in the CGL policy issued to Coilmate and Julian. *Id.*

¹⁵⁹ *Id.* at 615.

¹⁶⁰ *Id.* at 614 (quoting *Gencor Indus., Inc. v. Wausau Underwriters Ins. Co.*, 857 F. Supp. 1560, 1564 (M.D. Fla. 1994)).

¹⁶¹ *Id.* at 615.

2. The Advertising Qualification

For the past decade, the question of what constitutes "advertising" or "advertising activities" has troubled the insurance industry and its insureds, as well as the legal community. While the 1976 Endorsement to the 1973 CGL Policy and the 1986 CGL Policy both provided a definition for "advertising injury," they did not include a definition for "advertising activities."¹⁶² As in many other areas of the law, interpretation of ambiguous terms often becomes the responsibility of the judiciary. For instance, courts have proffered numerous interpretations for the term "advertising" spanning across a vast spectrum. Some courts construe "advertising activities" broadly, to include almost any promotional communication to at least one person, while others narrowly define the phrase, to encompass only widespread dissemination of information to the general public.¹⁶³

a. Perspective of the Insurer

Insurers generally support the argument that the term "advertising" suggests a widespread dissemination of information to the general public for financial gain.¹⁶⁴ Therefore, an insurer will have a duty to indemnify or defend the insured, only if the insured's advertising activities constitute a public distribution of promotional material. For example, in *Monumental Life Insurance Co. v. United States Fidelity & Guaranty Co.*,¹⁶⁵ the Maryland Court of Special Appeals held that "advertising" unambiguously applied only to announcements made to the general public.¹⁶⁶ Relying on Maryland law for the interpretation of insurance contracts, the court contended that "a reasonable layperson would not construe 'advertising activities' in the context of the CGL policies to include the one-to-one sales activity of Monumental's agents."¹⁶⁷ Rather, the "plain

¹⁶² *New Hampshire Ins. Co. v. R.L. Chaides Constr. Co.*, 847 F. Supp. 1452, 1456 (N.D. Cal. 1994).

¹⁶³ *Id.*

¹⁶⁴ Bruce Telles, "Offer to Sell" Patent Infringement Under 35 U.S.C. § 271(A): Insurance Coverage Still No Sure Thing, 1 MEALEY'S EMERGING INS. DISP. 17, 20 (1996).

¹⁶⁵ 617 A.2d 1163 (Md. Ct. Spec. App. 1993). Monumental Life Insurance Company ("Monumental") brought a declaratory action against four other insurance companies ("Other Insurers") alleging that the Other Insurers were obligated to indemnify Monumental for costs and fees it had incurred while litigating a certain claim with a third party, Peoples Security Life Insurance Company ("Peoples"), a competing life insurance company. *Id.* at 1164-65. The underlying litigation dealt with Monumental's alleged business program of hiring away key personnel and agents from Peoples, who allegedly then began using and misrepresenting information obtained during their tenure at Peoples and re-wrote approximately 10,000 policies formerly written by Peoples. *Id.* at 1165-66.

¹⁶⁶ *Id.* at 1173.

¹⁶⁷ *Id.*

meaning of the term 'advertising' to a reasonably prudent person . . . encompasses only the 'public' sense of the word."¹⁶⁸ Consequently, the court "viewed advertising and solicitation as mutually exclusive, the difference being that advertising must be of a public nature," and found no duty to defend.¹⁶⁹

Similarly, in *Smartfoods, Inc. v. Northbrook Property & Casualty Co.*,¹⁷⁰ the court interpreted "advertising" to mean a public announcement proclaiming the qualities of a product or a particular point of view.¹⁷¹ Accordingly, the Massachusetts Court of Appeals held that a letter written by Smartfoods to a third party that solicited that party's participation as a distributor in marketing Smartfoods' product, did "not conform to ordinary notions of calling to the attention of the public the merits of a product."¹⁷² Therefore, in finding that this proposal of solicitation was not "advertising," the court determined that the policy coverage at issue did not impose a duty on the insurer to defend the suits brought against the insured.¹⁷³ In its application of the emergent doctrine of reasonable expectations, the court stated that it was "doubt[ful] that every pitch made by one businessman in a letter to another constitutes advertising as the word is understood in American usage."¹⁷⁴

Moreover, the Minnesota Supreme Court in *Fox Chemical Co. v. Great American Insurance Co.*¹⁷⁵ determined that the term "advertis-

¹⁶⁸ *Id.*

¹⁶⁹ *Id.*

¹⁷⁰ 618 N.E.2d 1365 (Mass. App. Ct. 1993). Smartfoods sought declaratory judgment concerning the duty of the insurers to defend under their respective insurance policies. *Id.* at 1366. The underlying litigation involved seven separate actions brought against Smartfoods by its distributors of cheese popcorn products after Smartfoods canceled distribution arrangements with them. *Id.* The distributors alleged breach of contract, breach of implied covenant of good faith and fair dealing, unfair and deceptive trade practices, tortious interference with contractual and advantageous relations, and misappropriation of trade secrets. *Id.* The Massachusetts Superior Court held that the insurers did not have a duty to defend the actions under their respective insurance policies. *Id.*

¹⁷¹ *Id.* at 1368.

¹⁷² *Id.*

¹⁷³ *Id.*

¹⁷⁴ *Id.*

¹⁷⁵ 264 N.W.2d 385 (Minn. 1978). Great American Insurance Company ("GAI") appealed a lower court decision ordering that under its business protector insurance policy, it had a duty to defend its insured, Fox Chemical Company ("Fox Chemical"), in an action brought against it by Amzoil, Inc. ("Amzoil"). *Id.* Fox Chemical is a contract packager and manufacturer of synthetic oil. *Id.* Fox Chemical was insured by GAI's business protector policy, which contained the following provision:

The Company will pay on behalf of the insured all sums which the insured shall become legally obligated to pay as damages because of injury . . . sustained by any person or organization and arising out of . . . the publication or utterance of libel or slander or of other defamatory or disparaging material, or a publication or utterance in violation of an individual's right of privacy; except publica-

ing" referred to the widespread distribution of promotional material to the public at large.¹⁷⁶ In *Fox Chemical*, the insured engaged in a limited distribution of a pamphlet to be used by its master distributors to assist them in educating their sales staff.¹⁷⁷ The underlying plaintiff, a competing synthetic oil manufacturer, sued Fox Chemical for alleged defamatory statements contained in the pamphlet.¹⁷⁸ Because "advertising" must be construed in the context of the other words found in the exclusionary clause of the insured's liability policy, the court concluded that the terms "broadcasting" and "telecasting" satisfactorily demonstrated that public or widespread distribution of the alleged defamatory material was an excluded activity.¹⁷⁹ Therefore, the insurers had a duty to defend Fox Chemical in its defamation suit.¹⁸⁰

Likewise, in *Playboy Enterprises, Inc. v. Saint Paul Fire & Marine Insurance Co.*,¹⁸¹ the Illinois Court of Appeals for the Seventh Circuit also interpreted "advertising activity" language contained in a policy exclusion provision similar to that in the exclusion in *Fox Chemical*. This action was based on a letter that a regional manager at Playboy had sent to eleven advertisers.¹⁸² The letter falsely asserted that Penthouse had failed to meet its circulation quota by not selling as many magazines as it claimed it was selling.¹⁸³ The *Playboy* court defined "advertising" as "the action of calling something (as a commodity for sale, a service offered or desired) to the

tions or utterances in the course of or related to advertising, broadcasting or telecasting activities conducted by or on behalf of the named insured.

Id. at 386. The issue on appeal was whether the trial court erred in concluding that a pamphlet prepared by Fox Chemical was not a publication relating to advertising, resulting in the exclusion of the publication activity from policy coverage and from GAI's duty to defend Fox Chemical in Amzoil's defamation suit. *Id.*

¹⁷⁶ *Id.*

¹⁷⁷ *Id.*

¹⁷⁸ *Id.*

¹⁷⁹ *Id.*

¹⁸⁰ *Id.*

¹⁸¹ 769 F.2d 425 (7th Cir. 1985). In 1973, Playboy Enterprises, Inc. ("Playboy") purchased a general liability insurance policy from St. Paul Fire & Marine Insurance Company ("St. Paul") for a term beginning on January 1, 1973, and extending to January 1, 1976. *Id.* at 427. The policy provided coverage against any claims arising from "the publication or utterance of a libel or slander or other defamatory or disparaging material . . . except publications or utterances in the course of or related to advertising, broadcasting or telecasting activities conducted by or on behalf of the Named Insured." *Id.* On May 24, 1974, Penthouse International, Ltd. ("Penthouse") filed suit against Playboy for libel and other business torts. *Id.* Playboy notified St. Paul about the letter at issue and the ensuing litigation. *Id.* St. Paul claimed that it had no duty to defend the libel action. *Id.* The district court held that distribution of the 11 letters by the Playboy employee was not excluded from the policy's coverage because such distribution did not constitute advertising. *Id.* On appeal, St. Paul asserts that the insurance policy did not cover suits relating to the defamatory material disseminated by Playboy to the advertisers. *Id.*

¹⁸² *Id.*

¹⁸³ *Id.*

attention of the public especially by means of printed or broadcast paid announcements.”¹⁸⁴ Similar to the *Fox Chemical* case, the Illinois court concluded that “the term ‘advertising’ as used in the exclusionary provision referred to promotional material directed to the public at large, especially since the term is used in conjunction with two other terms that connote widespread public dissemination, ‘broadcasting’ and ‘telecasting.’”¹⁸⁵ Because the exclusionary provision in the insurance policy at issue excludes any publication or utterance “in the course of or related to advertising,” the court found that Playboy’s dissemination of the eleven letters, while not advertising per se, was related to an activity designed to promote one of Playboy’s products, advertising space, to potential buyers of the space.”¹⁸⁶ However, the court was “cognizant of the fact that this construction of the exclusionary provision could completely exclude any activities conducted by . . . Playboy’s advertising manager, because one could always attempt to show that any act performed by him was related to an advertising activity.”¹⁸⁷ The ambiguity of the exclusionary provision is evidenced by the different views Playboy and St. Paul had about the purpose of the policy.¹⁸⁸ “In view of the several equally plausible interpretations that can be placed on the provision, [the court] conclude[d] that the exclusionary clause is ambiguous and that [the court] must construe it in favor of the insured.”¹⁸⁹ Therefore, the insurer breached its duty to defend Playboy in the libel suit.

b. Perspective of the Insured

In contrast to the view of insurers, policyholders tend to have a more broad interpretation of “advertising.”¹⁹⁰ That is to say, “advertising” does not necessarily require promotions made to the public at large, but also could include promotions to a smaller group.¹⁹¹ This perspective on “advertising” is demonstrated in *John Deere Insurance Co. v. Shamrock Industries, Inc.*,¹⁹² where a Minnesota

¹⁸⁴ *Id.* at 428 (citing WEBSTER’S THIRD NEW INTERNATIONAL DICTIONARY OF THE ENGLISH LANGUAGE UNABRIDGED 31 (1963)).

¹⁸⁵ *Id.*

¹⁸⁶ *Id.* at 429.

¹⁸⁷ *Id.*

¹⁸⁸ *Id.*

¹⁸⁹ *Id.* at 430.

¹⁹⁰ See Telles, *supra* note 164, at 20.

¹⁹¹ *Id.*

¹⁹² 696 F. Supp. 434 (D. Minn. 1988). Shamrock Industries Inc. (“Shamrock”) is a Minnesota corporation engaged in the business of selling pail-filling equipment to dairies. *Id.* at 435. Cardinal Packaging, Inc. (“Cardinal”) is Shamrock’s competitor. *Id.* Both companies install ice cream pail-filling machines in their customers’ places of business. *Id.* Metal Craft & Machine & Engineering, Inc. (“Metal Craft”) supplies machine parts to various

district court found that three letters sent by the insured to a potential client, praising the insured's new product, was sufficient to constitute "advertising."¹⁹³ In so holding, the court distinguished this case from both Minnesota cases, *Fox Chemical* and *Playboy*, previously discussed,¹⁹⁴ where the courts based the determination of the scope of "advertising activities" in part on the "companion words" found in the exclusion provisions in each of the respective insurance policies.¹⁹⁵ In *John Deere*, the companion words "broadcasting" and "telecasting," which tended to indicate more widespread distribution, did not exist in the instant policies.¹⁹⁶ Thus, the Minnesota Supreme Court's interpretation of "advertising" in *Fox Chemical*, which was subsequently affirmed in *Playboy*, was not controlling.¹⁹⁷

The court recognized that:

[v]ery little legal authority exists to provide guidance in interpreting the precise meaning of the phrase "advertising activity". At one extreme are *Playboy* and *Fox [Chemical]* which may be read as requiring "wide dissemination" of material for a finding of "advertising activity." On the other extreme is the dictionary's broad definition seemingly encompassing almost any form of solicitation.¹⁹⁸

The district court hypothesized that "[i]f these letters stating the beneficial features of the machine were sent to 100 potential customers instead of one, Deere [the insurer] would have no argu-

businesses. *Id.* Gregory Erlandson ("Erlandson"), a Shamrock employee, and Jack T. Mowry ("Mowry"), the president and sole owner of Metal Craft, decided to build a new faster pail-filling machine together. *Id.* After having constructed a prototype, Erlandson and Mowry established a new company, NEOS, Inc. ("NEOS") to continue marketing the new machine. *Id.* Erlandson left Shamrock to join NEOS. *Id.* at 435-36. Before NEOS had been incorporated, Mowry corresponded via letter with Arthur Blackburn ("Blackburn"), the president of Cardinal, several times on Metal Craft letterhead to tell him about the new machine. *Id.* at 436. Blackburn indicated that he would be interested in the new machine if it tested well. *Id.* Erlandson and Mowry installed the new machine for one of Cardinal's customers and as a result of a successful trial, Mowry signed an exclusive agreement with Cardinal. *Id.* Shamrock brought an action against Metal Craft, alleging patent infringement, misappropriation of trade secrets, unfair competition, and breach of contract. *Id.* Metal Craft tendered its defense in the underlying action to John Deere Insurance Company ("Deere"). *Id.* Metal Craft was covered by several insurance policies provided by Deere, each containing provisions for "advertising injury" either in the 1976 Endorsement or in the 1986 CGL policy. *Id.* at 436-37. Deere commenced this declaratory action contending that it had no duty to defend or indemnify Metal Craft in its action against Shamrock. *Id.*

¹⁹³ *Id.* at 436.

¹⁹⁴ *Id.* at 439.

¹⁹⁵ *Id.*; see *Fox Chemical Co. v. Great Am. Ins. Co.*, 264 N.W.2d 385, 386 (Minn. 1978); *Playboy Enters., Inc. v. Saint Paul Fire & Marine Ins. Co.*, 769 F.2d 425, 428 (7th Cir. 1985).

¹⁹⁶ *John Deere*, 696 F. Supp. at 439.

¹⁹⁷ *Id.*

¹⁹⁸ *Id.* (emphasis added).

ment that they were not advertising activity.”¹⁹⁹ However, the court retracted this hypothetical because “[w]hile activity directed at one customer seem[ed] to stretch the meaning of advertising, Black’s Law Dictionary’s definition of ‘advertise’ encompass[ed] any form of solicitation, presumably including solicitation of one person.”²⁰⁰ The court indicated that had the insurer wanted to limit the scope of “advertising activity” to a wide dissemination of materials, it could have explicitly done so in its policy.²⁰¹ Consequently, the court found “advertising” to be ambiguous because it was subject to more than one reasonable meaning and therefore must be construed against the insurer.²⁰²

In *New Hampshire Insurance Co. v. Foxfire, Inc.*,²⁰³ the California Northern District Court concluded that “advertising activity must be examined in the context of the overall universe of customers to whom a communication may be addressed.”²⁰⁴ Despite its broad-based approach, however, this court did not embrace the need to adopt as expansive an interpretation of “advertising” as in *John Deere*.²⁰⁵ “Where the audience may be small, but nonetheless comprises all or a significant number of a competitor’s client base, the

¹⁹⁹ *Id.* at 440.

²⁰⁰ *Id.*

²⁰¹ *Id.*

²⁰² *Id.*

²⁰³ 820 F. Supp. 489 (N.D. Cal. 1993). James G. Sullivan (“Sullivan”) developed a revenue enhancement consulting business practice while he was employed at KPMG Peat Marwick and later Coopers & Lybrand. *Id.* at 491. His client base included hospitals and other health care providers. *Id.* Toyon Associates, Inc. (“Toyon”) is a health consulting and software design firm which does medical care cost and fiscal consulting, but does not do revenue enhancement work. *Id.* In 1988, Sullivan entered into an employment contract with Toyon, whereby Sullivan would bring his existing clients with him to Toyon and in return he would establish and manage a revenue enhancement division of Toyon exclusively for Toyon clients. *Id.* In 1989, Sullivan decided to form his own revenue enhancement firm and told Toyon of his plans. *Id.* Toyon in its complaint alleges that there was an oral agreement between Toyon and Sullivan which allowed Sullivan to set up a separate business entity, Foxfire, Inc. (“Foxfire”), for his revenue enhancement services. *Id.* The complaint further alleges that Foxfire was allowed to provide services to both Sullivan’s and Toyon’s clients in exchange for the right to lease space from Toyon for three years and pay for the use of Toyon’s office equipment. *Id.* On December 22, 1989, Sullivan mailed, on Toyon letterhead, a letter to all Toyon clients announcing the formation of Foxfire. *Id.* In 1990, a disagreement ensued over whether in fact an oral agreement had been made. *Id.* at 492. Toyon filed an action against Sullivan and Foxfire. *Id.* Foxfire tendered its defense to New Hampshire Insurance Company (“NHICO”), who denied any obligation to defend Foxfire. *Id.* After the underlying action was settled in July 1991, Foxfire demanded reimbursement from NHICO for attorney’s fees and other costs. *Id.* NHICO refused again and filed a declaratory relief action with the district court in September 1991. *Id.* NHICO filed a motion for summary judgment on the grounds that it owed no duty to defend Foxfire. *Id.* Foxfire filed its action against NHICO in October 1991 alleging breach of contract, bad faith breach of the implied covenant of good faith and fair dealing, breach of fiduciary duty, wrongful breach of fiduciary duty, wrongful concealment of duality of interests and impairment of ability to discharge fiduciary duty, and civil RICO injury. *Id.* at 491.

²⁰⁴ *Id.* at 494.

²⁰⁵ *Id.*

advertising activity requirement [was] met."²⁰⁶ The court believed that "[t]o hold otherwise would effectively preclude small businesses such as Foxfire from ever invoking their rights to coverage for advertising injury liability under [NHICO's] and similarly worded policies."²⁰⁷ Therefore, the insured's advertising activity created a duty to defend under the general liability policy. In 1994, the Northern District Court of California upheld its decision in *Foxfire* when it adjudicated an analogous case, *New Hampshire Insurance Co. v. R.L. Chaides Construction Co.*²⁰⁸

Finally, in following the tradition of the California courts, the California Central District Court in *Sentex Systems, Inc. v. Hartford Accident & Indemnity Co.*²⁰⁹ concluded that "advertising" should be "interpreted broadly, with any doubts as to coverage resolved in favor of the insured."²¹⁰ The *Sentex* court supported the extreme view of broad interpretation upheld in *John Deere* when it determined that the term "advertising" was best defined as "encompass[ing] the kind of personal, one-on-one and group solicitations

²⁰⁶ *Id.*

²⁰⁷ *Id.*

²⁰⁸ 847 F. Supp. 1452 (N.D. Cal. 1995). *New Hampshire Insurance Company* ("NHICO") filed this action seeking a declaratory judgment, contending that it had no duty to defend or indemnify its insured, R.L. Chaides Construction Co., Inc. ("Chaides") in an action brought by A.C. Aukerman Company ("Aukerman") against Chaides et al. *Id.* at 1453. Chaides was covered by a CGL policy issued by NHICO. *Id.* at 1454. Since the mid 1970s, Chaides had been contracting and sub-contracting to build highway barrier walls using slip-forming methods and apparatus. *Id.* In order to secure contracts, Chaides solicited bids for services via direct communications with primary contractors, mail or telephone, and direct mail promotions. *Id.* Aukerman claimed to be the owner of several patents for particular methods and apparatus used in making elongated concrete structures. *Id.* Aukerman claimed that Chaides infringed its patents. *Id.* Aukerman brought the underlying patent infringement action against Chaides, which was resolved against Aukerman. *Id.* The case was appealed and subsequently remanded, at which point Chaides was held liable for patent infringement. *Id.*

²⁰⁹ 882 F. Supp. 930 (C.D. Cal. 1995). *Sentex Systems, Inc.* ("Sentex"), a California based company, is in the business of designing and manufacturing telephone entry security systems for buildings and gated communities. *Id.* at 933. Sentex purchased CGL insurance from Hartford Accident & Indemnity Company ("Hartford"), which included coverage for advertising injury. *Id.* at 934. On September 18, 1990, Electronic Security Services, Inc. ("ESSI"), a direct competitor of Sentex, filed an action against Sentex and Paul Colombo ("Colombo"), ESSI's former employee, alleging that when Colombo resigned from his position as an ESSI sales representative for the Eastern United States and became an employee of Sentex, he violated their non-competition agreement. *Id.* at 935. ESSI also alleged that Sentex, through Colombo, misappropriated ESSI's trade secrets and other confidential information, including customer lists, methods of bidding jobs, methods and procedures for billing, and marketing techniques. *Id.* ESSI alleged that Colombo used ESSI's trade secrets to promote and advertise Sentex's products and to solicit business from ESSI's customers. *Id.* Sentex tendered its defense to Hartford and requested indemnification. *Id.* Hartford denied any obligation to defend Sentex against ESSI. *Id.* The underlying action was settled in 1993, but the issue of whether Hartford had a duty to defend and/or to indemnify Sentex under its CGL policy's coverage for advertising injury remained. *Id.*

²¹⁰ *Id.* at 940.

that Colombo [Sentex's employee] engaged in on behalf of Sentex [the insured] and for which ESSI [the underlying plaintiff and Sentex's direct competitor] complained."²¹¹ In contemplating the enumerated advertising activities that formed the basis of ESSI's complaint, "[t]here [was] no doubt that Sentex, through its employee Colombo, engaged in 'advertising' activities when ESSI's alleged injury occurred."²¹² Consequently, a duty to defend was clearly warranted under the advertising injury provision of the CGL policy issued by the insurer.

3. Causation or Nexus Qualification

The most troublesome requirement of an "advertising injury" is that the insured must commit the covered offense while engaged in advertising.²¹³ Traditionally, courts have been reluctant to find "advertising injury" coverage for patent infringement claims because such claims are rarely causally connected to the "advertising activities" carried out by the insured.²¹⁴ In fact, "[t]he vast majority of courts have concluded that patent infringement is not covered because it does not occur 'in the course of' advertising."²¹⁵ Courts generally offer two reasons for denying advertising injury coverage for patent infringement claims: (1) patent infringement is not included within any of the enumerated offenses (as previously discussed in Section II.C.1.) and (2) even if patent infringement is or could potentially be covered under the 1976 Endorsement or the 1986 CGL Policy form, it does not occur in the course of the insured's advertising.²¹⁶

In *National Union Fire Insurance Co. v. Siliconix Inc.*,²¹⁷ the court held that "even if piracy is construed to encompass patent infringement, patent infringement does not occur in the course of advertising, and is not covered as a type of advertising injury."²¹⁸ Despite the insured's claims to the contrary, in this case the term piracy "[could] not be used to extend coverage beyond the reasonable

²¹¹ *Id.* at 939.

²¹² *Id.* at 940.

²¹³ See *supra* Parts II.B.1.a-b.

²¹⁴ See Halbreich et al., *supra* note 39, at 31.

²¹⁵ White, *supra* note 37, at 225.

²¹⁶ See Halbreich et al., *supra* note 39, at 31.

²¹⁷ 729 F. Supp. 77 (N.D. Cal. 1989). This action arose from a suit in which Siliconix, the insured, was charged with patent infringement by International Rectifier Corp. ("IRC"). *Id.* at 78. Siliconix sought coverage from National Union Fire Insurance Company of Pittsburgh, PA ("National Union"), the insurer. National Union moved for partial summary judgment seeking a declaratory judgment stating that it had no obligation under its insurance contract to indemnify or defend Siliconix. *Id.*

²¹⁸ *Id.* at 80.

expectations of the insured and [could] not be used to confound a reasonable interpretation of the coverage grant which gives meaning to the terms 'in the course of advertising.'"²¹⁹ Because the *Siliconix* court was cognizant of the need to protect the insured's reasonable expectations of coverage and since insurance contracts must be interpreted as a whole, the court found that it could not "nullify the clause requiring that the injury occur in the course of advertising."²²⁰

In a case of first impression before the Minnesota Court of Appeals, the court in *Fluoroware, Inc. v. Chubb Group of Insurance Cos.*²²¹ recently held that a CGL insurer was not obligated to defend or indemnify against a claim of patent infringement.²²² Applying the three-prong test it previously established in *Polaris Industries v. Continental Insurance Co.*,²²³ the Minnesota Court of Appeals analyzed whether advertising injury coverage created a duty to defend on the part of the insurer.²²⁴ The court evaluated (1) whether the advertising activity was a direct or proximate cause of the alleged injury; (2) whether the injury was within the scope of the policy's definition of "advertising injury"; and (3) whether any policy exclusions were applicable.²²⁵ In adjudicating this matter, the district court relied on the leading Minnesota case, *John*

²¹⁹ *Id.* at 80-81.

²²⁰ *Id.* at 81.

²²¹ 545 N.W.2d 678 (Minn. Ct. App. 1996). Fluoroware, Inc. ("Fluoroware") brought this declaratory action against Chubb Group of Insurance Companies ("Chubb") seeking a ruling that its insurers were contractually obligated to defend and indemnify Fluoroware against a patent infringement suit filed by Empak, Inc. ("Empak"). *Id.* at 679-80. Empak alleged that Fluoroware was using, selling, and distributing plastic disk containers that infringed a patent owned by Empak. *Id.*

²²² *Id.* at 684.

²²³ 539 N.W.2d 619, 621-23 (Minn. Ct. App. 1995). Polaris, a recreational vehicle manufacturer, had advertised that it sold "the industry's first" electronic fuel-injected snowmobiles. See Nicole A. Engisch, *Minnesota Courts Take a Restrictive View of Insurance Disputes*, 1 MEALEY'S EMERGING INS. DISP. 15, 16 (1996). Injection Research Specialists filed an action against Polaris alleging patent infringement, among other allegations. *Id.* at 15. Subsequent to tendering its defense to its insurer, Continental Insurance Company ("Continental"), Polaris brought a declaratory action in order to obtain a declaration for coverage under its policy's "advertising injury" clause. *Id.* The court found that the CGL policy covered consumer protection laws because the claim arose out of misrepresentations in Polaris' advertisements and press releases. *Id.* at 16. However, the court vehemently rejected the notion that advertising injury coverage arose solely because the insured later advertised the allegedly misappropriated information. *Id.* The Minnesota Court of Appeals ruled that Continental had a duty to defend under the "advertising injury" provision of its policy, but limited such coverage to claims brought under consumer protection laws. *Id.* at 15-16. "The Polaris decision is noteworthy because it established the requirement in Minnesota that there must be a close relationship between the alleged injury and the advertising activity for insurance coverage under advertising injury provisions." *Id.* at 16.

²²⁴ *Fluoroware*, 545 N.W.2d at 681.

²²⁵ *Id.*

Deere,²²⁶ and found the claim of patent infringement to be covered by the "advertising injury" clause because the allegedly infringing device was the subject of Fluoroware's advertising campaign.²²⁷ Contrary to the district court decision, the Minnesota Court of Appeals concluded that Minnesota law required a showing of direct causation between the advertising activity and the alleged injury.²²⁸ The *Fluoroware* court underscored the premise that "advertising liability coverage does not result inevitably from [patent] infringement claims merely because a product is advertised."²²⁹ That is to say, "[t]he patentee is not injured because a product incorporating its invention is advertised, but because the infringer, without consent, used or sold a product utilizing a protected invention."²³⁰ As a result of failing to meet the first two elements of the *Polaris* test and thus, finding no duty to defend, the Minnesota Court of Appeals joined a growing number of authorities holding that a claim of patent infringement does not fall within the scope of the standard CGL policy's advertising injury coverage.²³¹

In the summer of 1992, the California Supreme Court rendered its long-awaited decision in *Bank of the West v. Superior Court*,²³² which considered the scope of coverage afforded by a CGL insurance policy specifically covering liability arising out of advertising.²³³ In reaching its ultimate conclusion that "'advertising injury' must have a causal connection with the insured's 'advertising activities' before there can be coverage," the supreme court relied on the opinions of other jurisdictions.²³⁴ In adopting what it believed to be the majority rule across the nation, the *Bank of the West* court explained that "a claim of patent infringement does not 'occur . . . in the course of . . . advertising activities' within the meaning of the policy even though the insured advertises the infringing product, if the claim of infringement is based on the sale or importation of the product rather than its advertisement."²³⁵ In this case, the Bank argued that "there [was] coverage if any con-

²²⁶ 696 F. Supp. 434 (D. Minn. 1988), *aff'd*, 929 F.2d 413 (8th Cir. 1991). See case summary *supra* note 192.

²²⁷ *Fluoroware*, 545 N.W.2d at 681-82.

²²⁸ *Id.* at 681.

²²⁹ *Id.*

²³⁰ *Aetna Cas. & Sur. Co. v. Superior Court*, 23 Cal. Rptr. 2d 446 (Cal. Ct. App. 1993).

²³¹ See *Intex Plastic Sales Co. v. United Nat'l Ins. Co.*, 23 F.3d 254 (9th Cir. 1994); *Bank of the West v. Superior Court*, 833 P.2d 545 (Cal. 1992); *National Union Fire Ins. Co. v. Siliconix, Inc.*, 729 F. Supp. 77 (N.D. Cal. 1989); *Iolab Corp. v. Seaboard Sur. Co.*, 15 F.3d 1500 (9th Cir. 1994).

²³² 833 P.2d 545 (Cal. 1992). See case summary *supra* note 84.

²³³ See *id.*

²³⁴ *Id.* at 560.

²³⁵ *Id.* at 559 (citing *Siliconix*, 729 F. Supp. at 80).

nection, however remote, exist[ed] between the Bank's advertisements and the lending practices that harmed the . . . plaintiffs, even if the advertisements themselves, did not cause the harm."²³⁶ Courts in other jurisdictions had previously rejected the Bank's view that advertising injury coverage is available for claims based on injuries that did not have a causal connection with the insured's advertising activities.²³⁷ Therefore, in accordance with the majority view, the *Bank of the West* court found the requirement of a causal connection persuasive because:

[t]aken to its extreme, [the argument that no causal relationship was necessary] would lead to the conclusion that any harmful act, if it were advertised in some way, would fall under the grant of coverage merely because it was advertised. Under this rationale, for instance, injury due to a defective product which [was] sold as a result of advertising activity and which later harm[ed] a consumer may fall within the coverage grant. The definition of "advertising" [was] quite broad and may encompass a great deal of activity. Thus, a great many acts may fall within the ambit of advertising, extending advertising injury coverage far beyond the reasonable expectations of the insured.²³⁸

As a matter of classical theory of contract interpretation, the context of the CGL policy strongly indicates the necessity of a causal connection, because the other types of "advertising injuries" enumerated in the policy all have a nexus with advertising.²³⁹ Thus, an objectively reasonable insured would expect a causal connection to exist between "advertising activities" and "advertising injuries," otherwise "'advertising injury' alone would encompass most claims related to the insured's business."²⁴⁰

As previously shown, in order to invoke "advertising injury" coverage for patent infringement claims, "the offense must have occurred or have been committed *during* an advertising activity. This is not the same as being *caused* by advertising activity."²⁴¹ The nature of patent infringement claims is especially suited to demonstrate that "advertising injury" offenses do not necessarily take

²³⁶ *Id.* at 558.

²³⁷ *Id.* The California Supreme Court cites: *National Union Fire Ins. Co. v. Siliconix, Inc.*, 729 F. Supp. 77, 79-80 (N.D. Cal. 1989); *A. Meyers & Sons Corp. v. Zurich Am. Ins.*, 545 N.E.2d 1206, 1209 (N.Y. 1989); *Lazzara Oil Co. v. Columbia Cas. Co.*, 683 F. Supp. 777, 780 (M.D. Fla. 1988); *cf.* *First Bank & Trust Co. v. New Hampshire Ins. Group*, 469 A.2d 1367, 1368 (N.H. 1983). *Id.*

²³⁸ *Bank of the West*, 833 P.2d at 559 (citing *Siliconix*, 729 F. Supp. at 80).

²³⁹ *Id.* at 560.

²⁴⁰ *Id.*

²⁴¹ George B. Hall, *Keep the "Advertising" in "Advertising Injury,"* 1 MEALEY'S EMERGING INS. DISP. 13, 16 (1996) (emphasis added).

place in advertising.²⁴² In *Iolab*,²⁴³ the Ninth Circuit clearly articulated that "the inherent harm of direct patent infringement is the infringement itself, not the fact that an infringing product is later advertised." The underlying action in this case involved a patent infringement claim brought by Jensen, the owner of a patent for an intraocular lens, against Iolab, the manufacturer and seller of the Jensen device.²⁴⁴ The appellate court found that "Iolab's claim of 'piracy' arising out of advertising ha[d] no basis because Dr. Jensen's claim was based on Iolab's infringement of his patent for the intraocular lens itself rather than on an element of Iolab's advertising of the lens."²⁴⁵

Moreover, the court determined that:

Iolab's claim with regard to the relationship between its advertising activities and the Jensen loss [did] not establish the causal nexus required by *Bank of the West*. First, under *Bank of the West*, Iolab would have to show its advertising caused the patent infringement, not the liability. Second, Iolab fail[ed] to show that the Jensen loss was caused by its advertising rather than its infringement of Dr. Jensen's patent.²⁴⁶

It was evident to the court that Iolab infringed Jensen's patent because it sold the intraocular lens for commercial gain.²⁴⁷ Furthermore, while Iolab's advertising activities helped in establishing that Iolab's interest in the Jensen patent was purely financial and not for purposes of research or FDA approval, they were not the cause of the patent infringement.²⁴⁸ Accordingly, the Ninth Circuit court held that the claim of patent infringement did not occur during or in the course of any advertising activities, and therefore, the insurers had no duty of defense or indemnification.²⁴⁹

²⁴² *Id.*

²⁴³ 15 F.3d 1500 (9th Cir. 1994). Iolab Corporation ("Iolab"), a wholly-owned subsidiary of Johnson & Johnson, manufactured and sold an intraocular lens designed to replace the natural lens of the eye. *Id.* at 1502. In 1986, Dr. Ronald P. Jensen, who owned the patent for the optical lens, brought a patent infringement action against Iolab. *Id.* Subsequently, the parties settled and Iolab agreed to pay \$13.5 million to Jensen. *Id.* at 1503. Iolab sought indemnification from its insurers for the \$13.5 million settlement plus \$1 million for costs in litigating the matter. *Id.* Iolab brought a declaratory action against 15 primary and excess insurers. *Id.*

²⁴⁴ *Id.* at 1502.

²⁴⁵ *Id.* at 1506.

²⁴⁶ *Id.* at 1507.

²⁴⁷ *Id.*

²⁴⁸ *Id.*

²⁴⁹ *Id.*

4. Time of Offense Qualification

The final requirement for advertising injury coverage is that the insured must commit a covered offense while the policy is in effect.²⁵⁰ In *American Cyanamid Co. v. American Home Assurance Co.*,²⁵¹ the California Court of Appeals found that "[i]t is the offense that must be committed during the policy period in order to trigger coverage. There is nothing in the policies to require that the resulting injury must also occur or manifest itself during the policy period."²⁵² Therefore, under liability policies that provide coverage for offenses committed during the policy period, it is the act, not the injury that triggers insurance coverage for advertising injury.²⁵³ In order to determine when the conduct constituting the applicable offense occurred, it is necessary to define the nature and scope of the covered offense.²⁵⁴ If the covered offense is unfair competition, the offense is committed when the advertisements are created.²⁵⁵ If the covered offense is "piracy," the offense occurs on the first date when the product was allegedly infringed or misappropriated.²⁵⁶

²⁵⁰ Gauntlett, *supra* note 48, at 868.

²⁵¹ 35 Cal. Rptr. 2d 920 (Cal. Ct. App. 1994). Since 1967, American Cyanamid, a research-based biotechnology and chemical company, specialized in the development, manufacture, and sale of chemical light products. *Id.* at 922. Chemical Device Corp. ("CDC") was also a manufacturer and seller of chemical light products, but has only been in existence since January 1986. *Id.* In 1989, CDC sued American Cyanamid in federal court, claiming damages for CDC's loss of business resulting from American Cyanamid's alleged monopolistic and anti-competitive behavior. *Id.* CDC's complaint alleged that American Cyanamid abused its patents in an effort to restrict competition and monopolize the government market for chemical light products. *Id.*

American Cyanamid was insured under eight separate general policies during the period from 1966 to 1986. *Id.* Although the language varies in each of the liability policies, all provide coverage for damages resulting from advertising injury. *Id.* The issue in this case focuses on whether the pre-1986 policies provide coverage for patent infringement even though the injury to CDC did not occur and could not have occurred until after the policies had expired. *Id.* In this declaratory action, American Cyanamid alleged that the pre-1986 policies provided coverage for the CDC lawsuit because it was based on "acts or offenses occurring through the [policy] periods." *Id.* American Cyanamid contended that coverage was triggered by the alleged anti-competitive activity during the policy period. *Id.* at 922-23. The insurers claimed that the offense of unfair competition could not have been committed before 1986 because CDC was not in existence during that period. *Id.* The trial court concluded that "the fact that CDC did not exist as a competitor of American Cyanamid prior to January 28, 1986 precludes a duty on the part of the Primary Insurers to defend American Cyanamid in the underlying litigation under the advertising liability provision of the primary policies at issue." *Id.* at 923. Therefore, there was no duty to defend a claim of unfair competition. *Id.*

²⁵² *Id.* at 927-28.

²⁵³ See *id.* at 927.

²⁵⁴ See Gauntlett, *supra* note 48, at 869.

²⁵⁵ *Id.*

²⁵⁶ *Id.*

III. OFFENSIVE INSURANCE COVERAGE FOR PATENT INFRINGEMENT ACTIONS

"[W]hile patents and other intellectual property provide the lifeblood for many companies, most small and midsize ones can't afford to take better-funded competitors to court."²⁵⁷ Recently Lloyd's of London ("Lloyd's") began to underwrite offensive patent insurance policies, becoming the first major insurer to offer companies such offensive coverage.²⁵⁸ The new policies provide companies with up to \$1 million for legal fees incurred as a result of patent infringement actions brought against their competitors.²⁵⁹ Lloyd's rationale for selling such policies is to equip small cash-poor companies with the necessary financial resources to enable them to threaten a patent infringement suit.²⁶⁰ "[T]he coverage [is] a 'big stick' that small and midsize companies can use to prod infringers into licensing agreements."²⁶¹ In the absence of this type of offensive insurance, many cases would not be litigated because the patent holder could not afford it.²⁶²

To minimize its risks, Lloyd's underwriting syndicate established a group of attorneys and accountants whose job it is to screen patents carefully and to select only those patents that are both legally valid and valuable for coverage.²⁶³ Companies seeking this coverage must pay \$25,000 in order to have their patents examined.²⁶⁴ In addition, Lloyd's only covers 80% of the legal fees, leaving the policyholder financially responsible for 20%.²⁶⁵ Also, these policies require victorious companies to pay the underwriters 125% of the legal fees provided to them for the patent litigation.²⁶⁶ Finally, Lloyd's typically charges \$25,000 per year in premiums for \$1 million of patent protection, and for a higher price, it provides coverage when a company discovers that a competitor is infringing its patent.²⁶⁷

Despite its efforts to help small and medium-sized companies "equalize the playing field," Lloyd's fails to do so on a grand scale.²⁶⁸ Even though Lloyd's claims that its new offensive patent

²⁵⁷ Scism, *supra* note 30, at 1.

²⁵⁸ *Id.*

²⁵⁹ *Id.*

²⁶⁰ *Id.*

²⁶¹ *Id.*

²⁶² *Id.*

²⁶³ *Id.* at 2.

²⁶⁴ *Id.*

²⁶⁵ *Id.*

²⁶⁶ *Id.*

²⁶⁷ *Id.*

²⁶⁸ *Id.*

insurance is targeted at start-up high-technology companies, it is unreasonable to assume that these companies have the ability to pay for the expensive initial patent screening process or the high premium costs of annual coverage. Moreover, because Lloyd's has limited the scope of coverage to only certain select patents, it is quite possible that companies in need of this type of insurance will be unable to procure it.

Perhaps a more reasonable alternative to the Lloyd's policy is a similar policy offered by a small New Jersey insurer, Homestead Insurance Co. ("Homestead").²⁶⁹ Providing offensive patent insurance coverage since 1991, Homestead grants up to \$500,000 in coverage for legal expenses with a 25% co-payment.²⁷⁰ The cost of coverage per patent is \$2,900 and related patents can be added to the policy at a lower rate.²⁷¹ Homestead reduces its risks by making a limited review of the patent before issuing the policy.²⁷² In addition, it does not undertake payment for any legal fees unless the policyholder receives legal confirmation that the patent infringement case is sound.²⁷³ Because Homestead recognizes that "[i]ntellectual property is the currency of the information age," its policies attempt to eliminate discrimination against smaller patent holders and to enable them to seek judicial protection for their valuable property.²⁷⁴

IV. ALTERNATIVE INSURANCE COVERAGE FOR PATENT INFRINGEMENT ACTIONS

In response to the growing importance of patent protection in the present age of rapid technological advancement, American International Group Inc. ("AIG") has begun to offer specialized patent infringement insurance to large companies accused of illegally marketing or using patented products and technology.²⁷⁵ AIG's insurance plan offers \$5 million a year or more, depending on the risk, for legal expenses and adverse damage awards incurred by in-

²⁶⁹ *Id.*

²⁷⁰ *Id.*

²⁷¹ *Id.*

²⁷² *Id.*

²⁷³ *Id.*

²⁷⁴ Verbanas, *supra* note 15, at 3.

²⁷⁵ See Felsenthal, *supra* note 15. In addition to AIG, other insurers, including Classic Fire & Marine Insurance Co., Homestead Insurance Co., Lexington Insurance Co., and National Union Fire Insurance Co., have begun writing policies specifically targeted at patent infringement coverage, whether or not the claims have any relation to the insured's advertising activities. See Gauntlett, *supra* note 80, at 26.

sured-defendants involved in patent infringement suits.²⁷⁶ Although defendants generally seek insurance coverage under their standard CGL policies, in most cases, as previously discussed, no "advertising injury" coverage is available for patent infringement claims. In the absence of insurance coverage, defendants are responsible for the cost of their own defense and any judgment made against them.

Despite the apparent need for stand-alone patent insurance policies, AIG and other insurers, until a few years ago, avoided patent infringement insurance because it was difficult to effectively evaluate the risks involved in protecting a particular patented high-tech product.²⁷⁷ Moreover, other insurers refused to offer specialized patent insurance for fear that insureds would intentionally infringe another company's patents knowing that their insurer would pay for any ensuing litigation.²⁷⁸ In order to control such risks under the new specialized insurance policies, insurers require large deductibles, charge high premiums, and exclude intentional acts and punitive damage awards from coverage.²⁷⁹ Unfortunately, the consequence of these risk-control measures is to make specialized patent insurance cost prohibitive.

Although the development of specialized patent infringement insurance appears to fill the void in intellectual property coverage created by "advertising injury," this is not the case in reality. Because of the steep cost of patent insurance, many large and small businesses choose to go without any coverage despite the daunting exposures.²⁸⁰ Until the insurance industry is able to offer its insureds affordable patent coverage, while at the same time controlling its own risks, high-technology companies will continue to suffer severe financial set-backs or possible dissolution from increasing patent litigation.

V. CONCLUSION

Courts consistently have held that patent infringement does not fall within the scope of most "advertising injury" provisions of CGL policies. Typically, coverage for patent infringement has been denied on the grounds that the patent infringement was not an enumerated offense under the policy, or that no causal connec-

²⁷⁶ See Felsenthal, *supra* note 15; Colleen Mulcahy, *Intellectual Property Insurance Sales Slow*, NAT'L UNDERWRITER PROP. & CASUALTY-RISK & BENEFIT MGMT., Jan. 16, 1995, at 2.

²⁷⁷ *Id.*

²⁷⁸ *Id.*

²⁷⁹ *Id.*

²⁸⁰ See Mulcahy, *supra* note 276.

tion existed between the "advertising injury" and the "advertising activities" of the insured. Moreover, attempts by insurers to provide specialized patent infringement insurance have failed because these policies are generally cost prohibitive or difficult to procure. Consequently, effective insurance coverage for patent infringement, whether offensive or defensive in nature, is scarce.

In a time of increasing patent infringement litigation, smaller high-technology companies legitimately may fear financial disaster if called upon to defend or institute a patent infringement action. Because the high-tech industry continues to grow in importance to the United States, the economy, insurers, businesses, and courts must make a strong cooperative effort to put an end to this industry's suffering. In recognizing that patents are the lifeblood of this industry, adequate insurance coverage must be made widely available in order to ensure patent security to all interested parties.

*Lisa A. Small**

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