

Advertising Injury Coverage for Patent Infringement Claims: Is It Back After Everett?

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The controversy over the question of coverage for patent infringement claims under a CGL policy, once thought to be firmly dead, like the Phoenix of old, appears to have risen from the ashes. Specifically, many policyholders are again seeking coverage for patent infringement claims under the "Advertising Injury" portion of most CGL policies as a result of certain changes to the Patent Act. After the decision issued by the U.S. District Court for the Northern District of California in the case reported at Everett Associates, Inc. v. Transcontinental Insurance Co., 57 F. Supp.2d 874 (N.D.Cal. 1999), in an opinion authored by Judge Samuel Conti, those demands have become more vocal. As explained in more detail below, however, the response to the renewed demands for a defense may not be any different this time around.

A. The Everett Decision:

To begin with, given that the Everett decision was ostensibly rendered pursuant to California insurance law, its applicability to a patent infringement action pending anywhere outside of California is, of course, open to question. Moreover, subsequent developments in California law suggest that it may no longer be valid even in Judge Conti's courtroom.

The Everett opinion addressed a question of contract interpretation, and attempted to predict how a California court would decide the issue. Specifically, it decided the question of whether a claim for patent infringement would trigger "advertising injury" coverage under a standard commercial general liability ("CGL") policy, given the 1994 amendments to the Patent Act (effective in 1996), whereby an unauthorized "offer to sell" a patented invention, *in and of itself*,

could constitute infringement. Previous to this, it was quite clear that, under California law, there was no potential for coverage for patent infringement claims under CGL policies, and, consequently, no duty to defend such claims existed. *See, e.g., Owens-Brockway Glass Container, Inc. v. International Ins. Co., et al.*, 8484 F. Supp. 363, 367-369 (E.D. Cal. 1995), *aff'd*, 94 F.3d 652 (9th Cir. 1996) [Finding, under California law, that the "advertising injury" offenses of "misappropriation of advertising ideas or style of doing business" and "infringement of copyright, title or slogan" were unambiguous, and could not be extended to encompass claims for patent infringement]; [Iolab Corp. v. Seaboard Surety Co., 15 F.3d 1500 (9th Cir. 1994) [Finding, under California law, no coverage for patent infringement claims under standard "advertising injury" provisions]; and National Union Fire Insurance Co. v. Siliconix, Inc., 729

F. Supp. 77, 79-80 (N.D. Cal. 1989) [Holding to a similar effect].

The opinion in Everett relied principally upon the decision in Lebas Fashion Imports of U.S.A., Inc. v. ITT Hartford Insurance Group, 50 Cal. App. 4th 548 (1996) to greatly expand the coverage under the “advertising injury” provisions of CGL policies. Basically, the Everett court found that the offense of “misappropriation of advertising ideas or style of doing business” was ambiguous, and, based upon the recent amendments to the Patent Act, could be construed to include within its ambit claims for patent infringement. However, the decision ignores a fundamental premise underlying the Lebas holding respecting this particular “advertising injury” offense. Clearly, all that the Lebas court found was that the offense of “misappropriation of advertising ideas or style of doing business” — *in the context of the facts of the case before the court* — was ambiguous. The facts before the Everett court — as well as the context of the claims advanced by, and against, the insured therein — were distinctly different than what confronted the court in Lebas.

In addition, the rationale supporting the ruling in Everett is incomplete. The opinion focuses on the issue of whether the amendment to the Patent Act supplies the *causal nexus* between a particular

“advertising injury” offense and the advertising activity that is required under both the policy language and the prior case law. It fails to analyze the separate question of whether infringement of patent could fall within an insured’s objectively reasonable expectation of coverage under the specific offense of “misappropriation of advertising ideas or style of doing business.” Certainly, on the surface, it would not seem as if an unauthorized offer to sell a patented product, without more, would constitute a misappropriation of an “advertising idea” or of a “style of doing business.”

The Everett opinion’s failure to undertake this critical analysis renders the ruling therein of questionably vitality, and no doubt explains why subsequent California, Ninth Circuit, and other federal circuit opinions have rejected either Everett, its reasoning, or both. Any question as to whether there continues to be no potential for coverage under a CGL policy for patent infringement after the 1996 changes in the Patent Act has now been decided in the affirmative under California law. See, Maxconn, Inc. v. Truck Insurance Exchange, 74 Cal.App.4th 1267, *as modified*, 75 Cal.App.4th 1037a (1999), discussed below. Thus, the Everett opinion clearly does not represent current California law. In addition, its holding is contrary to the great weight of authority throughout the country, including cases analyzing

the issue in light of the 1994 amendments to the Patent Act.

2. The Lebas Decision:

An examination of the opinion in Lebas reveals why it may not serve as a sufficient basis upon which to reach the conclusion endorsed by Judge Conti in Everett. The Lebas case involved an underlying action against the insured for federal and California common law trademark infringement and unfair competition, California statutory unfair competition, and California statutory trademark dilution claims brought against the insured, Lebas Fashion, by Guy Laroche. No claims of patent infringement or inducement of patent infringement were raised by claimant, which manufactured high fashion perfumes and cosmetic products under the trade names and trademarks DRAKKAR and DRAKKAR NOIR. The policyholder began to use the name DRAKKAR and DRAKKAR NOIR in connection with its own clothing products, eventually seeking to register the name DRAKKAR as its own.

The policy in question, issued by Hartford, contained the standard language from the 1986 Insurance Services Office (“ISO”) CGL form, which included various offenses within the policy’s “advertising injury” coverage. The policy also required that the predicate offenses be committed *in the course of*

advertising the insured's goods, products or services in order for the coverage to attach. The insured argued that the underlying action implicated both the "misappropriation of advertising ideas or style of doing business" offense and the separate offense of "infringement of copyright, title or slogan." The Lebas court did not reach the question of whether the latter offense was involved, however, as it found that there was a duty to defend under the "misappropriation" offense.

Notably, the Lebas court found that the nature of a trademark was such that there was no need to expend any analytical effort in determining whether a *causal nexus* existed between the insured's advertising activity and the alleged infringement. Such a nexus was presumed for the purposes of the opinion, given the function and uses of a trademark. Thus, the Everett opinion relies upon Lebas for a proposition concerning causation that the Lebas court assumed to exist without analysis, given the nature of a *trademark*. Whether such a presumption should apply where it is a patent which has been infringed is not even examined. Moreover, Everett fails to follow the Lebas court lead with regard to the remainder of the multi-level contract analysis required under California law when the interpretation of an insurance contract is in issue.

As the Lebas court noted, it was "still require[d] . . . to resolve the question as to whether Lebas' infringing acts constituted an 'advertising injury' as defined in the Hartford policy." 59 Cal.Rptr.2d at 41. The Lebas opinion devotes a significant portion of its analysis to the question of whether trademark infringement and the related claims could reasonably fall within the parameters of a specifically enumerated offense identified under the policy language. The major flaw in the Everett opinion is that it never engages in this analysis, relying solely upon its finding that the *causal nexus* between an offense and the advertising activities had, in essence, been supplied under the amendments to the Patent Act. Whether it is objectively reasonable for an insured to expect coverage for patent infringement claims under the rubric of the offense of "misappropriation of advertising ideas or style of doing business" remains an unanswered question under Everett. The method by which Lebas resolved this question in the context of a trademark infringement claim, however, suggests that the answer to that question is "no" in the context of a patent claim.

The Lebas court began its analysis of this question by noting that the absence of a definition of a particular term in a policy does not necessarily establish that the term is

ambiguous, citing Bay Cities Paving & Grading, Inc. v. Lawyers Mutual Insurance Co., (1993) 5 Cal. 4th 854, 866, 21 Cal. Rptr. 2d 691. The Lebas opinion goes on to quote extensively from various California Supreme Court cases with regard to rules of construction to be employed in interpreting an insurance policy, and in determining and construing terms that may be ambiguous. In fact, the Lebas court's statement of decision is telling, in that it assiduously hews to the multi-level analysis of policy construction described by the California Supreme Court. As the Lebas opinion states, at 59 Cal. Rptr. 2d 38:

We agree with Lebas that the 'advertising injury' coverage provided under Hartford's CGL policy does extend to a claim for trademark infringement. This is so because the applicable advertising injury offense set out in Hartford's policy is ambiguous and, *in the context of the entire policy and all of the relevant circumstances*, Lebas had an objectively reasonable expectation of coverage. This requires us to resolve that ambiguity in Lebas' favor. (emphasis added).

The foregoing conclusion is preceded by detailed quotations from Bank of the West vs. Superior

Court, 2 Cal. 4th 1254, 1264-1265, 10 Cal. Rptr. 2d 538 (1992) elucidating the interpretive process employed by the Lebas court, as follows:

While insurance contracts have special features, they are still contracts to which the ordinary rules of contractual interpretation applied. [citation omitted.] The fundamental goal of contractual interpretation is to give effect to the mutual intention of the parties. (Civ. Code, § 1636). If contractual language is clear and explicit, it governs. (Civ. Code § 1638). On the other hand, “[i]f the terms of a promise are 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.” (Id. § 1649; [citation omitted.]) This rule, as applied to a promise of coverage in an insurance policy, protects not the subjective beliefs of the insurer but, rather, ‘the objectively reasonable expectations of the insured [citation omitted]. *Only if this rule does not resolve the ambiguity do we then resolve it against the insurer.* [citation omitted]

In summary, 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. In so doing, the court must interpret the language in context, with regard to its intended function in the policy. [citation omitted.] This is because ‘language in a contract must be construed in the context of that instrument as a whole, and in the circumstances of that case, and cannot be found to be ambiguous in the abstract.’ [citation omitted.] (Emphasis added).

Summarizing this analytical framework, the Lebas opinion described the method by which it arrived at a conclusion that the policy terms in question were, indeed, ambiguous:

Thus, we look at these words not in isolation but rather as part of the disjunctive phrases which are actually used in the policy. ‘Misappropriation of an advertising idea’ and ‘[misappropriation] of [a] style of doing business.’ We also examine these phrases through the eyes of a lay-

man rather than an attorney or insurance expert. [footnote omitted] Using that approach, we inquire whether those phrases have a single ‘clear and explicit’ meaning or are they subject to two or more reasonable constructions which can be placed on them without engaging in a strained interpretation. (citing, Shell Oil Co. v. Winterthur Swiss Insurance Co., (1993) 12 Cal. App. 4th 715, 737, 15 Cal. Rptr. 2d 815.)

Lebas, supra, 59 Cal. Rptr. 2d at 43.

In light of the foregoing considerations, the Lebas court found that an ambiguity existed with respect to the definition of this particular “advertising injury” offense. The court did not immediately construe the phrase in favor of the insured, however. Instead, it determined that it “must next attempt to resolve that ambiguity by interpreting the language used in the sense in which Hartford believed that Lebas must have understood it at the time of policy issuance; or, to put it another way, we must look to the objectively reasonable expectations of Lebas.” In interpreting the phrase describing the “misappropriation” offense, the court looked at the circumstances surrounding the change in policy forms from the 1973 ISO CGL to the 1986 form. Thus, it noted that the advertising injury

offense of “unfair competition” was deleted from coverage, while the specific “misappropriation” offense was added. Against this background, the Lebas court noted that trademark infringement was an act of unfair competition, in that it amounted to the wrongful taking of another’s identifying mark. As the court stated, “trademark infringement involves a very specific kind of unfair competition.”

Based upon the foregoing, the Lebas court found that trademark infringement claims were within the objectively reasonable expectations of the insured as to “advertising injury” coverage for the “misappropriation” offense, under either the “advertising idea” or the “style of doing business” prong of that offense. It should be noted that the Lebas court was careful to distinguish a Sixth Circuit opinion that reached a contrary conclusion, Advance Watch Co., Ltd. v. Kemper National Insurance Co., (6th Cir. 1996) 99 F.3d 795, 802-804 [Finding that the “misappropriation” offense was unambiguous and not necessarily limited only to common law misappropriation, but finding that it did not extend to the unauthorized taking or use of interests eligible for protection under statutory or common law trademark law.] Indeed, subsequent California case law has also made clear that the ruling in Lebas was circumscribed by the facts and circumstances before the court, suggesting

that it does not have the broad reach implicitly ascribed to it by the Everett opinion.

1. Maxconn and Other California and Ninth Circuit Authority

The decision in Maxconn, *supra*, was issued September 16, 1999, and modified on October 15, 1999, approximately five months after issuance of the decision in Everett. Thus, there is no question as to whether it is the more current — and, as a state court decision, more authoritative — statement of California law on the issue of coverage for patent infringement claims under standard CGL policies. After considering the impact of the changes to the Patent Act relating to the “offer to sell” form of patent infringement, the Maxconn court saw no reason to alter the prevailing view of the lack of coverage for such claims under the standard “advertising injury” language of CGL policies. As the court stated, “a reasonable layperson would not expect a claim for patent infringement to be covered under the advertising injury offenses of the CGL policy at issue” and, “[s]ince there is no potential for coverage under the policy, we conclude that [the insurer] had no duty to defend the allegations of the patent infringement lawsuit.” Maxconn, *supra*, 74 Cal.App.4th at 1279.

The Maxconn opinion relied

upon the decision in Owens-Brockway Glass, *supra*, among others, to support its holding that no coverage for patent infringement existed under the offense of “infringement of copyright, title or slogan.” See, Maxconn, *supra*, 74 Cal.App.4th at 1274-1275. The Owens-Brockway Glass opinion, in turn, had analyzed whether patent infringement claims were covered under both the “infringement of . . . title” offense and the “misappropriation” offense within the “advertising injury” coverage. Owens-Brockway Glass, *supra*, 884 F.Supp. at 367-369. As that court stated, in rejecting as unreasonable a claim that such coverage existed under the noted offenses:

First, and perhaps most significantly, there is the glaring absence of the word “patent” anywhere in the policy language defining advertising injury. The language defining ‘advertising injury’ includes ‘slander,’ ‘libel,’ ‘right of privacy,’ ‘advertising ideas,’ ‘style of doing business,’ and ‘copyright.’ These are specific terms connected to well known legal categories, just as a claim of patent infringement is a distinct legal claim.

Id., at 367.

The Ninth Circuit apparently

also continues to feel that Owens-Brockway Glass provides the appropriate analysis of whether coverage for patent infringement claims exists under the “advertising injury” portion of a CGL policy, even in the face of the “offers to sell” amendment to the Patent Act. See, Precision Automation, Inc. v. West American Insurance Co., 203 F.3d 832, 1999 WL 1073819 (9th Cir. (Or.), Nov. 24, 1999) [Unpublished opinion affirming decision below.] As the court there stated, in rejecting a contention that such coverage existed because of the language of 35 U.S.C. § 271(a):

But the fact that offering to sell an infringing product may now trigger a patent infringement action, see 35 U.S.C. § 271(a), does not render infringement of that type an “advertising injury” within the meaning of the insurance policy. To the contrary, we have stated that ‘as a matter of law, patent infringement cannot occur in the course of an insured’s advertising activities.’ Simply Fresh Fruit, Inc. v. Continental Ins. Co., 94 F.3d 1219, 1222 (9th Cir. 1996).

* * * * *

[T]here is no case law to support the notion that patent infringement, even

infringement based upon an “offer to sell,” amounts to either misappropriation of an advertising idea or a style of doing business.

Precision Automation, Inc., *supra*, 1999 WL 1073819 at **2 [Distinguishing Lebas, *supra* and citing Owens-Brockway Glass with approval]. See, also, Franklin Miller, Inc. v. Commerce and Industry Insurance Co., 2000 WL 1529240 (9th Cir. (Cal.)), October 16, 2000, [Unpublished opinion affirming a grant of summary judgment for the insurer on the duty to defend on the ground that neither the “misappropriation of advertising ideas or style of doing business” nor the “infringement of . . . title” offenses were ambiguous, and did not encompass claims of patent infringement, citing, *inter alia*, Owens-Brockway Glass.] Cf. Homedics Inc. v. Valley Forge Insurance Co., 53 U.S. P.Q. 2d 1155 (C.D. Cal. 1999) [Following Everett, and finding that the 1996 changes in the Patent Act, combined with a perceived ambiguity in the “infringement of title” offense, gave rise to duty to defend.]

Subsequent California case law seeking to decide whether standard “advertising injury” coverage is triggered by claims of inducement of patent infringement likewise finds Everett unpersuasive. See, Mez Industries, Inc. v. Pacific National Insurance Co., 76 Cal.App.4th

856, 874 (1999) [Citing Maxconn, and finding that the “advertising injury” provisions of the CGL policy in issue did not extend to claims of inducing patent infringement, even assuming the policy language concerning the “misappropriation” and/or “infringement of . . . title” offenses might be ambiguous, since contextual considerations made it objectively unreasonable to expect coverage for such a claim]. Although Mez involved an examination of that question in the context of a claim arising prior to 1996, it nonetheless had occasion to refer to the decision in Everett in addressing the potential impact of the Patent Act amendments. The comments by the Mez court in this regard are instructive:

Assuming arguendo that the Everett court reached a proper result, a matter on which we express no opinion, this statutory change would appear to have nullified the argument that direct patent infringement could not arise out of an insured’s advertising activities. However ... even though a direct patent infringement might now be committed during the course of an advertising activity, such circumstance does not help us resolve the question as to whether patent infringement itself will fall within one of the covered ‘offenses.’

Mez, supra, 76 Cal.App.4th at 866, fn. 8.

In addition, the basis for the Homedics decision's adoption of the Everett holding is no longer applicable under California law. As noted earlier, in Homedics, the potential for coverage was predicated upon the belief that the claims for patent infringement and inducement of infringement fell within the "infringement of title" offense. Subsequent to the issuance of the Homedics, decision, however, the California Supreme Court issued its decision in Palmer v. Truck Ins. Exchange, 21 Cal. 4th 1109 (1999). In that case, the Supreme Court found that the word "title" in the "infringement of title" offense meant the name of the literary or artistic work, and not legal or ownership rights in any type of property generally. Thus, the one decision which uncritically follows Everett is, itself, based upon what turned out to be an incorrect prediction of California law.

2. Non-California Case Law Addressing Coverage for Patent Claims

California courts are not in the minority on this issue, as most jurisdictions that have examined the question find no potential for coverage of patent infringement claims under the standard "advertising injury" provisions a CGL policy. In fact, both Maxconn and Owens-

Brockway rely upon a decision rendered by the U.S. District Court for the Middle District of Florida, which suggests that Florida law is no different than California law on this subject. See, Gencor Industries, Inc. v. Wausau Underwriters Ins. Co., 857 F.Supp. 1560, 1563 (M.D.Fla.1994) [Finding that patent infringement and inducement to infringe do not constitute 'misappropriation of advertising ideas or style of doing business,' and that such claims are not encompassed within any of the "advertising injury" coverage offenses]. See also, Julian v. Liberty Mutual Ins. Co., 43 Conn.App. 281, 288-289 682 A.2d 611(1996) [Citing Gencor, among others, and finding no potential for "advertising injury" coverage of patent infringement claims under the "infringement of ... title" offense].

The contention that the "misappropriation" offense is the source of coverage for patent infringement claims is often rejected on the authority of the case of St. Paul Fire & Marine Ins. Co. v. Advanced Interventional Sys., 824 F.Supp. 583, 585-587 (E.D.Va. 1993), aff'd, 1994 WL 118029, 1994 U.S.App. LEXIS 6979 (4th Cir. April 8, 1994) which is the source of some oft quoted language on the subject. That case examined a contention that coverage existed by virtue of the offense of "unauthorized taking of advertising ideas or style of doing business." The court there

stated the rationale behind its holding as follows:

[I]t is nonsense to suppose that if the parties 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."

Advanced Interventional, supra, 824 F.Supp. at 586. See also, Tradesoft Technologies, Inc. v. Franklin Mutual Ins. Co., Inc., 329 N.J.Super. 137, 746 A.2d 1078 (2000) [Noting that an "offer to sell" patent infringement is not covered under the "infringement of title" offense, which it found was clear and unambiguous, and rejecting Everett, supra, in finding that patent infringement does not fall within the commonly understood meaning of the phrases "advertising ideas" or "style of doing business."]

We believe it is also worth noting that no less an authority on patent infringement claims than the U.S. Court of Appeals for the Federal Circuit is in accord with the foregoing authorities. Thus, in U.S. Test. Inc. v. NDE Environmental Corp., 196 F.3d 1376, 1381 (Fed.

Cir. 1999), the Federal Circuit upheld a decision by the U.S. District Court for the Western District of Louisiana finding no duty to defend a patent infringement suit under a policy's "advertising injury" coverage. The U.S. Test court examined the "infringement of ... title" offense and the so-called "product disparagement" offense, agreeing with the "legion of federal and state courts" which find no coverage under various "advertising injury" offenses. As the court states:

The word 'patent' is notably absent from the enumerated offenses, while other forms of intellectual property infringement, namely copyright, are specifically included in the enumerated offenses. Indeed, if the parties intended that allegations of patent infringement be covered by the policy, the parties could have readily included it within the definition of 'advertising injury.' (Citation omitted).

* * * * *

Because the plain language of the policy unambiguously reflects the parties' intent that allegations of patent infringement were not covered by the policy, we must enforce the policy as it was written and conclude that

[the insurer] has no duty to defend U.S. Test.

U.S. Test, *supra*, 196 F.3d at 1381. See also, Heritage Mutual Ins. Co. v. Advanced Polymer Technology, Inc., 97 F. Supp. 2d 913 (S.D. Ind. 2000) [Declining to follow Everett and relying upon U.S. Test in holding that the "infringement of... title" offense does not provide coverage for patent infringement claims, even under the 1996 Patent Act changes.]

3. The Everett Decision Does Not Give Rise to a Duty to Defend

Perhaps in expectation of the unlikelihood that a duty to indemnify will ever be found, even with the Patent Act amendments, some insureds have suggested that the mere existence of the Everett decision itself is enough to create a *potential* for such coverage in a patent infringement action, and thus, a duty to defend. However, a potential for coverage sufficient to create a duty to defend cannot be based upon an unresolved legal dispute concerning the interpretation of policy language, particularly where pertinent case law ultimately finds in favor of the insurer. See, Lebas, *supra*, 50 Cal.App.4th at 556.

As noted above, Everett is not reflective of current California law, and both it and its reasoning have been rejected by courts throughout

the country. Accordingly, the mere existence of Judge Conti's opinion should not be sufficient to create *facts*, which give rise to the potential for coverage under the "advertising injury" provisions of the standard CGL policy. Moreover, as the above discussion indicates, it can be argued that it is the Everett opinion which is the aberration, not a carrier's determination that there is no coverage for a patent infringement action under a CGL policy.

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