

***INSURANCE COVERAGE FOR BUSINESS
METHOD PATENT INFRINGEMENT LAWSUITS
UNDER COMMERCIAL LIABILITY POLICIES***

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I. INTRODUCTION

Some courts have been resistant to finding “advertising injury” coverage for any form of patent infringement lawsuit. The present article will explore opportunities for insurance coverage under a specialized form of patent infringement addressing business method patent claims under standard form ISO-issued Commercial General Liability policies.¹ For further information on insurance coverage for patent infringement lawsuit as well as other forms of intellectual property violations can be gleaned from the following resources: Gauntlett, David A., “Offer for Sale” Patent Infringement Lawsuits: New Opportunities for Insurance Coverage, *New Controversies*, SMU Law Review, Fall 2001 and Gauntlett, David A., *Patents and Insurance: Who Will Pay For Reimbursement?*, Journal of Science and Technology Law, Boston University School of Law, Fall 1998.

Over the past decade, a number of specialty insurers have sold policies of insurance that expressly defend against the cost of litigating patent infringement lawsuits. A number of factors have deterred policyholders from procuring these policies of insurance.

First, few brokers are knowledgeable about this kind of coverage and thus do not bring it to their clients’ attention.

Second, the lead time to underwrite and assess potential applicants was longer than many policyholders anticipated, and thus they elected not to proceed with the coverage.

Third, the price point was higher than some policyholders were prepared to pay.

Fourth, the broad language available under Commercial General Liability policies made pursuit of coverage under those policy forms for “advertising injury” coverage that broadly encompassed such offenses as piracy and unfair competition (1976 ISO), “misappropriation of advertising ideas or style of doing business” (1986 ISO), or “use of another’s advertising idea in your ‘advertisement’ ” (1998 ISO) a possibility.

Fifth, many policyholders are unaware of the historical breadth of “advertising injury” coverage presume that liability insurance cannot cover intentional acts or risks that are incidental to business operations.

¹Non-ISO form writing insurers have issued variant insurance policies have typically eliminated language therein which might readily encompass patent infringement claims or included express intellectual property exclusions. Indeed, St. Paul added an intellectual property exclusion eliminating patents from its coverage as early as 1990. Other major carriers, such as The Hartford, Chubb, and AIG followed suit.

II. THE CONCEPTUAL SHORTCOMINGS OF COVERAGE CASE LAW DENYING “ADVERTISING INJURY” COVERAGE FOR ANY FORM OF PATENT INFRINGEMENT LAWSUIT

A. It Is of No Moment to Coverage Analysis Herein, That the Label Cause of Action in an Underlying Complaint Is for Patent Infringement

1. The Absence of Any Reference to Patent Infringement Coverage Is Not an Insurmountable Obstacle to the Finding of Patent Coverage

The principal impediment to finding a defense under the 1986 ISO CGL “advertising injury” offenses of “misappropriation of advertising ideas or style of doing business” is the belief expressed by some courts that the absence of the word “patent” is chargeable to the policyholder. It should have requested its inclusion in order to obtain coverage extending to patent infringement lawsuits. The problem with this argument is that the language to which the insureds look for to avoid potential coverage of patent infringement lawsuit, is not itself a tort.

To adopt the narrow dicta in some recent opinions that would deprive a policyholder of a defense for patent infringement lawsuits because the word “patent” is not included in the policy, despite the breadth of the offense-based coverage therein, is inconsistent with settled rules of insurance policy construction.² It is not for the court to add words of limitation to its policy coverage in the guise of interpretation.³ An insurer could also choose not to use broad, generic, lay language like that in the “misappropriation of advertising ideas or style of doing business” offenses, which courts have readily found could encompass, depending on the fact allegations, a variety of torts such as trademark infringement, trade secret misappropriation, as well as patent infringement, if its intent was to exclude any form of intellectual property tort not expressly referenced in its “offense-based” policy.⁴

The insurers argument to the contrary would only be viable if all referenced “advertising injury” offenses for intellectual property torts, making the absence of a tort of patent infringement. Indeed, a number of insurers have added patent infringement exclusions to existent 1986 ISO policy forms, implicitly thereby recognizing that one breadth of the included “advertising injury” offenses must encompass patent claims in certain fact patterns.

Recent cases from the California Supreme court have evidenced that an exclusion which is not sufficiently conspicuous, plain and clear is unenforceable.⁵ By parity of reasoning, the absence of the word patent can hardly be deemed meaningful where the insurer has chosen to

²*Homedics, Inc. v. Valley Forge Ins. Co.*, 315 F.3d 1135, 1142 (9th Cir. (Cal.) 2003). [Gauntlett & Associates Litigated the Bolded Cases Indicated in This Article]

³*Safeco Ins. Co. v. Robert S.*, 26 Cal. 4th 758, 764, 110 Cal. Rptr. 2d 844, 849 (2001) (“[W]e cannot read into the policy what Safeco has omitted.”).

⁴*Fireman’s Fund Ins. Cos. v. Atlantic Richfield Co.*, 94 Cal. App. 4th 842, 852, 115 Cal. Rptr. 2d 26, 33 (2001) (“[A]n insurance company’s failure to use available language to exclude certain types of liability gives rise to the inference that the parties intended not to so limit coverage.”).

⁵*MacKinnon v. Truck Ins. Exchange*, 31 Cal. 4th 635, 648, 3 Cal. Rptr. 3d 228, 238 (2003); *E.M.M.I., Inc. v. Zurich American Ins. Co.*, 32 Cal. 4th 465, 471, 9 Cal. Rptr. 3d 701, 706 (2004); *Haynes v. Farmers Ins. Exch.*, 32 Cal. 4th 1198, 1204, 13 Cal. Rptr. 3d 68, 72 (2004).

write its coverage grant for offenses using such broad language that it is susceptible to interpretations that may encompass patent infringement claims. Thus, there is no conceptual reason why either the 1976, 1986, or 1998 ISO offenses discussed herein cannot encompass some forms of patent infringements where other elements of the applicable coverage language tests are satisfied

2. Not All “Advertising Injury” Offenses in CGL Policies Are Torts

It is beyond question that neither the offenses of “piracy,” “misappropriation of advertising idea or style of doing business” or “use of another’s advertising idea in your ‘advertisement’ ” are themselves singular torts with articulable prima facie elements. Even if they were, it is facts not labels of cause of action that are determinative in analyzing a defense.⁶ Where the covered offense is itself not a tort, but a set of generic terms using lay language, all potential claims that could fall within that language, constituting the pertinent “offense” must be analyzed. Thus, courts have found that causes of action for interference for perspective economic advantages that assert facts that can create liability for the tort of defamation that trigger a defense even though the label cause of action asserted gave rise to a distinct cause of action.⁷

Discussing this issue, Justice Posner, in *Curtis Universal Inc. v. Sheboygan Emergency Medical Services*, 43 F.3d 1119, 1122 (7th Cir. (Wis.) 1994), stated:

The insurer’s obligations are not circumscribed by the plaintiff’s choice of legal theories. The plaintiff’s complaint, upon which the insurer’s duty depends, need not even set forth the plaintiff’s legal theories. See, e.g., Fed. R. Civ. P. 8(a); Fed. R. Civ. P. Form 9. What is important is not the legal label that the plaintiff attaches to the defendant’s (that is, the insured’s) conduct, but whether that conduct as alleged in the complaint is at least arguably within one or more of the categories of wrongdoing that the policy covers. **So, for example, if the complaint alleges facts that if proved would show that the insured had infringed the plaintiff’s copyright, the policy kicks in even if the complaint charges the insured only with fraud or intentional infliction of emotional distress.** . . . If unfair competition within the meaning of the insurance contract is alleged (not necessarily by name), it is irrelevant that it is a subordinate aspect of the plaintiff’s case.

3. The Claimants Theory of Recovery Is Itself a Fact in Evaluating Whether an “Advertising Injury” Offense in a CGL Policy Is Triggered

Insurers often argue that the allegations in an underlying action constitute nothing other than patent infringement and thus no cause of action can be asserted which would fall within the

⁶It is irrelevant that patent infringement is not listed as an “advertising injury” offense. The 1976/1986/1998 “advertising injury” offenses discussed herein do not describe recognized causes of action. *McCormack Baron Mgmt. Servs., Inc. v. American Guar. & Liab. Ins. Co.*, 989 S.W.2d 168, 171 (Mo. 1999) (“The word “offense” cannot be read to limit coverage only to a particular “cause of action” or “claim.” The word “offense” simply does not have this meaning in either common usage or legal usage.”). The policy provides coverage for claims that potentially fall within those offences, regardless of the legal label alleged. *Lebas Fashion Imports of USA, Inc. v. ITT Hartford Ins. Grp.*, 50 Cal. App. 4th 548, 559 (Cal. Ct. App. 1996) (Coverage found for trademark infringement expressly listed “advertising” under “misappropriation of advertising ideas or style of doing business” for legal usage.).

⁷See *Bank West v. Fidelity & Deposit Co. of Maryland*, 63 F.3d 974, 980 (10th Cir. (Kan) 1995); *United Wats Inc. v. Cincinnati Ins. Co.*, 971 F. Supp 1375, 1383-84 (Dist. Kan. 1997).

particular policy language at issue. This misses the point. Neither the damages nor injury alleged in an underlying lawsuit is pertinent to analysis of the duty to defend under “offense” based liability policies.⁸ The same fact allegations that create liability for patent infringement may, implicate potential coverage under the broad generic lay offense of “misappropriation of advertising ideas.”

B. The Analysis Required by Rule 12(b)(6), Asking Whether the Plaintiff Has Sufficient Facts to Recover Damages Against the Defendant, Is Distinct from That Required to Find a Defense – “Potential for Coverage”

A Rule 12(b)(6) motion seeks to test the sufficiency of the pleadings in the underlying action to determine whether the action may be pursued.⁹ Rule 12(b)(6) does not test whether there is a potential or possibility for coverage in the underlying case, but whether Triple M makes a valid claim upon which relief can be granted. The Rule 12(b)(6) analysis bears no relationship to the determination of a duty to defend in the underlying case which, in turn, is based on the mere possibility that the allegations may potentially support a claim for relief.¹⁰ The standards are polar opposites; mere “possibility” versus “legal sufficiency.”

C. The Adoption of an “Intellectual Property” Exclusion to Bar Commercial General Liability Coverage Clarifies That Absent Such an “Advertising Injury” Exclusion Coverage for Such Claims May Arise

In 2001, ISO adopted an “intellectual property” exclusion expressly excluded patent infringement claims. This exclusion was added on to its existing CGL with “advertising injury” coverage as a limitation on whatever coverage would otherwise available be under the policy. The coverage continues in effect prior to this intellectual property exclusion in force on an “occurrence” basis. This means that liability which attaches for conduct preceding the inception of a lawsuit may call into question coverages issued years prior to ongoing litigation. These earlier policies, especially in an umbrella form version, may contain broad coverage than that in the 1986/1887 ISO coverages noted above. The principal focus of this article will be on the 1986 ISO CGL policy, which is the broadest form still available in the marketplace.

⁸*Atlantic Mutual Ins. Co. v. J. Lamb, Inc.*, 100 Cal. App. 4th 1017, 1032, 123 Cal. Rptr. 2d 256, 267 (2002) (“2. Principles of Personal Injury Coverage: Like advertising injury, “personal injury” is a term of art that describes coverage for certain enumerated offenses that are spelled out in the policy . . . Coverage for personal injury is not determined by the nature of the damages sought in the action against the insured, but by the nature of the claims made against the insured in that action. Under the personal injury policy provision, “[c]overage . . . is triggered by the offense, not the injury or damage which a plaintiff suffers.” (*Fibreboard Corp. v. Hartford Accident & Indemnity Co.* 16 Cal.App.4th 492, 511, 20 Cal. Rptr. 2d 376 (1993); italics added.) . . . (“all sums that the insured becomes legally obligated to pay as damages because of personal injury” (Italics added.)”)

⁹*Davis H. Elliot Co. v. Caribbean Utilities Co.*, 513 F.2d 1176, 1182 (6th Cir. 1975).

¹⁰*Park Univ. Enters. v. American Cas. Co. of Reading*, 314 F. Supp. 2d 1094, 1101 (D. Kan. 2004) (“So long as the insured can show a non-frivolous possibility that the claim against it may fall within the coverage of the insurance contract, the insurer has a duty to defend the insured.”); *General Acc. Ins. Co. v. West Am. Ins. Co.*, 42 Cal. App. 4th 95, 102, 49 Cal. Rptr. 2d 603, 606 (1996), *overruled in part on other grounds*, 79 Cal. App. 4th 105 (2000) (“[T]he insured need only show the bare possibility of coverage to trigger a defense duty.”); *New Hampshire Ins. Co. v. Ridout Roofing Co.*, 68 Cal. App. 4th 495, 506, 80 Cal. Rptr. 2d 286, 291 (1998) (“Even a bare possibility of coverage is sufficient to trigger a duty to defend.”).

D. Case Law Which Narrowly Construes Commercial Liability Coverage for All Patent Infringement Lawsuits Is Not in Accord with Settled Coverage Law Principals

In the most recent decision addressing coverage for patent infringement, *Homedics, Inc. v. Valley Forge Ins. Co.*, 315 F.3d 1135 (9th Cir. (Cal.) 2003), the court affirmed the trial court's finding of no duty to defend. The court ruled that:

We therefore hold that the terms "misappropriation of an advertising idea or style of doing business" cannot be read in an objectively reasonable manner to include the underlying Nikken actions.

Basic common sense dictates that if these policies covered any form of patent infringement, the word patent would appear in the quoted infringement clauses A claim of patent infringement is also a distinct legal claim governed by a vast body of statutory and case law. Yet, there is no mention of patent infringement anywhere in the [commercial general liability] policy. The absence of any express reference to patent infringement in the policy would lead a reasonable layperson to the conclusion that patent infringement is not covered.

Maxconn, Inc. v. Truck Ins. Exchange, 74 Cal. App. 4th, 1267, 1275-1276, 88 Cal. Rptr. 2d 750 (1999) This broad language is dicta but it was made after an exhaustive review of a similar commercial general liability policy and a claim by an insured that a patent infringement suit was covered by that policy.

The court does not explain the logic of why this offense could not include patent infringement claims other than to cite the analysis in *Mez Indust. Inc. v. Pacific Nat'l Ins. Co.*, 76 Cal. App. 4th 856 (1999). The court noted that the *Mez* court in a context of an inducement of infringement claim had found the misappropriation offense unambiguous in light of the insured's objectively reasonable expectations. It states:

The court found . . . "The policy terms 'misappropriation of an advertising idea or style of doing business' . . . simply could not be reasonably read by a layperson to include either patent infringement or the inducement thereof." *Id.* at 872. The court noted that the patents at issue "did not involve any process or invention which could reasonably be considered an 'advertising idea' or 'a style of doing business.'" *Id.* at *13.

Neither the *Mez* court nor the *Homedics* court explains why this was so. Neither court analyzed how liability might attach for offer for sale patent infringement lawsuits. Nor did the courts offer definitions of "misappropriation of an advertising idea or style of doing business" offenses that would preclude coverage for the patent infringement claims before them. The court also misstates that both the *Mez* and *Nikken* actions involve violation of a design patent. *Mez* was regarding airflow conduction systems and *Nikken* concerned therapeutic magnetic devices.

This is especially troubling as a cursory reference to the patents at issue in *Homedics* and *Mez* reveals that they were method not design patents.¹¹ This flaw is but one among many in the

¹¹Patents at issue in *Mez*: Patent Nos. 4,508,376; 4,584,756 ; 4,662,661; 5,022,688 (A joint assembly for connecting the ends of a pair of generally rectangular sheet metal duct sections includes a pair of frame members secured to each other and connected to the respective duct end sections.) - Patents at issue in *Homedics*: Patent No. 4,489,711 (Magnetic plasters are prepared from elastic magnetizable plastics sheets, which are either self-adhesive or may be fixed by means of self-adhesive plasters. They may optionally contain substances which stimulate the circulation of the blood in the self-adhesive layer.); Patent No. 5,304,111 (This invention relates generally to

court's analysis that makes both cases of limited use in predicting how courts approach the test for ascertaining the facts alleged will address the specific factually dependent patent coverage cases before them.

It is notable that the Ninth Circuit elected to publish the order, yet did not permit oral argument. This treatment is troubling as is the court's reliance on dicta in state court of appeal opinions that is contrary to the holding of the California Supreme Court in a subsequent case. *Mez* and *Homedics* make reference to the absence of the word patent in the pertinent policy language. However, this approach is inconsistent with *Safeco Ins. Co. v. Robert S.*, 26 Cal. 4th 758, 761 110 Cal. Rptr. 2d 844, 847 (2001), which found that the insurer has an obligation to put terms in its policy that are intelligible to a lay person. Thus, the absence of a term may not be meaningful, so long as a reasonable interpretation of it might support a finding that a defense is owed.

The key element in *Mez* at 732, that the *Homedics* court relies on was its citation to *Owens-Brockway Glass Container, Inc. v. International Ins. Co.*, 884 F. Supp. 363, 368 (E.D. Cal. 1995) for the proposition that ". . . if patent infringement cannot properly be characterized as an advertising injury offense, then neither could its inducement." Yet there, the *Owens-Brockway* court assumed that the "offense" element might be satisfied, but found the causal nexus to advertising was not met. In *Homedics*, precisely the reverse was urged. Thus, *Homedics'* analysis trails back to a proposition that does not support its argument.

III. THE THREE-PART TEST FOR ANALYZING "ADVERTISING INJURY" COVERAGE

Under the majority rule law, three components are essential to establish a defense for "advertising injury":

- (1) The insured must have engaged in advertising activity;
- (2) The underlying complaint must contain allegations that fit one of the enumerated offenses; and
- (3) The injury to the underlying plaintiff must have arisen solely out of the insured's offense committed in the course of its advertising.¹²

The last element can be understood to require causal connection between advertising of the insured's goods, products or services and liability under one of the enumerated "advertising injury" offenses, as well as injury which arises out of one of the enumerated offenses that constitute "advertising injury."¹³

magnetic medical treatment aids and more particularly to flexible permanent magnetic sheets having an integrally formed pattern of magnetism for therapeutic use.)

¹²*New Hampshire Ins. Co. v. R.L. Chaides Constr. Co.*, 847 F. Supp. 1452, 1455 (N.D. Cal. 1994), as cited in *Winklevoss Consultants, Inc. v. Federal Ins. Co.*, 991 F. Supp. 1024, 1031 (N.D. Ill. 1998).

¹³*Hameid v. National Fire Ins. Of Hartford*, 31 Cal. 4th 16, 22, 1 Cal. Rptr. 3d 401, 405 (2003) ("Thus in order for *Hameid* to have a reasonable expectation of coverage under the National CGL policy for "advertising injury" he must show that: (1) he was engaged in "advertising" during the policy period when the alleged "advertising injury" occurred; (2) KWP's allegations created a potential for liability under one of the covered offenses (i.e.,

IV. ELEMENT TWO OF THE THREE-PART TEST SHOULD BE READILY MET UNDER 1986 ISO CGL POLICIES

A. Proper Application of The Ambiguity Doctrine To Generic Offenses

There has been ongoing debate about whether these offenses are ambiguous. Those courts that confront the multiple reasonable meanings which courts have found for these terms, as well as the fact that they need to be redefined to apply, have readily found ambiguity.¹⁴ As the California Supreme Court recently noted in *Safeco Ins. Co. v. Robert S.*, 26 Cal. 4th 758, 763, 765-66, 110 Cal. Rptr. 2d 844, 28 P.2d 889 (2001).¹⁵:

[A]mbiguous terms are resolved in the insureds' favor, consistent with the insureds' reasonable expectations." (*Kazi v. State Farm Fire & Casualty Co.* (2001) 24 Cal. 4th 871, 879.) . . . An insured should not be expected to know the subtle legal distinctions between the concepts of ordinary negligence and gross negligence.

Nor can courts limit the meaning of ambiguous offenses to a particular tort which is distinct from the actual offense (i.e., limiting misappropriation of advertising ideas or style of doing business¹⁶ to common law misappropriation).

Speaking of an analogous drafting omission by insurers, the California Supreme Court stated,

Insurers commonly insert an exclusion for criminal acts in their liability policies. Because Safeco chose not to have a criminal act exclusion, instead opting for an illegal

misappropriation of advertising ideas); and (3) a causal connection existed between the alleged injury and the "advertising." (*Bank of the West v. Superior Court* (1992) 2 Cal. 4th 1254, 1276, 10 Cal. Rptr. 2d 538, 833 P.2d 545 (Bank of the West); *Peerless Lighting Corp. v. Am. Motorists Ins. Co.* (2000) 82 Cal. App. 4th 995, 1009, 98 Cal. Rptr. 2d 753 (Peerless)").

See also 1998 ISO "Explanation of Changes"

Revised Advertising Offenses:

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

Impact:

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

¹⁴*Winklevoss Consultants, Inc. v. Federal Ins. Co.*, 991 F. Supp. 1024, 1037 (N.D. Ill. 1998).

¹⁵Where there are multiple reasonable definitions in context, and courts have had to redefine policy language in plain English to apply it to given factual scenarios, the phrase is ambiguous.

¹⁶*Advance Watch Co. v. Kemper Nat'l Ins. Co.*, 99 F.3d 795 (6th Cir. 1996). This case has been severely criticized for doing precisely that. *Lebas*, 50 Cal. App. 4th at 567; *American States Ins. Co. v. Hayes Specialties, Inc.*, No. 97-020037 CK4, 1998 WL 1740968 (Mich. Mar. 5, 1998).

act exclusion, we cannot read into the policy what Safeco has omitted. To do so would violate the fundamental principle that in interpreting contracts, including insurance contracts, courts are not to insert what has been omitted.

Safeco at 763-64 (citations omitted).

Nor does the drafter's failure to include a given tort like trade dress or patent infringement mean that the offense may not encompass claims falling within those legal labels. Insurance policy drafters must be required to say what they mean. If the suggestion is that it was not their intent to provide such coverage, then the history of the policy's drafting must be fairly examined and the evidence of objective manifestation of intent reviewed. The predecessor 1976 ISO offenses of "piracy" and "unfair competition" have been found to encompass such claims as patent infringement, publication of trade secrets, and interference with prospective economic advantage.¹⁷ As the 1986 ISO form was adopted by ISO accompanied by the express pronouncement that "no change in scope" of the new coverage was intended, reading the new offenses at least as broadly as the prior offenses is sensible.¹⁸

A further issue is what the term "misappropriation" means. Insurers urge it is necessarily limited to a wrongful taking;¹⁹ policyholders contend that it can include misuse or wrongful use.²⁰ Dictionary definitions which address its common meaning as understood by lay persons support the latter view.²¹

¹⁷*See Intex Plastics Sales Co. v. United National Ins. Co.*, 18 U.S.P.Q. 1567 (C.D. Cal. 1990) (finding that allegations of patent infringement fell within "piracy" offense), *reversed on other grounds*, 23 F. 3d 254 (9th Cir. 1994); *Rymal v. Woodcock*, 896 F. Supp. 637, 638 (W.D. La. 1995); *Attorney's Title Guarantee Fund v. Maryland Cas. Co.*, 1991 U.S. Dist. LEXIS 11909 (N.D. Ill. August 23, 1991) (claim for interference with prospective advantage).

¹⁸This exercise is always avoided by insurers as the drafting history does not aid their claims. DAVID A. GAUNTLETT, *INSURANCE COVERAGE FOR INTELLECTUAL PROPERTY ASSETS*, Ch. 9, § 9.03[C]-[D], pp. 9-35 - 9-42 (Aspen Law and Business Division of Aspen Publishers, Inc., Gaithersburg, NY, 1999) (2001-02 Supplement).

¹⁹*EKCO Group v. Travelers Indemnity Co.*, 2000 DNH 249 (D. N.H. 2000), *reversed*, 2001 U.S. App. LEXIS 26295 (1st Cir. Dec. 10, 2001).

²⁰*Applied Bolting Technology Products, Inc. v. United States Fidelity & Guar. Co.*, 942 F. Supp. 1029 (E.D. Pa. 1996).

²¹The common dictionary definition of the term "misappropriate" supports the policyholder argument that the offense must be construed broadly in order to reflect the reasonable insured's expectations of coverage. As defined by Random House, misappropriate simply means "1. To put to wrong use. 2. To apply wrongfully or dishonestly, as funds entrusted to one's care." RANDOM HOUSE UNABRIDGED DICTIONARY 1228 (2d ed. 1999).

B. Potential Coverage for Business Method Patent Claims Under “Misappropriation of Style of Doing Business” Offense

1. Use of a Business Method in Advertising May Trigger Liability for “Misappropriation of a Style of Doing Business”

The 1986 ISO policy includes coverage for the “advertising injury” offense of “misappropriation of advertising ideas or style of doing business.” The latter portion of that offense – “(misappropriation) of style of doing business” – is, like “misappropriation of advertising ideas,” a jumble of words which is generic in character and has a lay meaning which is broad enough to encompass a number of torts. It is no accident that a number of insurers have specifically written intellectual property exclusion endorsements over these offenses.

The “style of doing business” offense has been broadly construed to encompass conduct such as:

- ? Misappropriating the outward appearance or signature of a business including its trade dress.²²
- ? The wrongful taking of the manner in which a particular commercial activity is conducted.²³
- ? Misappropriating the manner in which a commercial enterprise operates.²⁴
- ? The wrongful taking of a plan for interacting with consumers and getting their business.²⁵

2. The Coverage Is for “Misappropriation of Style of Doing Business,” Not a Comprehensive Style of Doing Business

(a) The Offense of “Misappropriation of Style of Doing Business” Is Very Broad, and May Encompass a Range of Intellectual Property Torts, Including Patent Infringement Claims Involving a “Style of Doing Business”

In the context of a business method patent dispute, there is a strong argument that what is necessarily at issue in the patent lawsuit is the patent owner’s right to exclude others from offering for sale the ability to operate a business according to certain protocols and operations which are reserved to the patent owner. So understood, “misappropriation of style of doing business” may encompass such claims.

Insurers typically argue that “style of doing business” “refers to the outward appearance or signature of a business, the sort of claim comprised under trade dress.” Trade dress claims

²²*St. Paul Fire & Marine Ins. Co. v. Advanced Interventional Sys., Inc.*, 824 F. Supp. 583, 585 (E.D. Va. 1993), *aff’d*, 21 F.3d 424 (4th Cir. 1994).

²³*Union Ins. Co. v. Knife Co.*, 897 F. Supp. 1213 (W.D. Ark. 1995).

²⁴*Advanced Interventional Sys., Inc.*, 824 F. Supp. at 585 (E.D. Va. 1993).

²⁵*The Frog, Switch & Mfg. Co. v. The Travelers Ins. Co.*, 193 F.3d 742 (3d Cir. 1999).

were not found to be covered because trade dress is synonymous with “style of doing business,” but because trade dress constitutes one form of protection one can obtain for a “style of doing business.” As discussed below, there are others as well.

The language of the offense is not limited to only “trade dress.”²⁶ If the Insurers wanted to limit this offense to claims of trade dress infringement, they could have easily done so.²⁷ By listing the offense in terms of conduct rather than a recognized (and inherently limited) cause of action, such as trade dress infringement, the only reasonable inference is that the Insurers intended to provide the broadest coverage possible.

In fact, the only limitation is that the misappropriation must occur in the course of the insured’s advertising, but that limitation should not also be used to limit the meaning of the offenses in the first instance. *Webster’s Third New International Dictionary of The English Language Unabridged* (Merriam-Webster Inc. 1981), defines style as follows: “**1** : to designate (as a person) by an identifying term : TERM, NAME CALL . . . **2** : . . . **b**: to design and make in accord with the prevailing mode; *esp* : to impart a new or distinctive design or quality to”

The coverage provided for “misappropriation of style of doing business,” like that in the insurer’s policies for the “personal injury” offense of “invasion of privacy,” provides generic coverage which requires broad construction to encompass all specific torts which fall within the general category.²⁸ The term “style of doing business” includes as its constituent elements “style” and “business,” with the latter word modified by the adverb “doing,” suggesting an active, rather than passive, use of the verb “to do.” “Style” has been variously defined when used, as here, as a noun, as:

1. a particular kind, sort, or type, as with reference to form, appearance, or character
2. a particular, distinctive, or characteristic mode of action or manner of acting²⁹

III 11 b A particular or characteristic way, form, or technique of making or producing a thing, *esp.* a work of art; a way of executing a task; a manner of performance. . . . 12 A customary . . . procedure or way of doing something.³⁰

As used in this context, “style” is inherently vague so that there will be no way to guess what the drafter intended. Is “over the Internet” a style of doing business? Is “casual dress” a style of doing business? Is “first naming clients/customers” a style of doing business? Does

²⁶Rather, the Insurers have defined the offense in generic terms which should be read to encompass all claims that factually state a claim for the misappropriation of a “style of doing business,” regardless of the legal label a third party plaintiff may use. This would include, in the appropriate circumstances, a claim for patent infringement.

²⁷*Fireman’s Fund Ins. Cos. v. Atlantic Richfield Co.*, 94 Cal. App. 4th 842, 852 (2001) (“[A]n insurance company’s failure to use available language to exclude certain types of liability gives rise to the inference that the parties intended not to so limit coverage.”); *Lebas*, 50 Cal. App. 4th at 567 n.13 (“Those draftsmen had within their power to make clear the full scope of the coverage offered as well as any limitations they wished to place thereon (*Union Ins. Co. v. The Knife Co., Inc.* (W.D. Ark. 1995) 897 F. Supp. 1213, 1216).”).

²⁸*Fibreboard Corp. v. Hartford Acc. & Indem. Co.* 16 Cal.App.4th 492, 515, 20 Cal.Rptr.2d 376, 390 (1993)

²⁹Random House Unabridged Dictionary (2d ed. 1993) at page 1890; or

³⁰The New Shorter Oxford English Dictionary on Historical Principles (5th ed. 1983) at page 3112.

“style of doing business” relate to a set of written company policies? Are exploitive labor practices for plagiarizing images a “style of doing business”? While there may be only one singular style as opposed to styles of doing business envisioned by the policy language, there will be as many different kinds of “styles of doing business” as the needs of a business to stay competitive require. Moreover, what is or is not a style of doing business will depend on the perspective of the person asking the question.

(b) Dictionary Definitions of “Style” Show That a Patent Can Protect a “Style of Doing Business”

As evidenced, “style” has many different meanings. The misuse of another’s trade dress fits within the meaning of the offense of “misappropriation of . . . style of doing business” because trade dress protects the “outward appearance” of a product, that is, its “style.” However, “outward appearance” is just one of the many meanings given to “style.” “Style” also encompasses “a method or custom of performing actions or functions,” such as combining certain components in a certain manner. Likewise, “style” also is defined as a “particular or characteristic way, form, or technique of making or producing a thing, . . . a way of executing a task; a manner of performance . . . A customary procedure or way of doing something.” This definition would encompass a method of combining certain duct components in a certain manner to form a completed duct system.

In light of the foregoing standard dictionary definitions, a layperson would understand the offense to encompass the wrongful use or “misappropriation” of another’s protected “manner of conducting commercial activity.”

(c) Despite Case Law to Date, the Word “Comprehensive” Is Not Part of the Pertinent Offense

The Insurers try to limit the coverage by claiming “style of doing business” can only mean the “*comprehensive* manner of operating [one’s] business,” relying on *St. Paul Fire & Marine Insurance Co. v. Advanced Interventional Systems, Inc.*, 824 F. Supp. 583, 585 (E.D. Va. 1993), *aff’d without opinion*, 21 F.3d 424 (4th Cir. 1994) (emphasis added) (hereafter “*AIS*”). However, the policy language is not so limited. Rather, the *AIS* court added a qualification – *comprehensive* – not found in the policy itself, which is contrary to California law.³¹

Moreover, had the Insurers intended to limit coverage for the offense of “misappropriation of style of doing business” solely the “comprehensive manner of operating” one’s business, they could have qualified the language in such a manner (“misappropriation of a *comprehensive* style of doing business”). They did not and the *AIS* court erred by adding such a limitation to the policy. While some courts have, without independent analysis, parroted that language, this Court should not do so.

Notably, the qualification added by the *AIS* court is inconsistent with its own recognition that “ ‘style of doing business’ expresses essentially the same concept as the more widely used

³¹*Bay Cities Paving & Grading, Inc. v. Lawyers’ Mut. Ins. Co.*, 5 Cal. 4th 854, 871, 21 Cal. Rptr. 2d 691 (1993) (“[O]ur function is not to redraft a policy term merely so that it might be more precise and easier for us to apply.”).

term: ‘trade dress.’ ” *AIS*, 824 F. Supp. at 585. Although the *AIS* court cited a case which addressed protection for an “overall business style,”³² trade dress protection is not limited to only an “overall business style.” “In contrast to a trademark, “trade dress” refers to the “total image of a product” and may include features such as size, shape, color combinations, texture or graphics.³³

Nonetheless, the *AIS* court went on to find 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.’ ” *AIS*, 824 F. Supp. at 585 (emphasis added).

The *AIS* court cited to one example of trade dress that involved an “overall business style” and inexplicably concluded that should be the benchmark. However, decisions in which courts have found coverage for trade dress infringement claims reveal that “style of doing business” is not limited to a “company’s comprehensive manner of operating its business.”³⁴

It bears noting that the offense in issue is not listed as “style of advertising” but “style of doing business.” “Style of doing business” is listed in the policy in addition to “advertising ideas.” Consequently, the overall context of the policy shows that the offense it is intended to encompass is more than just what might be found in the text of one’s advertising, that is, another’s “advertising ideas.”

Read together and in context, the covered offenses must be understood as an attempt by the Insurers to provide the broadest possible protection for whatever type of tort, no matter how pled, that could arise out of one’s advertising. Put simply, when one misappropriates another’s “style of doing business” (whether their method of operation, or the appearance of their business or product), there is coverage as long as the other coverage predicates are met (i.e., a causal nexus with advertising, etc.).³⁵

There was no requirement that the usage be a “comprehensive style of doing business. *Kinko’s, Inc. v. Shuler*, 255 Wis. 2d 834, 646, 646 N.W.2d 855 (Wis. App. 2002), *rev. den.* 256 Wis. 2d 65 (2002) found that the offense was implicated where the insured had misappropriated

³²“See *Shakey’s, Inc. v. Martin*, 430 P.2d 504 (Idaho 1967) (protection of restaurant franchisor’s financial interest in the overall business style, including such things as a type of furniture, a certain physical setup, an exposed cooking area, a type of music and a limited menu) . . . ” *AIS*, 824 F. Supp. at 585 n.1.

³³*International Jensen v. Metrosound U.S.A.* 4 F.3d 819, 822 (9th Cir. 1993), emphasis added, citations omitted.

³⁴*Dogloo, Inc. v. Northern Ins. Co., supra*, 907 F. Supp. 1383, 1389-1390 (C.D. Cal. 1995); *American Econ. Ins. Co. v. Reboans, Inc., supra*, 900 F. Supp. 1246, 1254 (N.D. Cal. 1995) (“Numerous courts that have examined advertising injury coverage for ‘misappropriation of style of doing business’ have concluded that the term refers to trade dress infringement . . . ‘One’s mark and name is an integral part of an entity’s “style of doing business.”’) (quoting *J.A. Brundage Plumbing & Roto-Rooter, Inc. v. Massachusetts Bay Ins. Co.*, 818 F. Supp. 553, 558-59 (W.D.N.Y. 1993), *vacated by reason of settlement*, 153 F.R.D. 36 (W.D.N.Y. 1994)).

³⁵*Sentex Sys., Inc. v. Hartford Accident & Indem. Co.*, 93 F.3d 578, 580 (9th Cir. 1996) (“This policy’s language, given its ordinary meaning, does not limit itself to the misappropriation of an actual advertising text. It is concerned with ‘ideas,’ a broader term.”)

and used sales and promotion strategies in marketing plans causing “injury.” As the Eleventh Circuit noted in *Hyman v. Nationwide Mut. Fire Ins. Co.*, 304 F.3d 1179, 1188-89 (11th Cir. (Fla.) 2002):

[S]tyle of doing business’ is routinely defined, without explanation, as ‘unambiguously referring to “a company’s comprehensive manner of operating its business.”’ *Novell*, 141 F.3d at 987 (citations omitted). . . . So general a definition is of limited utility, but it is important to recognize that the phrase is meant to describe an ‘advertising injury.’ Accordingly, without defining the exact parameters of the phrase, we conclude that ‘style of doing business’ must include the manner in which a company promotes, presents, and markets its products to the public.

C. The “Misappropriation of Advertising Ideas” Offense May Be Implicated by Business Method Patent Claims

1. The Nature of How Liability Will Attach for Business Method Patent Claims Supports a Finding a Defense

The following objectively reasonable definitions of the “misappropriation of advertising ideas” offense are typical:

- Taking [or misuse of] the idea of another’s invention as one’s own idea or invention in the course of advertising (*Lebas Fashion Imports of USA, Inc. v. ITT Hartford Ins. Grp.*, 50 Cal. App. 4th 548, 559, 59 Cal. Rptr. 2d 36 (1996))
- Misuse or capitalization upon the idea of claiming a revolutionary new design as an enticement to customers.”³⁶
- Capitalizing upon the goodwill associated with [another’s] marketing idea . . . to persuade consumers.³⁷

It is, therefore, no surprise that a court expressly described the coverage provided by this “misappropriation” offense as encompassing the “misappropriation of intellectual property.”³⁸ This definition is wholly reasonable where the term “advertising idea” has been described as

³⁶*Frog, Switch & Mfg. Co. v. Travelers Ins. Co.*, 193 F.3d 742, 749 (3d Cir. (Pa.) 1999) (“The complaint did not allege . . . that Frog took an idea about advertising . . . (the idea of claiming a revolutionary new design as an enticement to customers.)” (emphasis added)).

³⁷*Flodine v. State Farm Ins. Co.*, No. 99 C 7466, 2001 U.S. Dist. LEXIS 2204, at *35-36 (N.D. Ill. Feb. 27, 2001) (“Flodine’s alleged offenses, the marketing and promotion of products as ‘authentic Indian-made,’ reasonably fall within the common meaning of . . . ‘advertising idea.’ Capitalizing upon the goodwill associated with Indian-made products is a marketing idea concerned with how to persuade consumers to buy certain goods. . . . [These] alleged activities . . . also harmed competitors by using a marketing concept that others had an exclusive right to use.” (emphasis added)).

³⁸*Dugger v. Upledger Inst.*, 795 F. Supp. 184, 188 (E.D. La. 1992), *summ. judg. granted in part*, 1992 U.S. Dist. LEXIS 12777 (S.D. La. Aug. 21, 1992), *aff’d without op.*, 8 F.3d 20 (5th Cir. (La.) 1993).

encompassing a “valuable but uncopyrightable idea which plaintiff has uncovered by great effort and expense.”³⁹

The United States patent and Trademark office created a new class for examining business method patents –Class 705. It typically embraces methods of doing business in the following domain: Data processing, financials, business practice, management or cost/price determination. It included an apparatus or method uniquely designed for or utilized for the practice, administration or the management of an enterprise. Examples of such patentable Business Methods include:

1. On-line music previews – Intouch
 2. System and method of cross-selling products
 3. Reverse auction
 4. Once click check out
 5. Targeted banner ads
- 2. New Case Law Finding a Duty to Defend For A Business Method Patent Infringement Lawsuit**

The only case to analyze a duty to defend under the “misappropriation of advertising ideas” offense/injury where a business method patent was implicated – *Amazon.com* – is analogous and supports finding a defense herein.

In *Amazon.com Int’l, Inc. v. American Dynasty Surplus Lines Ins. Co.*, 120 Wn. App. 610, 616-17, 85 P.3d 974 (2004) (emphasis added; footnotes omitted), the court held:

Misappropriation of an advertising idea may be accomplished by the “wrongful taking of another’s manner of advertising,” by “the wrongful taking of an idea concerning the solicitation of business and customers”; or by “the wrongful taking of the manner by which another advertises its goods or services.”

. . . [P]atent infringement may constitute an advertising injury “where an entity uses an advertising technique that is itself patented.” That was the essence of Intouch’s allegation against Amazon. Giving the required liberal construction to the pleadings, Intouch alleged that its patented music preview technology was an element of Amazon’s advertisement. The Intouch complaint thus conceivably alleged misappropriation of an idea concerning the solicitation of business and customers.

Insurers seek to distinguish *Amazon.com* by claiming that the patent claims depict an “advertising technique” is a mischaracterization. Instead, they focus on the utility of these devices or note improvements in their operation. However, business methods may utilize technical features to facilitate the achievement of the business purpose which the patent broadly defines as was true in *Amazon.com* and *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1370 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1093 (1999).

This analysis was followed in *Amazon.Com Inc., v. Atlantic Mutual Ins. Co.*, Case No. C05-00719 RSM, 2005 WL 1711966 (W.D. Was. July 21, 2005). Therein, the court addressed a

³⁹*Merchants Co. v. American Motorists Ins. Co.*, 794 F. Supp. 611, 618 (S.D. Miss. 1992), citing *Decorative Aides Corp. v. Staple Sewing Aids*, 497 F. Supp. 154 (S.D.N.Y. 1980).

series of distinct business method patent claims based on the recitals in the patent claims to show that the misappropriation occurred in the elements of the advertisement itself. The patented technologies: (1) “provide customers who are using Amazon.com with updated product data in an electronic catalog format,” (2) “personalize certain products that are marketed to a customer on Amazon.com’s website; (3) includes a “virtual shopping cart” for customers to process items they wish to purchase.” *Id.* at *3-4.

These uses fall within variant definitions of the “misappropriation” offense as uses of (1) “an advertising technique that is itself patented . . .”, (2) “an *idea* for soliciting business (3) “an *idea* about advertising” or (4) “another’s manner of advertising” *Id.* at *5.

Insurer claims that the insureds patent at issue cannot be a business method patent because it contains technical aspects that preclude it from being a business method. In *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343 (Fed. Cir. 2001), however, Amazon sought to protect its “one-click” patent which the court described as both a method and system for performing certain functions. *Id.* at 1347. The court discussed the fact that some of the patent’s claims were method claims while others were apparatus claims. *Id.* at 1348. The “one-click” patent like the patent at issue here involved both apparatus and methods. There is no doubt that the “one-click” patent is a business method patent.

3. Even Some Carrier Coverage Counsel Agree With This Analysis

An insurance coverage attorney at Sedgwick, Detert, Moran & Arnold LLP who specializes in representing insurers recognized this fact in 2001. *See Business Method Patents: Insurance Coverage Implications After State Street v. Signature Financial*, by Christopher R. Wagner, Mealey’s Emerging Insurance Disputes, Vol. 6, p.17, September 4, 2001 (“Indeed, insurance coverage may be triggered by a business method patent infringement claim if the claim (1) alleges a ‘misappropriation. . .of style of doing business’ (2) that was committed ‘in the course of advertising [the insured’s] goods, products or services’ (3) and the claim is not otherwise excluded from coverage”).

4. Other Business Method Patent Fact Scenarios That Trigger a Defense

The same is true vis-à-vis the first recognized business method patent in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1370 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1093 (1999). That patent concerned “a data processing system (the system) for implementing an investment structure which was developed for use in [the patentee’s] business as an administrator and accounting agent for mutual funds.” Explaining why the invention was for statutory subject matter, the Federal Circuit reasoned: “[C]laim 1 is directed to a machine programmed with the Hub and Spoke software and admittedly produces a ‘useful, concrete, and tangible result’ . . . even if the useful result is expressed in numbers, such as price, profit, percentage, cost, or loss.” *Id.* at 1375.

Insurer seeks to distinguish *Amazon.com* by noting that there an “advertising technique” was at issue, claiming that the present case involves only “an ankle bracelet and corresponding receiver and microprocessor.” Insurer mischaracterize the patent claims, which do not focus on the utility of these devices or note improvements in their operation, but rather discuss them as

elements in the achievement of a business purpose. Any technical features utilized, as was true in *Amazon.com* and *State Street Bank*, merely facilitate the achievement of the business purpose which the patent broadly defines.

V. ELEMENT TWO OF THE THREE-PART TEST SHOULD BE READILY MET UNDER COMMERCIAL LIABILITY “OFFENSES” OTHER THAN THE 1986 ISO CGL COVERAGE FOR “MISAPPROPRIATION OF ADVERTISING IDEAS OR STYLE OF DOING BUSINESS”

A. Business Method Patent Infringement Is Covered under the 1976 ISO CGL Offense of “Piracy”

Coverage for “piracy” includes coverage for patent infringement for six distinct reasons:

First, “piracy” is not a defined tort and employs generic language.⁴⁰ As any dictionary definition will evidence, “piracy” includes patent infringement.⁴¹ In light of the fact that common usage, common dictionary definitions, and various intellectual property cases define “piracy” to encompass patent infringement claims, the “plain meaning” of the term includes patent infringement.⁴² If the court believes the term has any other possible meaning in this context, then it is ambiguous and the meaning urged by the insured is a reasonable one requiring the adoption of insured’s objectively reasonable layperson’s understanding.

Second, courts often speak of “piracy” as denoting a form of patent infringement in discussing the substantive tort,⁴³ as well as in analyzing insurance coverage for patent infringement lawsuits.⁴⁴

⁴⁰*Tinseltown Video, Inc. v. Transportation Ins. Co.*, 61 Cal. App. 4th 184, 188, 71 Cal. Rptr. 2d 371, 373 (1998) (“ ‘ ‘To the extent the listed offenses [in the policy] are framed in generic terms, they should be construed broadly to encompass all specific torts which reasonably could fall within the general category.’ ”).

⁴¹RANDOM HOUSE UNABRIDGED DICTIONARY 1475 (2d ed. 1993) (“piracy . . . 2. the unauthorized reproduction or use of a copyrighted book, recording, television program, patented invention, trademarked product, etc.: *The record industry is beset with piracy.*”); BLACK’S LAW DICTIONARY 1169 (7th ed. 1999) (“piracy” means: “The unauthorized and illegal reproduction or distribution of materials protected by copyright, patent, or trademark law.”); WEBSTER’S THIRD NEW INTERNATIONAL DICTIONARY OF THE ENGLISH LANGUAGE UNABRIDGED (1986) (defines “piracy” as “an unauthorized appropriation and reproduction of another’s production, invention or conception . . .”).

⁴²*New Castle County v. National Union Fire Ins. Co.*, 243 F.3d 744, 756 (3d Cir. (Del.) 2001) (“*See SI Mgmt. L.P. v. Wininger*, 707 A.2d 37, 42 (Del. 1998) (. . . A single phrase, which insurance companies have consistently refused to define, and that has generated literally hundreds of lawsuits, with widely varying results, cannot, under our application of commonsense, be termed unambiguous.”).

⁴³*Wallace London & Clemco Prods., Inc. v. Carson Pirie Scott & Co.*, 946 F.2d 1534, 1538 (Fed. Cir. 1991); *Pain Prevention Lab, Inc. v. Electronic Waveform Labs, Inc.*, 657 F. Supp. 1486, 1492 (N.D. Ill. 1987); *Graver Tank & Mfg. Co. v. Linde Air Prods., Inc.*, 339 U.S. 605, 607, 94 L. Ed. 1097, 70 S. Ct. 854 (1950) (“One who seeks to pirate an invention, like one who seeks to pirate a copyrighted book or play, may be expected to introduce minor variations to conceal and shelter the piracy.”); *Matthews v. Koolvent Metal Awning Co.*, 158 F.2d 37 (5th Cir. 1946).

⁴⁴*U.S. Test v. NDE Envtl. Corp.*, 196 F.3d 1376, 1382 (Fed. Cir. 1999), *reh’g denied*, 1999 U.S. App. LEXIS 34476 (Fed. Cir. Dec. 17, 1999) (applying Louisiana law) (The court cited *Rymal v. Woodcock*, 896 F. Supp. 637, 638 (W.D. La. 1995), noting: (“Indeed, patent infringement is often referred to as piracy in that the infringer is considered to have pirated the patented invention.”) (emphasis added)); *United States Fid. & Guar. Co. v. Star Techs.*, 935 F. Supp. 1110, 1114 (D. Or. 1996) (“The Star defendants argue that patent infringement is a form of

Third, by including “piracy” as one of the covered offenses in its prior ISO policy forms, ISO used a general term which is commonly understood and defined to include patent infringement claims. Insurers recognize as much in crafting express exclusions for same where the offense at issue is “piracy.” Some courts have distinguished *Land & Sky*, finding that “piracy” covers inducement of patent infringement claims premised on advertising due to a concurrent exclusion for patent claims in an umbrella policy. This is too narrow a reading of that case. The insurer’s crafting of such an exclusion evidences that the meaning of “piracy” must be contextually broad enough for that exclusion to be written, thereby demonstrating the reasonableness of such a policy construction.⁴⁵

Fourth, a number of patent infringement coverage cases that ultimately did not find coverage clarified that they did so because different policy language was at issue in the policy and suggest that the result may have differed had the offense at issue been “piracy.”⁴⁶

Fifth, although some case law analyzing a pre-“offer for sale” patent infringement case depends on wholesale adoption of the reasoning in *Iolab Corp. v. Seaboard Sur. Co.*, 15 F.3d

‘piracy’ by pointing to various dictionary definitions: ‘Unlawful reproduction or distribution of property protected by patent and trademark laws,’ (Black’s Law Dictionary 1148 (6th ed. 1990)); ‘Infringement of the rights conferred by a patent or copyright,’ (Oxford English Dictionary 897 (2d ed. 1989)); and the ‘unauthorized appropriation or use of a . . . patented work,’ (Webster’s Encyclopedic Unabridged Dictionary 1096 (1989)). . . . This court therefore concludes that the term ‘piracy’ is susceptible of more than one reasonable interpretation, and as such, under Oregon law must be construed in favor of the insured. Thus, ‘piracy’ encompasses patent infringement, which necessarily includes an inducement to infringe.” (citation omitted)); *Union Ins. Co. v. Land & Sky, Inc.*, 247 Neb. 696, 701-02, 529 N.W.2d 773, 776-77 (1995) (“In *National Union Fire Ins. Co. v. Siliconix Inc.*, 729 F. Supp. 77 (N.D. Cal. 1989), the court stated that ‘piracy’ was susceptible of two interpretations and that patent infringement was included in one of those interpretations. . . . [W]e note that the court in *Atlantic Mut. Ins. Co. [v. Brotech Corp.]*, 857 F. Supp. 423 (E.D. Pa. 1994) 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. . . . [W]e find that the term ‘piracy’ is ambiguous and is capable of at least two . . . reasonable interpretations, one encompassing patent infringement and one not, [therefore,] we construe the term ‘piracy’ in favor of the insured as encompassing patent infringement.”); *New Hampshire Ins. Co. v. R. L. Chaides Constr. Co.*, 847 F. Supp. 1452, 1456 (N.D. Cal. 1994) (“This court accepts the reasoning of *National Union Fire Ins. Co. v. Siliconix Inc.*, 729 F. Supp. 77 (N.D. Cal. 1989), which involved policy language substantially the same as here and in which Judge Lynch found 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. *Id.* at 79.”); *Omnitel v. Chubb Group of Ins. Cos.*, No. H-15104-0, 1993 WL 438839, at *7 (Cal. App. Dep’t Super. Ct. Mar. 26, 1993) (In finding that “piracy” encompasses claims for patent infringement, the court noted that Webster’s Dictionary defines “piracy” to include “unauthorized appropriation and reproduction of another’s production, invention, or conception.”).

⁴⁵*American Cas. Co. v. Continisio*, 819 F. Supp. 385 (D. N.J. 1993) (modifications of policy language can evidence what range of meanings ambiguous policy provisions can be construed to include).

⁴⁶*Herman Miller, Inc. v. Travelers Indem. Co.*, 162 F.3d 454, 455 (6th Cir. 1998) (applying Michigan law) (“Viewed alone, we could not say that the term[] ‘piracy’ . . . could never constitute patent infringement.” (emphasis added)); *St. Paul Fire & Marine Ins. Co. v. Advanced Interventional Sys., Inc.*, 824 F. Supp. 583, 585 n.6 (E.D. Va. 1993) (applying California law), *aff’d*, 21 F.3d 424 (4th Cir. (Va.) 1994) (“The majority of the cases relied upon by AIS involve policy language that includes amongst the predicate offenses ‘unfair competition’ or ‘piracy.’ The fact that these cases have found coverage for patent infringement under the policies in question is irrelevant to the present dispute because ‘unfair competition’ and ‘piracy’ are not predicate offenses under the language of the St. Paul policy.” (citations omitted)).

1500 (9th Cir. (Cal.) 1994),⁴⁷ that panel’s analysis is factually limited to indemnity analysis of direct infringement “sale” of products covered by utility patent claims. Courts nationally have typically rejected arguments that the range of meanings of the “advertising ideas” offense is limited to the actual text or logo of an advertisement, even in cases where, as is untrue here, there must be a nexus between advertising and the “advertising injury” offense of “misappropriation of advertising ideas.”⁴⁸

The *Iolab* court’s analysis is further flawed because it failed to appreciate the nature of the underlying patent dispute upon which its coverage analysis depended. Contrary to the court’s assumption, the patent in issue therein, No. 4,104,339, describes a method for manufacture of intraocular lenses. Its claims could be infringed only by acts of use or manufacture, not by sale of a product created from use of the process. *See Joy Techs., Inc. v. Flakt, Inc.*, 28 U.S.P.Q.2d 1378 (Fed. Cir. 1993). It also relies on the absence of a nexus between the alleged wrongful acts and the insured’s advertising activity. *Iolab* is therefore inapposite here, where the offense at issue, “misappropriation of advertising ideas,” is all that need be established to trigger a duty of defense.

B. Business Method Patent Infringement Claims Are Potentially Covered under the 1998 ISO CGL Offense of “Use of Another’s Advertising Idea in Your Advertisements”

1. New 1998 ISO CGL “Advertising Injury” Offense

Most Departments of Insurance’s throughout the United States have approved ISO’s new advertising injury coverage policy form CG00010798 made the following pertinent changes to advertising injury coverage.

First, it deletes the following offenses: (1) infringement of title and (2) misappropriation of advertising ideas or style of doing business. Second, it adds two new offenses: “(1) Infringement upon another’s copyright, trade dress, or slogan in your advertisement; and (2) the use of another’s advertising idea in your advertisement.” It also includes a specific definition of “advertisement.” Advertisement means “a notice that is broadcast or published to the general public or specific market segments about your goods, products or services for the purpose of attracting customers or supporters.”

2. Like the Predecessor Offense “Use of Another’s Advertising Idea” May Be Ambiguous in a Business Method Patent Context

It is no wonder that the court had to redefine the offense to give it an operative definition. This is even more the case with the phrase “use of another’s advertising idea in your advertisement.” Not one element of that phrase uses any tort language.⁴⁹ Advertising that

⁴⁷*Atlantic Mut. Ins. Co. v. Brotech Corp.*, 857 F. Supp. 423, 428-29 (E.D. Pa. 1994), *aff’d*, 60 F.3d 813 (3d Cir. (Pa.) 1995) (Direct patent infringement lawsuits premised on acts of site use or manufacture under § 271(a) could not trigger a defense under offenses of “piracy” and “unfair competition.”).

⁴⁸*See State Auto*, 343 F.3d at 256-57.

⁴⁹*Tinseltown Video, Inc. v. Transportation Ins. Co.*, 61 Cal. App. 4th 184, 194-95, 71 Cal. Rptr. 2d 371, 377 (Cal. Ct. App. 1988) (Its “personal injury” and “advertising injury” coverage is triggered by commission of the

constitutes words which comprise this phrase are reasonable meaning for this offense, would include “misuse of another’s advertising concept in connection with promotion of your goods and services.” So understood business method patent claims that encapsulate an advertising technique would be patentable covered where that technique was used by an alleged infringer.

It is no wonder that the court had to redefine the offense to give it an operative definition. This is even more the case with the phrase “use of another’s advertising idea in your advertisement.” Not one element of that phrase uses any tort language.⁵⁰

In *Frog, Switch & Mfg. Co. v. Travelers Ins. Co.*, 193 F.3d 742, 749 (3d Cir. (Pa.) 1999), the court provided a reasonable definition of the ambiguous offense of “misappropriation of advertising ideas.” That concept was interpreted by the court as applying to “the idea of claiming a revolutionary new design as an enticement to customers.” *Id.* at 749.

Thus, understood in light of its constituent terms and defend in the context of the policy as a whole, the 1998 ISO offense can be fairly understood to include a meaning broader than that attributed to the more narrowly phrased offense of “misappropriation of advertising ideas.”

“Misappropriation” requires “wrongful use,” whereas the new policy language simply requires “use.” That “use” need not be wrongful. Were the term “wrongful” to be implied as part of the construction of this language, a Court would have to substitute words in a previous version of the policy which were abandoned by the insurer, the ISO organization in this draft, for the benefit of the insurer. Such is precisely contrary to proper rules of policy construction.⁵¹ Further, it would run contrary to the rule that policy terms must be interpreted “in the ordinary and popular sense” unless the parties used them in a technical sense or a special meaning is given to them by usage.

One reasonable definition of the undefined and ambiguous phrase “use of another’s ‘advertising idea’ in your advertisement” is:

employing another’s idea for solicitation of business or a revolutionary new design as an enticement to customers as part of the insured’s public notices about its goods, products and services.⁵²

offense, not injury; such offenses are framed in generic terms and are to be construed to encompass all specific torts that reasonably could fall within the general category.).

⁵⁰*Tinseltown Video, Inc. v. Transportation Ins. Co.*, 61 Cal. App. 4th 184, 194-95, 71 Cal. Rptr. 2d 371, 377 (Cal. Ct. App. 1988)

⁵¹*See Safeco Ins. Co. v. Robert S.*, 26 Cal. 4th 758, 764, 761 110 Cal. Rptr. 2d 844, 847 (2001) (“[W]e cannot read into the policy what [the insurer] has omitted. To do so would violate the fundamental principle that in interpreting contracts, including insurance contracts, courts are not to insert what has been omitted.”).

⁵²*See* RANDOM HOUSE UNABRIDGED DICTIONARY (1993):

Use [p. 2097]: “1. To employ for some purpose; put into service; make use of: *to use a knife.*”

Of [p. 1343]: “5. (used to indicate apposition or identity). *Is that idiot of a salesman calling again?*”

Another’s [p. 85]: “1. Being one more or more of the same; further; additional; *another’s piece of cake.*”

Prior versions of the policy were regularly validated by reference to a dictionary available to all parties involved in the drafting exercise. It cannot be otherwise since a lay person's understanding of policy language and ordinary usage is the key to interpretation. Nothing about the contextual placement of the language objectively requires that result. Indeed, the drafting history reveals that all variations are fair and appropriate reflections of its meaning in this context.⁵³ Many business method patent claim lawsuits will fall within the scope of this policy language. Where an advertising technique or methodology is protected by patent claims.⁵⁴

Advertising [p. 29]: "1. The act or practice of calling public attention to one's product, service, need, etc. esp. by paid announcements, as a goods for sale, in newspapers or magazines, on radio or television, etc."

Idea [p. 949]: "1. Any conception existing in the mind as the result of mental understanding, or activity; 2. A thought, conception or notion. *That is an excellent idea.*"

In [p. 964]: "1. (Used to indicate inclusion within space, a place or limits)"

Your [p. 2205]: "1. (A form or the possessive case of you used as an attributive adjective). *Your jacket is in that closet. I like your idea* (used to indicate that one belonging to one's self or to any person)"

Advertisement [p. 29]: "1. A paid announcement, as of goods for sale in newspapers or magazines, on radio or television, etc. 2. A public notice esp. (3) the action of making generally known; a calling to the attention of the public. *The news of the event will receive wide advertisement.*"

⁵³See JUDITH N. LEVI, *THE SYNTAX AND SEMANTICS OF COMPLEX NOMINALS* (Academic Press 1978) (Levi's work noted that complex nominals (noun-noun compounds and the adjective-noun expressions which are only superficially different from them) can have at least a dozen interpretations; the noun-noun compound "advertising ideas" could mean, for starters:

ideas made of advertising	(like: aluminum can)
ideas used for advertising	(like: beer can, ballet music, pancake batter)
ideas containing advertising	(like: beer pitcher; 3-martini lunch)
ideas which are advertising	(like: pizza dinner)
ideas from advertising	(like: Georgia peach)
ideas with advertising	(like: rocket boys)
ideas causing advertising	(like: happiness pill)
ideas about advertising	(like: China policy, history book).

Other work (Downing (1977) and Clark & Clark (1979) showed that such expressions are grammatically extremely vague, and their interpretation in context is limited only by what a hearer might think a speaker meant by them. (For example, "anxiety scale" means 'scale for measuring anxiety'; "Winnie-the-Pooh dress" might mean 'dress with images of Winnie-the-Pooh on it' or 'dress bought to wear to a play about Winnie-the-Pooh'; Downing's example, "apple-juice seat," referred to a seat that a particular person was sitting in on an occasion when he spilled apple juice.) Consequently, "concepts used to publicize a business" is a reasonable interpretation of "advertising ideas," and "wrongful taking of any concept used to publicize a business" is a plausible interpretation of "misappropriation of advertising ideas," and, in the context, a salient one.

[References: Eve & Herb Clark, *When Nouns Serve As Verbs*, 55 *Language* 767-811 (1979); Pam Downing, *The Creation and Use of English Compound Nouns*, 53 *Language* 810-842 (1977).]

⁵⁴See *Iolab*, 15 F.3d at 1507 n.5 (The court noted, "[W]here the advertising and the infringing sales are merged, as in sale of a patented product by mail order catalogue, or where an entity uses an advertising technique that is itself patented, a court might possibly hold that the infringement arises out of or is committed in the advertising.").

3. “Use of Another’s Advertising Idea in Your Advertisements has Been Readily Held to Common Law Misappropriation

In *Central Mutual Ins. Co. v. Stunfence, Inc.*,⁵⁵ Judge Shadur analyzed coverage for Stunfence’s alleged representations in industry periodicals that it developed, introduced, and owned the Power Fence and its related technology on which its competitor, Gallagher, had registered a trademark. Also of note was the fact that Stunfence’s website assertedly touted, among other things, that its product was “‘the world’s only virtually false alarm free outdoor security product’ – the same marketing claims that Gallagher ha[d] made with reference to its own product. Gallagher asserted that *StunFence* thus ‘misappropriated [Gallagher’s] advertising and promotion claims,’ causing harm to Gallagher’s reputation and good will.”⁵⁶

The court found these facts created no difficulty in demonstrating a duty to defend where under the 1998 ISO “advertising injury” offenses of “use of another’s advertising idea in your advertisement.” Although *Stunfence* only referenced the use of another’s advertising idea as an independent grounds for summary judgment in a brief paragraph, the court found that it had the ability to address this issue with more specificity, citing *330 W. Hubbard Rest. Corp. v. United States*, 203 F.3d 990, 997 (7th Cir. 2000).⁵⁷

The court found false advertising claims that evidenced common law misappropriation triggered a defense:

In this instance Gallagher alleged that StunFence used Gallagher’s trademark “Power Fence” on its website and made promotional claims identical to those used by Gallagher in marketing its own product. Additionally, Gallagher claimed that StunFence made statements in trade industry periodicals that StunFence owned and developed the technology and maintained proprietary rights over that technology – characteristics that purportedly describe the Power Fence. And of course Gallagher asserted that it suffered harm as a result of StunFence’s advertising. In combination those allegations are more than sufficient to generate Central’s duty to defend under the Primary Policy’s coverage of injuries arising from the “use of another’s advertising idea in your ‘advertising.’”⁵⁸

⁵⁵292 F. Supp. 2d 1072 (N.D. Ill. 2003)

⁵⁶*Id.* at 1075.

⁵⁷*Id.* at 1076.

⁵⁸*Id.* at 1079-1080.

VI. ELEMENTS 1 AND 3 OF THE THREE-PART TEST ARE SATISFIED

A. Element One Is Readily Satisfied in Many Fact Scenarios as Internet Promotion Fairly Meets Any Reasonable Definition of the Term “Advertising”

If the insurer wanted to limit advertising activity to widespread dissemination of materials, it could have done so, by limiting the term in the policy. Because it did not do so, the definition is ambiguous and must be construed in favor of the insured.⁵⁹

The two schools of thought on the scope of the term “advertising” invite forum selection where the facts facing a policyholder will not satisfy a narrower definition adopted by a particular court.

Insurer Definition: Widespread distribution of promotional materials usually directed to the public at large – [a] notice that is broadcast or published in the general public or specific Market segments for the purpose of attracting customers or supporters.⁶⁰

Policyholder Definition: “Any oral, written, or graphic statement made by the seller in any manner in connection with the solicitation of business.”⁶¹

Emblematic of the struggle courts have had in addressing the proper meaning of advertising in “advertising injury” coverage provisions is the journey of the Seventh Circuit. The following cases applied this “advertising” definition with the results noted. The Seventh Circuit explained the propriety of a uniform “advertising” definition, whether in a coverage provision or an exclusion.⁶² The word “advertising,” the court emphasized, is not an ambiguous term. As such, it should be given its “plain, ordinary meaning,” which does not necessarily favor the insured. *Id.* at 895. The court did not decide whether that plain, ordinary meaning requires

⁵⁹ *People v. Beaulieu Realtors, Inc.*, 144 Ill. App. 3d 580, 494 N.E.2d 504, 508 (1986), cited by *Attorneys’ Title Guaranty Fund, Inc. v. Maryland Casualty Company*, No. 90 C 3916, 1991 U.S. Dist. LEXIS 11909 (N.D. Ill. Aug. 27, 1991):

Advertise, which may be accomplished by statements or representations made in newspapers, radio, television or any other method of notice, is defined: “To advise, announce, apprise, command, give notice of, inform, make known, publish. * * * Any * * * statement made by the seller in any manner in connection with the solicitation of business * * *.” *Black’s Law Dictionary* 50 (5th ed. 1979). . . . We conclude that advertising entails giving general notice in order to attract public attention.

⁶⁰ *Hameid v. National Fire Ins. Co.*, 31 Cal. 4th 16, 29, 1 Cal. Rptr. 3d 401 (2003) (No) (Letters and phone calls by hairstylists to prior customers upon moving to a new hair salon.); *Fireman’s Fund Ins. Co. v. Bradley Corp.*, 660 N.W.2d 666, 679 (Wis. 2003) (Yes) (Disseminating marketing brochures and displaying products at a trade show.); *King v. Cont’l W. Ins. Co.*, 123 S.W.3d 259, 265 (Mo. App. 2003) (Yes) (A contractor placing its sign next to Custom home is analogous to a highway billboard sign, both call attention to specific product for sale.).

⁶¹ The following cases applied this advertising definition with the results noted: *Elan Pharm. Research Corp. v. Employers Ins. of Wausau*, (Yes) 144 F.3d 1372,1377 (11th Cir. (Ga.) 1998) (External distributions of clinical studies to promote commercial interest in Nifelon in trade journals and to security analysts); *State Auto Property and Cas. Ins. Co. v. Travelers Indemnity Co.*, (Yes) 343 F.3d 249,250 (4th Cir. (NC) 2003) (Use of domain names “www.nissan.com” and “www.nissan.net.”).

⁶² *Erie Ins. Group v. Sear Corp.*, 102 F.3d 889, 894 (7th Cir. (Ind.) 1996)

widespread distribution of promotional material, but pointed out that the “clear majority of cases addressing the issue . . . have found the term ‘advertising’ to unambiguously refer to widespread distribution of promotional material to the public.” *Id.* at 894 n.2. The court held only that “advertising” means, at the very least, “active solicitation of business.” *Id.* at 894.⁶³

In *Charter Oak Fire Ins. Co. v. Hedeem & Companies* 280 F.3d 730, 736-737 (7th Cir. (Wis.) 2002), the Seventh Circuit essentially backed away from cases narrowly defining “advertising” and found that the sending out of “business letters” could satisfy the “advertising activity” requirement. As the court explained:

The amended Galoob complaint alleged that the Hedeems sent “business letters” on letterhead which included the Mirco Machines trademark and that this practice “created actual confusion, mistake and deception among the commercial public” and resulted in “unlawful profits” for the Hedeems. . . . [T]he Wisconsin Supreme Court has recognized the dictionary definition of “advertise” to be “to call the attention of the public to a product or business; . . . to proclaim the qualities or advantages of (a product or business) so as to increase sales” and “**to call public attention to esp. by emphasizing desirable qualities so as to arouse a desire to buy or patronize.**” . . . [T]he complaint alleges that the use of the letterhead impacted “the commercial public” and resulted in “unlawful profits” for the Hedeems. **Furthermore, the Hedeems are involved in a business with a very limited commercial audience.** We find that under the allegations of the complaint, liberally construed, it is at least arguable that the trademark was used in the course of the Hedeems’ advertising, triggering Charter Oak’s duty to defend.

These and other like decisions show that courts are increasingly reluctant to arbitrarily apply a narrow definition of “advertising” at the expense of acknowledging the business and economic realities face by many (if not most) commercial policyholders.⁶⁴ In crafting a resolution to the issues presented by the instant case, this Court should be careful to adopt a definition of “advertising” which adequately reflects the activities of a significant portion of California’s business community.

The major jurisdictions, judged by the size of their populations, apply a definition of advertising which, although singular in nature, is broader than that adopted by the Court.⁶⁵

⁶³No case law addressing the meaning of the term advertising which preceded *Erie Ins. Group* supports a contrary result. The adoption by *Playboy Enters. v. St. Paul Fire & Marine Ins. Co.*, 769 F.2d 425, 429 (7th Cir. 1985) of the definition “widespread distribution of promotional material to the public at large,” as Judge Castillo noted in *Winklevoss Consultants, Inc. v. Federal Ins. Co.*, 991 F. Supp. 1024, 1031 n.9 (N.D. Ill. E.D. 1998), “is distinguishable from this case because it involved an exclusionary provision, which is construed strictly against the insurer and interpreted as narrowly as possible.” *International Ins. Co. v. Florists Mut. Ins. Co.*, 201 Ill. App. 3d 428, 433, 147 Ill. Dec. 7, 559 N.E.2d 7, 10 (1990) and *Davila v. Arlasky*, 857 F. Supp. 1258, 1262 (N.D. Ill. 1994) both uncritically adopted the narrow *Playboy* definition without due regard for the context in which that statement was made. *Winklevoss* at 1031 n.9. This court, relying on the more thoughtful analysis of the 7th Circuit in *Erie Ins. Co.*, *supra*, cited by the court in *Winklevoss II*, can do better.

⁶⁴Similarly, in affirming the District Court’s decision in *Solers, Inc. v. Hartford Cas. Ins. Co.* 146 F. Supp. 2d 785, 786 (E.D. Va. 2001), the Fourth Circuit Court of Appeals stated (“Our inquiry into the plain meaning of ‘advertising’ ends with our determination that ‘advertising’ and the solicitation of bids that occurred here are mutually exclusive. The district court need not have gone further, and we do not necessarily agree with the district court’s narrow definition of the term ‘advertising’ to mean ‘the widespread promotion of goods or services to the public at large, or to the company’s customer base.’”)

⁶⁵**Florida:** *Hyman v. Nationwide Mut. Fire. Ins. Co.* 304 F.3d 1179, 1188 (11th Cir. (Fla.) 2002) (“[A]dvertising means the ‘action of calling something to the attention of the public.’ *Adolfo House Distrib. Corp.*

Indeed, these definitions are fully in concert with the definition recommended herein, “to call a matter to public attention by any means whatsoever.” Should the Court insist on adopting a narrower definition, such a definition will disadvantage California policyholders against those in all of the most competitive states nationally. Moreover, it would have this effect for no purpose.

In *Hameid v. National Fire Ins. Of Hartford*, 31 Cal. 4th 16, 24, 1 Cal. Rptr. 3d 401, 407, 71 P.2d 761, 766 (2003). The court interpreted “the term ‘advertising’ as used in CGL policies to mean widespread promotional activities usually directed to the public at large.” Notably, the court’s statement that the insured must be ‘engaged in advertising’ to meet the reasonable expectations’ doctrine first requires an acknowledgement that the term ‘advertising’ may be ambiguous.⁶⁶ While *Bank of the West* purported to reference the majority meaning for “advertising,” a survey of published opinions predating its ruling reveals that this was an inaccurate statement at the time that opinion was issued, as it is now.⁶⁷

v. Travelers Prop. & Cas. Ins. Co., 165 F. Supp. 2d 1332, 1339 (S.D. Fla. 2001) (quoting Webster’s Collegiate Dictionary (9th ed. 1983)). An ‘advertising idea,’ therefore, can be any idea or concept related to the promotion of a product to the public. See *id.* (citing Black’s Law Dictionary (7th ed.1999), which defines advertising as ‘the action of drawing the public’s attention to something to promote its sale’); *Sentex Sys., Inc. v. Hartford Accident & Indem. Co.*, 93 F.3d 578, 580 (9th Cir. 1996) (‘In this day and age, advertising cannot be limited to written sales materials, and the concept of marketing includes a wide variety of direct and indirect advertising strategies.’); **Illinois:** *People v. Beaulieu Realtors, Inc.* 144 Ill.App.3d 580, 585 494 N.E.2d 504, 508 (1986) (“Advertise, which may be accomplished by statements or representations made in newspapers, radio, television or any other method of notice, is defined: ‘To advise, announce, apprise, command, give notice of, inform, make known, publish. * * * Any * * * statement made by the seller in any manner in connection with the solicitation of business * * *.’ BLACK’S LAW DICTIONARY 50 (5th ed. 1979).”); **New York:** *J.A. Brundage Plumbing & Roto-Rooter, Inc. v. Massachusetts Bay Ins. Co.* 818 F. Supp. 553, 558, (W.D.N.Y. 1993) vacated due to settlement (1994) 153 F.R.D. 36 (New York case law has adopted the definition of “advertising,” from Black’s Law Dictionary 54 (6th ed. 1990), which is “To advise, announce, apprise, command, give notice of, inform, make known, publish. To call a matter to public attention by any means whatsoever. Any oral, written, or graphic statement made by the seller in any manner in connection with the solicitation of business and includes . . . statements and representations . . . contained in any notice, handbill, sign, catalog, or letter or printed on or contained in any tag or label attached to or accompanying any merchandise.”); **Texas:** *Bay Elec. Supply, Inc. v. Travelers Lloyds Ins. Co.* 61 F.Supp.2d 611, 618 (S.D.Tex. 1999) (“The Texas Supreme Court has adopted a very broad definition of advertising. . . . Black’s Law Dictionary 54 (6th ed. 1990): ‘to advise, to announce, to apprise, to command, to give notice of, inform, to make known, publish. [To] call a matter to the public attention by any means whatsoever. Any oral, written, or graphic statement made by the seller in any manner in connection with the solicitation of business’”).

⁶⁶The existence of differing views as to what a lay and generic policy term such as “advertising” means evidences ambiguity where the issue is what the ordinary and popular “meaning” of a policy term is, rather than what rules of policy construction to adopt. Even the narrower view of that meaning need not be as restrictive as this Court’s adopted definition. *Fireman’s Fund Ins. Co. v. Bradley Corp.*, 660 N.W.2d 666, 678-679 (2003) (“Generally speaking, advertising refers to calling the public’s attention to a product or business by proclaiming its qualities or advantages in order to increase sales or arouse a desire to buy or patronize.”).

⁶⁷See *Merchants Co. v. American Motorists Ins. Co.* 794 F. Supp. 611, 619 (S.D. Miss. 1992) (“[P]art of the conduct alleged in the Alabama action relates to the use of AFD’s customer list by Merchants to send a flyer to some of AFD’s customers. This conduct is, in the view of the Court, conduct committed ‘in the course of advertising.’”); *Liberty Life Ins. Co. v. Commercial Union Ins. Co.* 857 F.2d 945, 950 (4th Cir. (S.C.) 1988) (“Each complaint alleges a conscious scheme by Liberty to destroy Metropolitan’s business, entice its agents away [T]he policies themselves are silent as to what constitutes advertising activity. When these policies are construed against the drafter, . . . the activities of Liberty’s agents, as alleged in the Metropolitan complaints, could be termed advertising.”); *CNA Cas. of Cal. v. Seaboard Sur. Co.* 176 Cal.App.3d 598, 613, 222 Cal. Rptr. 276 (1986) (“The term ‘advertising’ is not defined in Seaboard’s policy Even if we accept Seaboard’s definition of ‘advertising’ as ‘the action of calling something . . . to the attention of the public especially by means of printed or broadcast paid

The Court’s reasoning in *Hameid* supports adoption of a singular meaning for the word “advertising” be adopted, not any particular definition so long as that meaning be in concert with the ordinary and popular definition of the word defined it meets the court’s concerns.

No matter how interpreted, the “advertising” element will be satisfied for most conduct that triggers liability for “use” that infringes business method patents. Even if a narrower definition of “advertising” was adopted as its purportedly self evident “plain meaning,” that narrower meaning would embrace the advertisement of products and services on the internet.⁶⁸

B. The Causal Nexus Called for by the Policy Language Is Between “Offense” and “Advertising Activity” Not “Injury” and “Advertising Activities”

As noted by a court whose opinion is cited by the insurers, “the policy only provided coverage for offenses ‘committed in the course of advertising’” The Supreme Court held this language requires that “advertising injury” must have a causal connection with the insured’s “advertising activities” before there can be coverage. Thus, where the promotion of the product or service at issue constitutes “advertising” within the meaning of the policy, the “advertising activities” must have in some sense caused one or more of the enumerated “underlying injury” offenses.⁶⁹

C. Claims of Use of a Business Method Patent May Bear a Causal Nexus to the Policyholder’s Advertising Activity

The liability asserted, occurred in the course of an insureds advertising of its goods, products or services by wrongfully utilizing the patented method often underlying infringing “use” of business method claims. Policyholder allegedly used a patented business method as a means of drawing the attention of consumers to its goods, products and services, resulting in damage to the Claimant. Its alleged infringement of the patents are intricately linked to the insureds advertising. Where it uses the patented method in advertising its goods, products and services.

announcements . . . ,’ it is clear that the factual allegations in the *Salveson* complaint referred at least potentially to misrepresentations, defamations and disparagements made to the public. Part of WSBA’s function was to serve as the advertising arm of its member banks” (internal quotations omitted)).

⁶⁸ *Westfield Companies v. O.K.L Can Line*, 155 Ohio App. 3d 747, 755, 804 N.E. 2d 45, 50 (2003) (“A web page is advertising under any definition”).

⁶⁹ *Pacific Group v. First State Ins. Co.* 70 F.3d 524, 527 (9th Cir. (Cal.) 1995) (causal nexus is only between offense and the insured’s advertising activity); *B.H. Smith, Inc. v. Zurich Ins. Co.* 285 Ill. App. 3d 536, 539, 676 N.E.2d 221, 223 (1996) (applying New York law) (“Zurich’s duty to defend was triggered in this case because the *Claiborne* complaint alleged an injury constituting an enumerated offense which occurred in the course of Smith’s advertising activities.”); *Flodine v. State Farm Ins. Co.*, No. 99 C 7466, 2001 U.S. Dist. LEXIS 2204, at *34 (N.D. Ill. E.D. March 1, 2001) (“As for the ‘causation’ requirement or requirement that ‘misappropriation’ be related to commercial speech, . . . [the underlying plaintiff’s complaint] concerns the manner in which Penney and Flodine marketed and advertised those products: a manner which created the false impression that the products were authentic, Indian-made goods.”).

Where an actionable “use” is an “advertisement, such that the use of a method is accomplished by the very act of following the directions of an “advertisement,” the insureds advertising activities allegedly directly infringe patents because the manner in which the insureds advertises using the business method is itself the allegedly wrongful act. The causal nexus between advertising activity and liability is thus established through the claimants allegedly wrongful use of a patented business method resulting in damage to the claimant. The advertisement both creates liability and satisfies the causation language of the policy concurrently. Analogously, the same distinct result attends where advertising forms a basis for direct patent infringement liability based on “an offer for sale.”⁷⁰

VII. CONCLUSION

The only court to address whether patent coverage arose under a business method patent claim rarely found a defense under a 1986 ISO CGL policy form. Absent an express patent infringement exclusion, the same result should attend under a 1976 ISO/1998 ISO CGL policy forms. Notice of such claims and clarification of all facts that evidence why coverage may be implicated in the underlying acts are key to securing a defense for such claims. Pursuit of patent coverage claims requires knowledge of both patent law to assess how liability could have attached in the underlying action as well as of insurance coverage law. There are many traps for the unwary as insurers seek to limit coverage for such claims by mischaracterizing the proper legal standard to be adopted, and urging limiting “insurance” concepts that are not appropriately applied to analyzing “offense” based coverage.

⁷⁰*HollyAnne Corp. v. TFT, Inc.*, 199 F.3d 1304, 1309 n.6 (Fed. Cir. 1999) (Advertisements may be “offers to sell” and, thus, give rise to direct patent infringement claim.).