

# “NARROW, NARROWER AND NARROWEST”

*IPO Submission*

By

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## **I. CGL ISO POLICY FORMS**

### **A. Commercial General Liability Policy Forms Have a Variety of Provisions, Many of Which are Narrower Than Insureds Contemplate**

This article will analyze three distinct policy forms: one from ISO, another from St. Paul and a third from Chubb. Each has unique aspects but the recurring theme is that there has been an ongoing narrowing of “personal injury”/“advertising injury” coverage provisions. The narrowest version of these policies, according to its author St. Paul, will preclude any coverage that would otherwise be available for not only “personal injury and advertising injury,” but “bodily injury” and “property damage” as well, if any claim for relief asserting intellectual property violations is included – in light of St. Paul’s broad reading of one sentence in the middle of its intellectual property exclusion as part of policy form 47150 (Rev. 7.01 © 2001): **“Nor will we cover any other injury or damage or medical expenses alleged in a claim or suit that also alleges any such infringement or violation.”**

### **B. The Development of “Advertising Injury” Provisions**

#### **1. 1976 ISO CGL Form**

The insuring clause of the 1976 Broad Form Endorsement includes the following:

“Advertising Injury” means any injury arising out of an offense committed during the policy period occurring in the course of the named policyholder’s advertising activities, if such injury arises out of such libel, slander, defamation, violation of right of privacy, piracy, unfair competition or infringement of copyright title or slogan.

The 1976 Broad Form Endorsement excluded coverage for advertising injury arising out of “infringement of trademark, service mark, or trade name, other than titles or slogans, in connection with goods, products or services sold, offered for sale or advertised.”

#### **2. 1986 ISO CGL Form**

In 1986, the ISO issued a CGL policy which replaced the ISO’s 1976 CGL policy with its “Broad Form Endorsement.” A new explanatory memorandum was also issued entitled “ISO General Liability Policy Revision Highlights of Current and Revised Contracts” (the “1986 Highlights”). This fact sheet was issued to advise insureds and their brokers what could be expected under the new policy language.

The 1986 Highlights emphasized that despite substitution of the offense of “misappropriation of advertising ideas or style of doing business” for “piracy” and “unfair competition,” there was “no change in scope” between the 1976 ISO and 1986 ISO policies. This new policy adopted the following definition:

“Advertising Injury” means injury arising out of one or more of the following offenses:

- (1) Oral or written publication of material that slanders or libels a person or organization or disparages a person’s or organization’s goods, products or services;

- (2) Oral or written publication of material that violates a person's right of privacy;
- (3) Misappropriation of advertising ideas or style of doing business; or
- (4) Infringement of copyright, title or slogan.

The 1986 ISO form also eliminated the trademark infringement exclusion.

### 3. 1998 ISO CGL Form

ISO's new "advertising injury" coverage policy form, CG 00 01 07 98, made a number of pertinent changes to "advertising injury" coverage.

**First**, it deleted the offenses of: (1) "infringement of title"; and (2) "misappropriation of advertising ideas or style of doing business."

**Second**, it added 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 defined "advertisement" as "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."

The fact that the 1998 form expressly refers to trade dress infringement and not trademark infringement has precipitated coverage disputes. Litigation, to date, has favored policyholders in finding potential coverage for trademark infringement/unfair competition/false advertising under the 1998 ISO language.

- *Super Duper, Inc. v. Pennsylvania Nat'l Mut. Ins. Co.*, 683 S.E.2d 792, 798 (S.C. 2009) ("[T]he use of another's advertising idea may include trademark infringement because to infringe upon someone's trademark, which is an advertising device, one improperly uses another's advertising idea to draw the consumer's attention to a product.");
- *Ohio Cas. Ins. Co. v. Albers Medical, Inc.*, No. 03-1037-CV-W-ODS, 2005 WL 2319820, at \*4 (W.D. Mo. Sept. 22, 2005) ("[B]y labeling a substance – regardless of its efficacy or actual chemical composition as Lipitor when the substance was not really the product produced by Pfizer under that name, Albers allegedly used Pfizer's idea for calling public/consumer attention to its product.");
- *Central Mutual Ins. Co. v. StunFence, Inc.*, 292 F. Supp. 2d 1072, 1079 (N.D. Ill. 2003) ("[A] trademark (a designation affixed to goods to identify their source) easily qualifies as an 'advertising idea' . . . . 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.").

### 4. 2001 ISO CGL Form

ISO has significantly curtailed its CGL "personal and advertising injury" coverage in the 2001 version of its policy. Despite the absence of any reduction in premium, it limits intellectual property coverage. To wit: "Only your advertisement of copyright, trade dress or slogan" is covered. Moreover, it adds a general statement for IP exclusions unless the IP offense otherwise is specifically included:

## 2. Exclusions

### j. Infringement Of Copyright, Patent, Trademark Or Trade Secret

“Personal and advertising injury” arising out of the infringement of copyright, patent, trademark, trade secret *or other intellectual property rights*.

However, this exclusion does not apply to infringement, in your “advertisement”, of copyright, trade dress or slogan.

Also see LI-GL-2001-001 at p. 9. International Internet exposure for covered offenses is extended to all offenses “that take place through the Internet or similar electronic means of communication.” LI-GL-2001-001 at p. 11. No coverage is provided to website designers or Internet access providers. LI-GL-2001-001 at p. 9.

## 5. 2007 ISO CGL Form

There is no change in this policy except that it makes explicit what was implicit in the 2001 policy language, which is likely to be available today:

### i. Infringement Of Copyright, Patent, Trademark Or Trade Secret

“Personal and advertising injury” arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights. *Under this exclusion, such other intellectual property rights do not include the use of another’s advertising idea in your “advertisement.”*

## II. CGL POLICIES OFFERING A 2007 ISO POLICY FORM REMAIN AVAILABLE FROM A NUMBER OF INSURERS IN THE MARKETPLACE

The following commercial general liability policies presently offer forms of ISO-based coverage, including the 2007 ISO coverage form CG 00 01 12 07, which is arguably one of the broader forms available for commercial liability insurance.

It is not clear which particular lines of insurance these carriers are prepared to write or how large a corporation they are willing to issue these policies to. However, their websites confirm the availability of these products at:

- [https://www.gamcustom.com/html/primary\\_coverage.html](https://www.gamcustom.com/html/primary_coverage.html) (Great American Insurance Group)
- <http://www.goldeneagle-ins.com> (Golden Eagle Insurance)
- <http://www.onebeacon.com/bus.aspx?mnuid=3.0> (OneBeacon Insurance)
- <http://www.libertymutualgroup.com> (Wausau Casualty Co. & Liberty Mutual Group)
- <http://www.mcg-ins.com/Commercial.aspx> (Mid-Continent Group)
- <https://www.cna.com> (CNA Financial Corp.)

- <http://www.firstmercury.com/bus-seg-fmic.html> (First Mercury Insurance Co.)
- <http://www.aceusa.com> (ACE Group)
- <http://www.admiralins.com/products/index.php?ID=2> (Admiral Insurance Co.)

Several recent state supreme courts, as well as federal appellate court of appeal decisions, applying state law in a number of cases, which would have triggered a defense under a standard form 1986/1998/2001/2004 or 2007 ISO policy, would fall outside the provisions of the intellectual property exclusions and endorsements discussed herein assuming they were held enforceable because they were “conspicuous, plain and clear.”

- *Super Duper, Inc. v. Pennsylvania Nat’l Mut. Ins. Co.*, 683 S.E.2d 792, 795-96 (S.C. 2009) (Answering certified question No. 1 in the affirmative, “Whether an underlying suit premised upon trademark infringement by the insured qualifies as injury arising out of the offense of ‘misappropriation of advertising ideas or style of doing business?’” and citing *State Auto Property & Casualty Insurance Co. v. Travelers Indemnity Co. of America*, 343 F.3d 249, 255-58 (4th Cir. 2003) and *CAT Internet Servs., Inc. v. Providence Washington Ins. Co.*, 333 F.3d 138, 142 (3d Cir. 2003)).
- *Super Duper, Inc.* 683 S.E.2d at 798 (Also answering certified question No. 3 in the affirmative, “Whether an underlying suit premised upon trademark infringement by the insured qualifies as injury arising out of the offense of ‘use of another’s advertising idea in your ‘advertisement?’” citing *Ohio Cas. Ins. Co. v. Cloud Nine, LLC*, 464 F. Supp. 2d 1161, 1166 (D. Utah 2006) (quoting *Atlantic Mut. Ins. Co. v. Badger Med. Supply Co.*, 191 Wis. 2d 229, 528 N.W.2d 486, 490 (Wis. Ct. App. 1995)).
- *General Cas. Co. of Wisconsin v. Wozniak Travel, Inc.*, 762 N.W.2d 572 (Minn. 2009) (Answering certified question No. 1 in the affirmative, “Does trademark infringement fall within the scope of ‘misappropriation of advertising ideas or style of doing business’ or constitute ‘infringement of copyright, title or slogan’ as set forth in the CGL policy?” citing *Acuity v. Bagadia*, 310 Wis. 2d 197, 750 N.W.2d 817, 827 (2008)).
- *Wozniak Travel*, 762 N.W.2d at 579 (Also answering certified question No. 2 in the affirmative, “Is a trademark an ‘advertising idea’ or does trademark infringement constitute ‘infringing upon another’s copyright, trade dress or slogan’ as set forth in the CUL policy?” citing *Fireman's Fund Ins. Co. v. Bradley Corp.*, 261 Wis. 2d 4, 660 N.W.2d 666 (2003)).

### III. VARIANT POLICY FORMS

#### A. Travelers Policy Forms

##### 1. “Web Xtend” Liability [Form CG D2 34 01 05]

The Travelers Indemnity Company of Connecticut Policy No. I-660-0669P356-TCT-09 for the policy period 09/11/09 to 09/11/10 issued on 10/02/09 consists of 199 pages with six different types of coverages (property, general liability, employee benefits, crime, and inland marine) and includes a Commercial General Liability Coverage Form from ISO Properties Inc. CG 00 01 10 01, copyright ISO 2000, commonly referred to as the ISO 2000 CGL policy form.

This 2000 CGL policy form includes, beginning at page 5 of 16, “Coverage B PERSONAL AND ADVERTISING INJURY LIABILITY” coverage with an “Insuring

Agreement” that promises (policy terms within quotation marks are terms defined within the policy):

We will pay those sums that the insured becomes legally obligated to pay as damages because of “personal and advertising injury”<sup>2</sup> to which this insurance applies. We will have the right and duty to defend the insured against any “suit” seeking those damages.

Definitions for all CGL coverages begin at page 12 of 16 of policy form CG 00 01 10 01. The definition of “personal and advertising injury” is on page 14 of 16 of that policy form, a listing of the covered “personal and advertising injury” offenses, “a” through “g” (page 98 of the entire Commercial Insurance Policy). The relevant policy language includes:

14. “Personal and advertising injury” means injury . . . arising out of one or more of the following offenses:

f. The use of another’s advertising idea in your “advertisement.”

The CGL policy form CG 00 01 10 01 is then followed by several “endorsements,” including “Xtend Endorsement” (form CG D1 86 11 03) that begins: “General Description of Coverage – This endorsement broadens coverage.”

The next endorsement, “Web Xtend Liability” (form CG D2 34 01 05), contains a variety of unexplained changes in language, merely recitations of “replacement” language. On page 4 of 5 of the form (page 110 of the entire Commercial Insurance Policy), under the heading “Personal and Advertising Injury,” is the language:

The definition of “Personal and advertising injury” (Section V—Definitions) is deleted in its entirety and replaced by the following definitions of “advertising injury” and “personal injury.”

The form then restates separate definitions of “advertising injury” and “personal injury” in words that are substantially similar to those in the original policy form but with some subtle changes.

The new form recites:

“Advertising injury” means injury arising out of one or more of the following offenses:

The form lists offenses labeled “a” through “c.”

The new “advertising injury” offenses “a” and “b” appear to be identical to the new “personal injury” offenses “d” and “e” (concerning oral and written publication) and therefore very similar to the original “personal and advertising injury” offenses “d” and “e” (concerning oral and written publication) but appearing to broaden the language to cover “electronic publication.” The new “advertising injury” offense “c” appears to be a slightly revised version of the original “personal and advertising injury” offense “g” (concerning infringement of copyright, trade dress or slogan).

Then the new form recites:

“Personal injury” means injury . . . arising out of one or more of the following offenses:

The form lists offenses labeled “a” through “e.”

The new “personal injury” offenses “a” and “b” are identical to offenses “a” and “b” of the original “personal and advertising injury” offenses. Revised “personal injury” offense “c” generally appears to be a slightly longer version of the original “personal and advertising injury” offense “c” (concerning wrongful eviction, etc.). Revised “personal injury” offenses “d” and “e” generally appear to be slightly longer versions of the original “personal and advertising injury” offenses “d” and “e” (concerning oral and written publication) but appearing to broaden the language to cover “electronic publication.”

## **2. Travelers’ Reshuffling of its “Personal Injury/Advertising Injury” into Distinct “Personal Injury” and “Advertising Injury” Coverage Surreptitiously Eliminates Coverage for the “Use of Another’s Advertising Idea in your ‘Advertisement’” Offense**

The most significant change after the splitting of “personal and advertising injury” offenses into separate “personal injury” and “advertising injury” offenses is that the original “personal and advertising injury” offense “g” has simply disappeared without any notification or explanation. Offense “g” in the original policy is “the use of another’s advertising idea in your ‘advertisement.’”

So the effect of Travelers’ “Web Xtend Liability” endorsement (that misleadingly implies some “xtension” of coverage) is to silently eliminate two lines of coverage out of 199 pages using the distraction of rearranging and slightly modifying some text. There is no notification of the real change in coverage even as might be found in an “exclusion.”

Travelers here has used a variation of the street hustler’s old shell game where the con man game “operator” “palms” a pea originally hidden under one of several shells being moved around a table top while the “mark” is induced to believe that he can carefully watch the shell and know where the pea will land; of course whichever shell the mark chooses, the pea has simply disappeared.

Another street variation of this dishonest gambling operation is “three-card monte” where the operator “palms” a card that the “mark” believes to exist. Travelers’ insurance sales were here converted into a dishonest, rigged gambling operation where critical coverage promised in the main policy has been silently stripped out of the policy without a single word of explanation.

No ordinary insured would realize that a particular “advertising injury” offense has been removed while others were rearranged, deleting significant policy language, without a detailed analysis by insurance coverage counsel. These last two pages summarize the steps necessary to even realize that the policy coverage has been reduced and not “Xtended.”

## **3. Pertinent Coverage Case Law Supports An Attack On The Travelers’ “Reshuffling” Endorsement**

The effect of Travelers’ “Web Xtend Liability” endorsement is like the exclusion found unenforceable in *Scottsdale Ins. Co. v. Century Sur. Co.*, No. B204521, 2010 WL 797189 (Cal. Ct. App. Mar. 10, 2010) (unpublished). Therein, the insurer discreetly eliminated two lines of coverage out of 193 pages using the distraction of rearranging and slightly modifying some text. There was no notification of the real change in coverage as one would reasonably expect when confronted with an endorsement which eliminates previously covered claims.

- *Scottsdale Ins. Co. v. Century Sur. Co.*, No. B204521, 2010 WL 797189 (Cal. Ct. App. Mar. 10, 2010) (unpublished, non-paginated) (“One must read the exclusion in detail, based on the single sentence typed below the schedule, in order to have even the vaguest understanding that the exclusion is *not* an exclusion of specific work or location, as it is titled, but is instead an attempt to exclude all prior completed work from coverage. Thus, we have significant doubts regarding the exclusion's conspicuousness.”).

No ordinary insured would realize that a particular “advertising injury” offense has been removed while others were rearranged, deleting significant policy language. Without a detailed analysis by insurance coverage counsel an insured would never know. As definitively stated by the California Supreme Court in *Haynes v. Farmers Ins. Exchange*, 89 P.3d 381, 388 (Cal. 2004), and long reflected in jurisdictions across the nation:

“While the insurer has every right to sell insurance policies by methods of mechanization, and present-day economic conditions may well justify such distribution, the insurer cannot then rely upon esoteric provisions to limit coverage. If it deals with the public upon a mass basis, the notice of noncoverage of the policy, in a situation in which the public may reasonably expect coverage, must be conspicuous, plain and clear.”

- *Scottsdale Ins. Co. v. Century Sur. Co.*, 2010 WL 797189 (non-paginated) (“ ‘As we have declared time and again, “any exception to the performance of the basic underlying obligation must be so stated as clearly to apprise the insured of its effect.” ’ ”);
- *Long v. Long*, No. C-050567, 2006 WL 1302516, at \*4 (Ohio Ct. App. May 12, 2006) (“[I]nsurance policy does not conspicuously indicate that the endorsements contain such a severe limitation of liability, nor does it adequately designate which sections are affected by the endorsements. Because the endorsements are not conspicuous, we conclude that the trial court correctly declined to give them effect.”);
- *Birnbaum v. Jamestown Mut. Ins. Co.*, 83 N.E.2d 128, 132 (N.Y. 1948) (“When a misconstruction by an ordinary businessman of an exclusory provision of an indorsement [sic] attached to a policy of insurance means substantial injury to his business, . . . the provision must be drawn in such ‘clear and unmistakable terms, so that no one could (may) be misled.’ ”).

Therefore, Travelers’ “Web Xtend Liability” endorsement is unenforceable because its insured reasonably expects coverage under the “Personal and Advertising Injury” offense of “use of another’s advertising idea in your ‘advertisement,’ ” clearly contained in the main CGL coverage form. The endorsement eliminating that coverage was not “conspicuous, plain and clear.”

## **B. St. Paul Policy Forms**

### **1. St. Paul CGL Policy [Form VP033 Ed. 1-02]**

*Personal injury offense* means any of the following offenses:

- Libel or slander, in or with covered material

- False arrest, detention, or imprisonment.
- Malicious prosecution.
- Wrongful entry into, or wrongful eviction from, a room, dwelling, or premises that a person occupies, if such entry or eviction is committed by or for the landlord, lessor, or owner of that room, dwelling, or premises.
- Invasion of the right of private occupancy of a room, dwelling, or premises that a person occupies, if such entry or eviction is committed by or for the landlord, lessor, or owner of that room, dwelling, or premises.
- Libel of an individual, other than an individual as a sole owner of a business, in or with covered material.
- Slander of an individual, other than an individual as a sole owner of a business, in or with covered material.

*Advertising injury offense* means any of the following offenses:

- Libel of an individual, other than an individual as a sole owner of a business, in or with covered material.
- Slander of an individual, other than an individual as a sole owner of a business, in or with covered material.
- Unauthorized use of any advertising material, or any slogan or title, of others in your advertising.

### **Exclusions – What This Agreement Won't Cover**

**Intellectual property.** We won't cover injury or damage or medical expenses that result from any actual or alleged infringement or violation of any of the following rights or laws:

- Copyright.
- Patent.
- Trade dress.
- Trade name.
- Trade secret.
- Trademark.
- Other intellectual property rights or laws.

**Nor will we cover any other injury or damage or medical expenses alleged in a claim or suit that also alleges any such infringement or violation.**

But we won't apply this exclusion to bodily injury or property damage that result from your products or your completed work.

Nor will we apply this exclusion to advertising injury that results from the unauthorized use of any:

- copyrighted advertising material;
- trademarked slogan; or
- trademarked title; of others in your advertising. **[Emphasis added.]**

**2. An “Expansionary Sentence” In An IP Exclusion That Eliminates Coverage That Was Otherwise Reasonably Expected Should Not Be Enforceable**

In *Molecular Bioproducts, Inc. v. St. Paul Mercury Ins. Co.*, No. 03-cv-46-IEG (LSP), 2003 WL 23198852 (S.D. Cal. July 9, 2003), St. Paul's claim of no coverage due to the broad “nor will we cover” exclusion referenced in bold above was upheld.

Discussing *Molecular Bioproducts*, the court in *Align Tech., Inc. v. Federal Ins. Co.*, \_\_\_ F. Supp. 2d \_\_\_, 2009 WL 4282098, at \*9 (N.D. Cal. 2009) stated:

In *Molecular Bioproducts*, the exclusion provided that there was no coverage for

injury or damage ... that result from any actual or alleged infringement or violation of the following rights or laws: Copyright. Patent. Trade dress. Trade name. Trade secret. Trademark. Other intellectual property rights or laws.

Nor will [St. Paul] cover any other injury or damage ... alleged in a claim or suit that also alleges any such infringement or violation.

2003 WL 23198852 at \*1. The court found that the “alleged in a claim” language was “clear and explicit and ..., therefore, dispositive” because the counterclaims asserted against Molecular included claims for declaratory judgment of patent invalidity, i.e. of obtaining a patent in violation of the patent laws. *Id.* at \*5.

However, the same criticism leveled against Federal's policy in *Align* could be leveled against that issued by St. Paul.

The “expansionary” sentence in St. Paul's 2002 IP exclusion is not “conspicuous, plain and clear” as it did not inform an insured that it would eviscerate all policy benefits that would otherwise entitle the insured to a defense. The only change in the modified policy text is an “expansionary sentence” – “Nor will we cover any other injury or damage or medical expenses alleged in a claim or suit that also alleges any such infringement or violation.” A dramatic reduction in coverage effects a change which requires clear notification, not provided by St. Paul in connection with the issuance of this policy form.

- *Haynes*, 89 P.3d at 390 (Instructing an insured to read his entire policy is not sufficient notice of loss of an important benefit, particularly where exclusion is unexpected.); *accord*, *Gordinier v. Aetna Cas. & Sur. Co.*, 742 P.2d 277, 283-84 (Ariz. 1987) (refusing to enforce even *unambiguous* language “[w]here the insured did not receive full and adequate notice . . . and the provision is either unusual or unexpected, or one that emasculates apparent coverage”).

By effecting a distinct change to well-established law nationally that would emasculate the duty to defend otherwise covered claims, it fails to meet the test requiring that the change to policy language be “conspicuous, plain and clear.”

- *Buss v. Superior Court*, 939 P.2d 766, 775 (Cal. 1997) (“To defend meaningfully, the insurer must defend immediately. (*Montrose Chemical Corp. v. Superior Court*, *supra*, 6 Cal.4th at p. 295.) To defend immediately, it must defend entirely.”);
- *Aetna Cas. & Sur. Co. v. PPG Indus., Inc.*, 554 F. Supp. 290, 296 (D. Ariz. 1983) (“If the complaint . . . alleges several causes of action . . . [and] one or more are within [the policy’s] terms, the insurer is bound to defend the [entire] action.”).

The most recent case to analyze an analogous IP exclusion supports finding that it did not bar a defense.

- *Align Tech.*, 2009 WL 4282098, at \*10 did not look to the specific policy language issued by St. Paul – but both the St. Paul policy and the policy it evaluated from Federal suffered from the same infirmity. (“Federal’s language does not put an insured reasonably on notice that Federal will not cover claims in a lawsuit whenever that lawsuit also includes a claim for intellectual property.”).

*Molecular Bioproducts* did not address the question of whether, in light of the nature of the change, the policy is truly “conspicuous, plain and clear” in communicating the import of that change.

- *Rosen v. State Farm Gen. Ins. Co.*, 30 Cal. 4th 1070, 1076 (2003) (“ ‘It is a well-established rule that an opinion is only authority for those issues actually considered or decided.’ ”);
- *Calnimpewa v. Flagstaff Police Dept.*, 30 P.3d 634, 639 (Ariz. Ct. App. 2001) (“[I]t is always inappropriate to read an appellate opinion as authority for matters neither specifically presented and discussed, nor even accorded footnote mention.”).

Even if the new expansionary sentence were “conspicuous and plain,” it does not clearly mean *only* what St. Paul now asserts it to mean.

- *MacKinnon v. Truck Ins. Exch.*, 73 P.3d 1205, 1218 (Cal. 2003) (“But even if [the insurer’s] interpretation is considered reasonable, it would still . . . have to establish that its interpretation is the *only* reasonable one.”).

Limiting the exclusionary provision to indemnity and thereby resolving the issue of how to allocate damages in a “mixed action,” as well as eliminating a need to adjudicate causation by determining whether damages were for a covered claim versus an uncovered claim, is an equally viable reading of that provision.

- *Lockwood Int'l, B.V. v. Volm Bag Co.*, 273 F.3d 741, 743 (7th Cir. (Wis.) 2001) (“[I]ts duty of indemnifying Volm for any damages that it was determined through judgment or settlement to owe Lockwood would have been limited to so much of the judgment or settlement as was fairly allocable to the claims in Lockwood’s suit that were covered by the policy.”).

If the “expansive sentence” eliminates coverage for otherwise covered claims as St. Paul urges, it will necessarily do so without adequately apprising an insured of its effect to change settled law requiring a defense of all claims in a lawsuit if any claim is potentially covered. A dramatic reduction in coverage effects a change which requires clear notification not provided by St. Paul.

While St. Paul disseminated a Notice of Policy Change form, it did not advise its insureds therein of the profound effect this change would have on the scope of their coverage. When a renewal policy contains a provision that is contradictory to a provision in the earlier policy and serves to reduce the scope of coverage, most courts have held that the insurer is bound by the terms of the earlier policy if the renewal policy itself or a notice of changes to it did not call the insured’s attention to the reduction in the policy coverage.

- *Allstate Ins. Co. v. Fibus*, 855 F.2d 660, 663 (9th Cir. (Cal.) 1988) (8-page amendatory endorsement was held ineffective as notice of the changes made because the altered language was in no way highlighted or explained.);
- *North River Ins. Co. v. Young*, 453 S.E.2d 205, 210 (N.C. Ct. App. 1995) (“[A]ny exceptions, limitations, or exclusions that may vary from the original policy issued must clearly, conspicuously and unambiguously be called to the insured’s attention.”).

A notice of renewal that misleads the insured as to the effect of changes on coverage or does not properly explain their import will not actually reduce coverage. For previously covered insureds the Notice of Change form [G0151 REV 7-01(NG008 Rev 7-01)] only advised them:

[A]dded a second paragraph to exclude coverage for other injury or damage or medical expenses alleged in a claim or suit that also alleges infringement or violation of intellectual property rights or laws.

- *Casey v. Auto Owners Ins. Co.*, 729 N.W.2d 277, 283 (Mich. Ct. App. 2006), *appeal denied*, 731 N.W.2d 746 (Mich. 2007) (“[W]hen the insurer renews the policy but fails to notify the insured of a reduction in coverage . . . the insurer is bound to the greater coverage in the earlier policy . . .”);
- *Haynes*, 89 P.3d at 387 (Policy provision and endorsement reducing “permissive” driver coverage without adequately “notifying insureds of reductions in otherwise reasonably expected coverage” (*id.* at 388) was inconspicuous as there was “nothing in the heading to alert a reader that it limits . . . coverage.” (*Id.* at 386.) The endorsement was “not bolded, italicized, enlarged, underlined, in different font, capitalized, boxed, set apart, or in any other way distinguished.” *Id.* at 387.).

C. **Chubb Policy Forms**

1. **Chubb–Vigilant Ins. Co. CGL Policy [Form 80-02-200 (Rev. 4-01)]**

**Advertising injury** means injury, . . . sustained by a person or organization and caused by an offense of infringing, in that particular part of your **advertisement** about your goods, products or services, upon their:

copyrighted **advertisement**; or registered collective mark, registered service mark or other registered trademarked name, slogan, symbol or title.

**Personal injury** means injury . . . caused by an offense of:

D. electronic, oral, written or other publication of material that:

1. libels or slanders a person or organization (which does not include disparagement of goods, products, property or services); or
2. violates a person’s right of privacy; or

....  
**Policy Exclusions**

This insurance does not apply to any actual or alleged . . . **Advertising injury** or **personal injury** arising out of, giving rise to or in any way related to any actual or alleged:

- assertion; or
- infringement or violation:

by any person or organization (including any **insured**) of any **intellectual property law or right** . . . .

This exclusion applies, unless such injury:

is caused by an offense described in the definition of **advertising injury**; and

does not arise out of, give rise to or in any way relate to any actual or alleged assertion, infringement or violation of any **intellectual property law or right**, other than one described in the definition of **advertising injury**.

2. **Recent Case Authority Held Illusory Its Intellectual Property Exclusion**

The *Align* court rejected a bid by Chubb to have its convoluted intellectual property exclusion given the same overbroad effect urged by St. Paul in *Molecular Bioproducts*. As the court remarked apropos the Chubb exclusion:

This insurance does not apply to any actual or alleged bodily injury, property damage, advertising injury or personal injury arising out of, giving rise to or in any way related to any actual or alleged:

- assertion; or
- infringement or violation;

by any person or organization (including any insured) of any intellectual property law or right, regardless of whether this insurance would otherwise apply to all or part of any such actual or alleged injury or damage in the absence of any such actual or alleged assertion, infringement or violation . . . .

. . . . Thus, accepting Federal’s argument would allow it to cobble together the most favorable allegations from both parties and disregard the rest. . . . At best, the conflicting allegations might create a factual issue as to whether injury from each statement was related to an alleged intellectual property dispute [excluded by the policy]. Since a factual dispute does not completely eliminate the possibility of coverage, it does not relieve Federal of its duty to defend. *Mirpad, LLC v. California Ins. Guar. Ass’n*, 132 Cal.App.4th 1058, 1068, 34 Cal.Rptr.3d 136 (2005) (“If coverage depends on an unresolved dispute over a factual question, the very existence of that dispute would establish a possibility of coverage and thus a duty to defend.”) [*Id.* at \*2, \*12.]

#### **IV. BROADER ISO POLICY PROVISIONS OFFER A LIMITED BUT NONETHELESS TANGIBLY BROADER COVERAGE THAN DO CHUBB AND ST. PAUL**

Many insurance brokers do not focus on the distinctions in coverage for “personal and advertising injury” issued on specially drafted policy forms issued by insurers such as Travelers, Chubb and St. Paul.

**First**, while Chubb and St. Paul purport to be “technology company” specialists, this means as a practical matter that they offer the narrowest possible coverage to respond to risks posed by such companies. A number of claims would readily fall within the coverage of an insurance program written with standard ISO policy forms available from a number of major reputable insurers providing broader coverage, such as ACE.

Even if an insured wishes to maintain Chubb’s, Travelers’ or St. Paul’s primary program, a Commercial Umbrella Policy with an ISO-based form (a standard “drop down” provision where the ISO form provides broader coverage) issued by a carrier in a favorable jurisdiction should be considered (especially where the pricing is likely to be equivalent).

The broader CGL coverage available under an ISO policy can also be obtained by procuring a distinct multi-media policy, albeit under a claims-made policy and with the expenditure of an additional insurance premium that may not be within the risk management department’s budget.

Catastrophic patent damage defense coverage is also available through the London market over a significant SIR at a significant premium.

**Second**, as a claimant, corporations may wish to know how to benefit from the opposing party's coverage. Especially after the defendant reports the nature of its coverage under Fed. R. Civ. P. 26(f), a decision can then be made as to whether coverage is to be directly implicated or avoided in the future pursuit of the IP litigation. This can also arise where there is a counterclaim and you are in effect the counter-defendant.

**Third**, where there are indemnity disputes involving IP matters, knowledge of insurance can help in evaluating the rights of the indemnitor or indemnitee. In circumstances where the corporation indemnifies another party, it would be wise to draft a proper indemnity provision that is less problematic than many that typically occur based on knowledge of the dangers that insurers believe arise from injury for patent infringement lawsuits (due to the analogous situation of insurers and indemnitors).

## V. CONCLUSION

Insurance brokers, risk managers and corporate counsel would be well advised to study the distinctions between variant versions of commercial general liability policies. Differences in coverage can make a great deal of difference in results.

Following review of a number of litigation matters, which significant corporations have been exposed to, it is evident that those that have chosen the narrowest CGL coverage have forfeited millions of dollars in defense reimbursement which otherwise could have been obtained where the other forms of CGL coverage available were no more expensive than that obtained and, on some occasions, less so.

Supplementing CGL coverage with a multi-media policy, albeit on a claims-made basis and subject to self-liquidating attorney fee reimbursement provisions, can expand the scope of the narrow coverage referenced herein. There is no reason to settle for a narrower policy than that provided. In 2008 ISO came out with yet another version of the CGL policy which added further limitations on coverage. Although widely marketed, it has met some resistance, but stiffer resistance should be offered as the present soft market deserves access to the earlier policy forms such as the 2003 and 2007 ISO, which a number of carriers still provide.