Patents and Insurance: Who Will pay for Reimbursement?

David A. Gauntlett

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PATENTS AND INSURANCE: WHO WILL PAY FOR REIMBURSEMENT?†

David A. Gauntlett*

I. INTRODUCTION

1. By the end of 1996, courts throughout the United States had ruled against a majority of insurance policyholders litigating disputes against their insurers over policy coverage for patent infringement.1 Careful review of the underlying patent infringement decisions, however, reveals that despite the policyholders’ unsuccessful record, certain coverage disputes warrant adjudication.2 Accordingly, parties

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1 See, e.g., Intex Plastics Sales Co. v. United Nat’l Ins. Co., 23 F.3d 254, 256-57 (9th Cir. 1994) (denying advertising injury coverage because the policyholder knowingly infringed a patent or induced others to infringe and California law bars insurance coverage for intentional conduct); Everest & Jennings, Inc. v. American Motorists Ins. Co., 23 F.3d 226, 229 (9th Cir. 1994) (denying coverage for failure to establish a causal connection between the infringement and insured’s advertising activities); Iolab Corp. v. Seaboard Sur. Co., 15 F.3d 1500, 1505 (9th Cir. 1994) (holding that policyholder’s infringement liability did not arise from an act of piracy or advertising, which the policy at issue covered); I.C.D. Indus., Inc. v. Federal Ins. Co., 879 F. Supp. 480, 485-86 (E.D. Pa. 1995) (holding that piracy coverage under “advertising injury” policy did not include patent infringement); Gencor Indus., Inc. v. Wausau Underwriters Ins. Co., 857 F. Supp. 1560, 1565 (M.D. Fla. 1994) (finding that “even if contributory infringement and inducement were included in advertising ‘offenses’ listed in the policies, there is no indication that [the insured] committed those wrongs in the course of advertising or advertising activities’); see also Richard L. Antognini, What You Need to Know About Intellectual Property Coverage, 31 TORT & INS. L.J. 895, 917 (1996) (“Court after court have [sic] held that patent infringement does not occur in the course of advertising and therefore is not covered.”); Jason A. Reyes, CGL Insurance Coverage for Patent Infringement, 2 B.U. J. SCI. & TECH. L. 14 para. 4 (1996) (stating that courts “consistently reject” insureds’ theories for expanding insurance policies to cover patent infringement).

2 See infra Part II.
defending against infringement claims should analyze the factual circumstances of their alleged infringing conduct in light of the plaintiff’s arguments for infringement. The factual elements of the plaintiff’s claims may be distinguishable from or fall within exceptions to current case law denying coverage.

2. Insurance coverage for patent infringement will usually fall under the advertising injury provisions of an insured’s Commercial General Liability (CGL) policy. CGL policies provide coverage for bodily injury, property damage, and advertising injury. Advertising injury coverage is crucial for intellectual property claims because plaintiffs typically seek economic damages for infringement, which are not covered as bodily injury or property damage losses. Insurance claimants must prove three elements to establish potential coverage for “advertising injury.” First, the alleged conduct must potentially fall within the the scope of a policy’s enumerated “advertising injury” provisions. Second, there must be a nexus between the insured’s advertising and the offense to satisfy a policy’s requirement that the infringement “occur in the course of insured’s advertising activities.” Third, there must be conduct that constitutes “advertising activity” within the meaning of the policy. The first hurdle may be easily surmounted where the offense at issue is “piracy”; the second is more problematic. If the third factor is not present there is

3. See Antognini, supra note 1, at 896.

4. See id.

5. See New Hampshire Ins. Co. v. Foxfire, Inc., 820 F. Supp. 489, 493 (N.D. Cal. 1993); see also Brian W. Klemm, Insurance Coverage for Intellectual Property Claims: A Changing Landscape, AM. CORP. COUNS. ASS’N DOCKET, Nov.-Dec. 1996, at 8, 10 (“When considering whether a claimed injury is a covered offense, courts have been asked to interpret the meanings of the terms piracy, unfair competition, and infringement of copyright, title, or slogan under the 1976 [Insurance Services Office] form policy and misappropriation of advertising ideas or style of doing business and infringement of copyright, title, or slogan under the 1986 ISO policy, because typical CGL policies provide no definition of these terms.”).

6. See Bank of the West v. Superior Court, 833 P.2d 545, 560 (Cal. 1992) (holding that “advertising injury” must have a causal connection with the insured’s ‘advertising activities’ before there can be coverage”).

7. See id.

8. In United States Fidelity & Guar. Co. v. Star Techs., Inc., 935 F. Supp. 1110 (D. Or. 1996), the court stated:

The Star defendants argue that patent infringement is a form of “piracy” by pointing to various dictionary definitions: “[U]nlawful reproduction or distribution of property protected by patent and trademark laws,” “[I]nfringement of the rights conferred by a patent or copyright,” and the “unauthorized appropriation or use of a . . . patented work[.]” . . . Other courts, however, have reasoned that these differing interpretations merely demonstrate that the term “piracy” is ambiguous, and therefore have construed the term in favor of coverage for the insured. . . . This court therefore
no basis for “advertising injury” coverage where it is satisfied, as is often the case, however, in some infringement actions advertising constitutes the infringing conduct, such as when an advertisement induces patent infringement. In these instances, the causal nexus between the infringement and the insured’s advertising is easily proven.

II. MANY INSURANCE COVERAGE OPINIONS INSUFFICIENTLY ANALYZE PATENT INFRINGEMENT ACTIONS

3. Few opinions in coverage disputes carefully analyze the character of the proof necessary to establish patent infringement liability in light of applicable coverage law. Many of the decisions against policyholders have primarily relied on factually narrow precedents which fail to foreclose coverage for a range of scenarios discussed below. Coverage decisions holding that the insurer does not have to defend an infringer typically involve either: (i) direct infringement from the manufacture or sale of a patented subject matter that lacks the necessary causal relationship between an insured’s advertising activities and the infringement; (ii) induced infringement that lacks the necessary causal relationship between the insured’s advertising activities and the infringement; (iii) overly technical readings of the scope of a policy’s advertising injury coverage for undefined offenses, such as

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.

Id. at 1114 (citations omitted).

9 See, e.g., Klemm, supra note 5, at 12 (“Courts have generally found that patent infringement does not fit neatly into any covered offense under the language of the policy, and even in the few cases where patent infringement was deemed a coverable offense, courts had difficulty finding the necessary causation.”).

10 See, e.g., Union Ins. Co. v. Land & Sky, Inc., 529 N.W.2d 773, 777 (Neb. 1995) (citations omitted) (stating that infringement liability can arise when a party “takes active steps to induce infringement through advertising or by providing instructions”).


“piracy;” or iv) spurious statements of public policy that reflect a court’s misunderstanding of the scienter requirement for induced patent infringement.

4. Decisions finding policyholders liable for inducing patent infringement may, nonetheless, involve factual scenarios that support an insurer’s duty to reimburse the policyholder. To date, only three scenarios support this duty. In the first scenario, a manufacturer advertises its component, which is used in a product patented by another party. The advertising induces a third party to combine the component with other elements, the combination of which produces the product covered by the patent and infringes the patent claims. In the second scenario, a product manufactured using a protected process is advertised in such a way that, although the advertisement itself does not constitute infringement, the advertisement induces others to use the process to create the product, thus infringing the process claim. In the third scenario, a manufacturer demonstrates the viability of its non-infringing process by using advertising that infringes another process. While this is not an exhaustive list of the scenarios in which potential liability coverage exists, these categories suggest that a policyholder should carefully examine the plaintiff’s arguments in a patent infringement suit in light of the applicable coverage law, in order to strengthen its claim against the insurer for policy coverage.

III. COVERAGE FOR INDUCING THIRD PARTIES TO INFRINGE A PATENT THROUGH THE ADVERTISEMENT OF A NON-PATENTED COMPONENT

5. On March 31, 1995, the Nebraska Supreme Court held that Union Insurance Company (“Union”) had to pay the legal costs incurred by its insured’s defense of patent infringement claims. The patent infringement claims arose from

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15 See Union Ins. Co. v. Land & Sky, Inc., 529 N.W.2d 773, 774-75 (Neb. 1995); see also discussion infra Part III.


the insured’s, Land & Sky, Inc. (“Land & Sky”), advertisement of waterbed mattresses.\textsuperscript{18} The court also awarded Land & Sky reasonable attorney’s fees for proving that its standard form Commercial General Liability (“CGL”) policy provided insurance coverage.\textsuperscript{19} The decision constituted the first time any state supreme court had addressed this issue.

6. According to the Nebraska court, Union must defend Land & Sky against claims that Land & Sky’s advertising induced others to infringe Charles Prior Hall’s patent for waterbeds, “including the waterbed mattress and a suitable frame and heater.”\textsuperscript{20} Hall claimed that Land & Sky was liable for both its own direct infringement and inducing others to infringe his patent.\textsuperscript{21} Land & Sky requested that Union defend and indemnify the suit, but Union refused, claiming it had no obligation to do so under Land & Sky’s primary “Comprehensive General Liability Insurance” policy or excess “Blanket Commercial Catastrophe Liability Policy.”\textsuperscript{22} The trial court granted Union’s request for a declaratory judgment, on the grounds that Union had no duty to defend or indemnify Land & Sky because Land & Sky’s policies covered “piracy,” not patent infringement.\textsuperscript{23}

7. On appeal, the Nebraska Supreme Court reversed, finding that Union did have a duty to defend Land & Sky.\textsuperscript{24} The court observed that the term “piracy” was not defined in the “advertising injury” provisions of either policy.\textsuperscript{25} Land & Sky cited dictionary definitions of “piracy” that included patent infringement, while Union argued that the court should apply common law definitions that exclude patent infringement.\textsuperscript{26} The court noted that Land & Sky’s excess policy specifically excluded

\textsuperscript{18} See \textit{Land & Sky, Inc.}, 529 N.W.2d at 778.

\textsuperscript{19} See id.

\textsuperscript{20} See \textit{id.} at 774-75. Hall also brought infringement suits against other defendants, giving rise to additional actions by the defendants against their respective insurance carriers. \textit{See} Intex Plastics Sales Co. v. United Nat’l Ins. Co., 23 F.3d 254 (9th Cir. 1994); Classic Corp. v. Charter Oak Fire Ins. Co., 35 U.S.P.Q.2d 1726 (C.D. Cal. 1995).


\textsuperscript{22} See \textit{id.} at 775.

\textsuperscript{23} See \textit{id.}

\textsuperscript{24} See \textit{id.} at 778. The court noted that interpretation of an insurance contract is a “pure” question of law, for which “an appellate court has an obligation to reach a conclusion independent of that of the trial court in a judgment under review.” \textit{Id.} at 776 (citations omitted).

\textsuperscript{25} See \textit{id.} at 776.

\textsuperscript{26} See \textit{id.} at 776-77.
patent infringement coverage while the primary policy did not, though the policies otherwise defined “advertising injury” in “essentially the same terms.” The court reasoned thus because “Union determined it necessary to exclude patent infringement in the excess policy would indicate a belief on Union’s part that patent infringement was included in the primary policy.” Since “piracy” was ambiguously defined, the court concluded that the term should be interpreted as including patent infringement in favor of Land & Sky.

8. The Nebraska Supreme Court next analyzed Land & Sky’s advertising activity. Land & Sky manufactured “flexible liquid storage containers” that could be used as waterbed mattresses. The company distributed pamphlets and advertised to wholesalers and retailers that its product could be used to construct a waterbed. From these facts, the court concluded that Land & Sky’s potential liability arose from advertising activities contributing to or inducing patent infringement activities, triggering Union’s duty to defend Land & Sky under its advertising injury policy provisions.

9. The Nebraska Supreme Court’s ruling contradicts the Ninth Circuit’s treatment of this issue. In Intex Plastics Sales Co. v. United National Insurance Co., the Ninth Circuit reached the opposite conclusion after applying California law in another infringement claim brought by Charles Hall against a different waterbed mattress manufacturer. In the Intex case, the court rejected the insured’s claims because Intex directly induced others to infringe Hall’s patent through its advertisements. A California statute, the court observed, bars intentional and inherently harmful conduct from coverage. The Land & Sky court distinguished the Intex decision, holding that it was not bound to follow it because Nebraska did not have a similar statute limiting insurance coverage.

27 Id. at 775.
28 Id. at 777.
29 See id.
30 Id. at 775.
31 See id.
32 Id. at 778.
33 23 F.3d 254 (9th Cir. 1994).
34 See id. at 256.
35 See id. at 257.
36 See Land & Sky, Inc., 529 N.W.2d at 776-77.
IV. COVERAGE FOR INDUCING THIRD PARTIES TO INFRINGE A PROCESS PATENT THROUGH THE ADVERTISEMENT OF A NON-PATENTED PRODUCT

10. In Norton Alcoa Proppants v. American Motorists Insurance Co., Norton Alcoa Proppants (“Norton Alcoa”) sought recovery of its attorney’s fees and settlement costs for its 1991 patent action against Standard Oil Company of Ohio (“Standard Oil”) and Carbo Ceramics, Inc. (“Carbo Ceramics”). A state judge ruled in favor of Norton Alcoa, holding that piracy coverage in pre-1989 CGL policies covers patent infringement, and advertising injury in post-1989 CGL policies covers inducing patent infringement. In the underlying action, Norton Alcoa sued Standard Oil and Carbo Ceramics in federal court, alleging that “the companies held invalid patents and that a previous settlement agreement between the parties should be terminated.” The subject of the litigation was the defendants’ patented use of Proppants, or ceramic rocks, “to keep open cracks in oil and gas wells.” Standard Oil and Carbo Ceramics counterclaimed, alleging that Norton Alcoa induced consumers to infringe their patented process for the Proppants.

11. The only basis for successfully asserting a claim that Norton Alcoa induced infringement was for the defendants to demonstrate that Norton Alcoa influenced customers to procure ceramics from Norton Alcoa and to use them in an infringing manner. Norton Alcoa’s only actionable conduct, therefore, was the advertisement of its ceramic products for oil and gas well uses, which could induce oil service companies to infringe the Standard Oil and Carbo Ceramics patent. In the insurance coverage case, the trial court found that the advertising injury

39 See id.
41 Id.
42 See id.
43 See 5 DONALD S. CHISUM, CHISUM ON PATENTS § 17.04[1] at 17-69 (1997) (“As in the case of contributory infringement under Section 271(c), liability for inducement under Section 271(b) is dependent on a showing that the conduct being induced constitutes direct infringement.”)
44 See id. § 17.01 (stating that section 271(b), which targets active inducement of infringement, “covers the range of actions by which one may cause, urge, encourage, or aid another to infringe a patent”).
coverage provisions in Norton Alcoa’s policy covered patent infringement and found American Motorists Insurance liable for attorneys fees and settlement costs.\textsuperscript{45}

V. COVERAGE FOR DIRECT PATENT INFRINGEMENT THROUGH THE ADVERTISEMENT OF A NEW USE OF A PATENTED PROCESS

12. In \textit{Omnitel v. Chubb Group of Insurance Cos.},\textsuperscript{46} a California state court found that advertising alone may be actionable as a directly infringing “use” of a patented product.\textsuperscript{47} During the trial, Chubb introduced Omnitel’s advertisements and manuals into evidence to establish the purported infringement.\textsuperscript{48} Omnitel argued that “without such advertising, its product was merely a standard modem box with which a pair of users could use any communications protocol— among which Hayes’ patented method of including codes in communications between computers was only one possibility.”\textsuperscript{49} The court noted:

\begin{quote}
[I]t was partly the \textit{advertising}, which represented that one could use Hayes’ compatible software commands with Omnitel’s modems, that would cause a user to use the Hayes commands with the Omnitel modem and to purchase the modem. . . . It does not seem free enough of doubt whether the infringement was based on hardware, or advertisement that the Hayes instruction set could be used with the hardware, for an insurer to deny a defense to Omnitel.\textsuperscript{50}
\end{quote}

VI. TRIPS EXPANDED U.S. PATENT LAW PROTECTION AND POTENTIAL INSURANCE COVERAGE

A. Statutory Language

13. A patent holder’s exclusive rights for both apparatus and process patents include the right to sue for direct infringement of the patent, including offering the patented subject for sale.\textsuperscript{51} As amended by the Uruguay Round Agreements Act, 35

\textsuperscript{45} See \textit{Judge Rules on Piracy}, supra note 38.


\textsuperscript{47} See \textit{id.} at 1938-39.

\textsuperscript{48} See \textit{id.} at 1938.

\textsuperscript{49} \textit{Id.}

\textsuperscript{50} \textit{Id.} at 1938-39 (emphasis added).

U.S.C. § 271(a) provides: “[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.” This change, along with another similar change in § 271(g), permit direct patent infringement actions for offering for sale or importing a product covered by an apparatus or process claim.

B. Pre-GATT Insurance Case Law Supports Insurance Coverage for Infringement Following the Expansion of the Definition of Patent Infringement

14. In Everest & Jennings, Inc. v. American Motorists Insurance Co., the court held that the insurer did not have a duty to defend or indemnify the insured for claims of direct patent infringement under the insured’s advertising injury policy. The policy contained provisions for “misappropriation of advertising ideas or style of doing business.” The court explained its rationale for denying coverage:

To compel an insurer to defend under an advertising injury provision, the insured must demonstrate a causal connection between the plaintiff’s claim in the underlying action and the defendant-insured’s advertising. . . . Noting that the statutory definition of patent infringement refers only to the making, using, or selling of a product, . . . we reasoned [in Iolab Corp. v. Seaboard Surety Co.] that “unless Dr. Jensen’s claim was that Iolab infringed his patent in its advertising in a manner independent of its sale of the intraocular lens, the Jensen loss is not a form of piracy arising out of or committed in advertising and is not covered under the policies.”

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53 See id.

54 23 F.3d 226 (9th Cir. 1994).

55 Id. at 229.

56 Id. at 228 n.2. The court held that “under the plain language of the policy, [Everest & Jennings] could not reasonably expect coverage.” Id. at 229.

57 Id. at 229 (citing Iolab Corp. v. Seaboard Sur. Co., 15 F.3d 1500, 1505-06 (9th Cir. 1994) (emphasis added)).
15. This analysis follows Judge Lynch’s opinion in *National Union Fire Insurance Co. v. Siliconix, Inc.*, which held that patent infringement does not “occur in the course of advertising” and is not “covered as a type of advertising injury” merely because the insured advertised the infringing product or conduct. The court found that although advertising may be involved in the sale of an infringing product, without evidence that the advertising itself forms an independent basis for liability, an insurer has no duty to indemnify the insured. The *Siliconix* court cited patent cases in which an invention’s advertising by itself did not amount to actionable infringement, since there was no unauthorized manufacture, use, or sale of a patented item. The expansion of statutory patent law to include within infringement liability the act of offering a product for sale provides a distinct and independent basis for liability that potentially establishes a clear nexus to the insured’s advertising activities.


16. Because the GATT amendments to 35 U.S.C. § 271(a) do not explain the congressional intent behind adding the term “offer for sale,” courts should look to patent case law interpretations of other sale provisions when applying the new law. Section 102(b) of the Patent Act bars an inventor from securing a patent if the invention has been “on sale” for more than one year prior to filing the patent application. While the phrase “offer for sale” is not expressly used in § 102(b), courts have construed the term that is used, “on sale,” as including an offer for sale.

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59 *Id.* at 80-81.

60 *See id.* at 79-80.

61 *See id.* at 79 (citing Ling-Temco-Vought, Inc. v. Kollsman Instr. Corp., 372 F.2d 263 (2d Cir. 1967); Merry Mfg. Co. v. Burns Tool Co., 335 F.2d 239 (5th Cir. 1964)).

62 *See, e.g.*, Lifting Tech., Inc. v. Dixon Indus., Inc., No. CV-96-68-M-CCL, 1996 WL 653391, at *3 (D. Mont. Aug. 27, 1996) (discussing the term “offer for sale” under the “on sale” bar rule of 35 U.S. C. § 102(b) to interpret “offer for sale” under § 271(a)).

63 *See 35 U.S.C. § 102(b) (1994)* (“A person shall be entitled to a patent unless . . . (b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States.”).

64 *See, e.g.*, Intel Corp. v. United States Int’l Trade Comm’n, 946 F.2d 821, 830 (Fed. Cir. 1991) (“It is not a violation of the on-sale bar to make preparations for the sale of a claimed
The “on sale” bar is broad and includes the “free distribution of a prototype" to solicit sales as well as other activities designed to create interest in an invention. Furthermore, “[t]he section 102(b) . . . 'on sale' bar[ ] is not limited to sales or uses by the inventor or one under the inventor’s control, but may result from activities of a third party which anticipate the invention, or render it obvious.”

17. In *TRW Financial Systems, Inc. v. Unisys Corp.*, the court stated that “an offer for sale can invalidate a patent even if it is made only to a single customer and even if the offer is made before commercial production has begun.” Similarly, “the patentee engag[ing] in activities demonstrating an intent to sell the product” triggers the on sale bar “. . . so long as the activities consist of more than merely indefinite or nebulous discussions about possible sale.” Indeed, one court held that quoting a “sufficiently developed” invention’s price to a potential customer was “a genuine offer of the patented invention” which triggered the “on sale” bar. Additionally, advertising an invention constitutes an offer for sale when it creates in the purchaser’s mind a reasonable belief that the invention is being offered for sale. Advertising, though, must be an objectively clear exploitation of the invention.

18. In *Maxconn, Inc. v. Truck Ins. Exchange*, Judge Peter Stone found potential coverage where the sole basis for liability asserted was the insured’s alleged invention—an actual sale or offer to sell must be proved.”

65 See id. (citing Stearns v. Beckman Instruments, Inc., 737 F.2d 1565 (Fed. Cir. 1984)).

66 Cf. Manville Sales Corp. v. Paramount Sys., Inc., 917 F.2d 544, 550-51 (Fed. Cir. 1990) (finding that “a sale that is primarily for experimental purposes, as opposed to commercial exploitation, does not raise an on sale bar”).

67 In re Epstein, 32 F.3d 1559, 1564 (Fed. Cir. 1994) (citations omitted).


69 Id. at 1003 (citing Jack Winter, Inc. v. Koratron Co., Inc., 375 F. Supp. 1 (N.D. Cal. 1974)).


72 See Envirotech Corp. v. Westech Engineering Inc., 904 F.2d 1571, 1576 (Fed. Cir. 1990) (“While there is no requirement that the purchaser have actual knowledge of the invention to invoke the on sale bar, what the purchaser reasonably believes the inventor to be offering is relevant to whether, on balance, the offer objectively may be said to be of the patented invention.”) (citation omitted).

73 See id. at 1575 (“The subjective, uncommunicated, and ultimate intention of the offeror, however clear, is not alone sufficient.”).
infringement based on advertising which triggered liability for an “offer for sale.”

Indeed, Truck conceded that one causal nexus between offense and advertising was satisfied by “the offer for sale” allegations. The sole issue for resolution was whether the offense of “infringement of title” could encompass the pertinent patent infringement claims. The court ruled they could because the phrase “infringement of title” was ambiguous and it included, as one reasonable definition, the patent owner’s assertion of rights to exclude others from infringing the patent claims through in this instance “offering for sale” via advertising infringing products.

VII. CRITICAL COMMENTARY ON PATENT INFRINGEMENT INSURANCE COVERAGE IS DISTINGUISHABLE

A. Contrary Case Law is Distinguishable from the Above Scenarios

19. Most decisions holding that an insurer has no duty to defend an insured against patent infringement typically rely on two California decisions. Both decisions support the proposition that direct patent infringement claims may not trigger a duty to defend. Neither case, however, holds that claims for inducing patent infringement cannot fall under a policy’s coverage for the advertising injury offense of “piracy,” or that such claims cannot bear a causal relationship to the insured’s advertising activities.

20. The decision in Iolab Corp. v. Seaboard Surety Co. also sets forth a unique analysis concerning the level of causal nexus required to establish a duty of defense under an “advertising injury” provision. In Iolab, the court held that an insured’s patent infringement arising out of a sale was not “an act of piracy arising out of or committed in advertising.” The court in dicta suggested a novel test for determining whether a causal connection arose between the insured’s advertising

74 No. CV-765139 (Cal. June 13, 1997).

75 Id.

76 Id.

77 Id.


79 See Iolab Corp., 15 F.3d at 1505-07 (failing to find a duty to defend where patent infringement could not be considered an act of piracy arising out of advertising and where there was no “causal nexus” between the insured’s advertising activities and the claimant’s loss); cf. Aetna Cas. & Sur. Co., 23 Cal. Rptr. 2d at 449 (finding no duty to defend the insured where the induced infringement claim was intentional, but acknowledging that public policy does not “forbid the defense of claims alleging intentional acts”).

80 Iolab Corp., 15 F.3d at 1506.
activities and the infringement offense charged, adding a more restrictive causation requirement than the standard set forth by the California Supreme Court in Bank of the West v. Superior Court: “In the context of policies written to protect against claims of advertising injury, ‘piracy’ means misappropriation or plagiarism found in the elements of the advertisement itself — in its text form, logo, or pictures — rather than in the product being advertised.”81

21. Other courts have not followed the Iolab formulation. Instead, the majority of courts analyzing the causal connection have allowed evidence of “but for” causation to satisfy the causal connection requirement.82 Thus, the Iolab court’s analysis does not seem to preclude a court from holding that an insurer has a duty to defend claims for induced patent infringement if the insured’s advertising activity is itself an element of the offense.83 The court’s gratuitous adoption of this test, which Bank of the West does not support, in effect rewrites insurance policies for the benefit of the insurer. Furthermore, this approach has failed to persuade any court that has critically reviewed the scope of coverage of under advertising injury provision.84

81 Id. (emphasis in original).

82 See, e.g., Nortek, Inc. v. Liberty Mut. Ins. Co., 858 F. Supp. 1231, 1238 (D.R.I. 1994) (finding that the “in the course of advertising” requirement of the policy would be satisfied if the allegations of the insured’s advertising activities were proven true); P.J. Noyes Co. v. American Motorists Ins. Co., 855 F. Supp. 492, 495 (D.N.H. 1994) (“But for the use of the term [‘Dustfree Precision Pellets’] in the packaging, literature and advertisements, there would have been no trademark infringement. Accordingly, the court finds that the underlying suit comes within the terms of the policy.”); New Hampshire Ins. Co. v. R.L. Chaides Constr. Co., 847 F. Supp. 1452, 1457 (N.D. Cal. 1994) (“Selling is not equivalent to advertising. Nor do the injuries complained of stem from advertising activities.”); New Hampshire Ins. Co. v. Foxfire, Inc., 820 F. Supp. 489, 497 (N.D. Cal. 1993) (finding that the plaintiff’s allegations in the underlying action stemmed from the insured’s announcement letter, which the court found to be “advertising activity,” satisfying the causal requirement); J.A. Brundage Plumbing & Rotorooter, Inc. v. Massachusetts Bay Ins. Co., 818 F. Supp. 553, 557-58 (W.D.N.Y. 1993) (stating that “the injury must occur as a result of advertising”).

83 See, e.g., R.L. Chaides Constr. Co., 847 F. Supp. at 1458 (stating that the complaint alleges that the insured itself made, used, and sold the process and did not engage “in an activity that would cause another to directly infringe”); St. Paul Fire & Marine Ins. Co. v. Advanced Interventional Sys., Inc., 824 F. Supp. 583, 587 (E.D. Va. 1993) (holding that the ‘inducement to infringe claim’ does not trigger any duty to defend or indemnify because the insured could not “plead any of the five predicate offenses enumerated in the policy”); Arbek Mfg. Inc. v. Select Ins. Co., 28 U.S.P.Q.2d (BNA) 1435, 1435 (C.D. Cal. 1993) (finding that the insured's advertising activities “were part and parcel of [its] sales, and selling an infringing product is an infringement occurring in the course of advertising”).

84 Note that a recent Ninth Circuit case held that the policy language required only that there be a causal nexus between the insured’s advertising activity and the pertinent offense. See Pacific Group v. First State Ins. Co., 70 F.3d 524, 527-28 (9th Cir. 1995).
B. Courts Fail to Consider Policy Drafters’ Express Design of Broad Advertising Injury Coverage

22. Insurers contend that the Insurance Services Office’s (“ISO”) 1986 change in policy language eliminated policyholders’ potential coverage for intellectual property torts, including patent and trademark infringement. Nevertheless, insurers have adopted express exclusions that limit advertising injury coverage otherwise available for “misappropriation of advertising ideas or style of doing business” and “infringement of . . . title or slogan” by endorsement. This exclusion affects a range of intellectual property lawsuits, including patent and trademark infringement claims, and raises the question, if the policy language did not cover intellectual property claims, why was there a need to adopt this exclusion?

23. The following are reasons why insurers adopted express exclusions of intellectual property claims, contrary to their assertions otherwise. First, many insurers have agreed to defend policyholders in patent infringement lawsuits, recognizing potential coverage could arise, regardless of the policy’s language. Second, insurers, whose policies cover advertising injury, claim that advertising coverage for “piracy” and “unfair competition” is a narrowly drawn and carefully defined category of coverage. This is not true. In addition, the offense of “misappropriation of advertising ideas or style of doing business,” which replaced the terms “piracy” and “unfair competition,” is also sufficiently ambiguous to allow coverage. Third, despite some contrary rulings, the advertising injury offense of “piracy” explicitly referenced in the ISO Broad Form Endorsement issued in 1976—

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85 See, e.g., Brief for Respondent at 48, 50, Lebas Fashion Imports of USA v. ITT Hartford Ins. Group, 52 Cal. Rptr. 2d 26 (Cal. Ct. App. 1996) (No. B083983). But see Antognini, supra note 1, at 913 (stating that only “a minority of cases reject broad interpretations” of the “misappropriation of advertising ideas” offense, including patent and trademark infringement).


88 As a Louisiana federal court noted, “[T]he great ambiguity of the endorsement language supports our holding [in favor of the insured].” Id. at 638.

89 The California Court of Appeal rejected arguments urged on behalf of ITT Hartford Insurance Group that the “advertising injury” offense of “misappropriation of advertising ideas or style of doing business” should not be narrowly interpreted. See Lebas Fashion Imports of USA v. ITT Hartford Ins. Group, 59 Cal. Rptr. 2d 36, 46 (Cal. Ct. App. 1996). Instead, the court found the phrase ambiguous and interpreted it against the insurer-drafter. See id.
and still issued by many umbrella insurers—may encompass claims for patent infringement.\(^{90}\) Fourth, virtually every case addressing this issue has determined that claims for inducing patent infringement bear a causal nexus to the insured’s advertising activities, thus falling within the potential coverage of the advertising injury endorsement.\(^{91}\) Fifth, insurers fail to recognize that the basis for liability asserted in many claims for inducing patent infringement may be the advertisement of a component used to create a product, the sale of which, in and of itself, could not give rise to any liability for direct patent infringement under the “all elements” rule.\(^{92}\)

C. Insurers Misapply Case Law and Fail to Appreciate the Nature of the Relief Sought by the Underlying Plaintiff Against the Policyholder

24. Courts should reject insurer arguments against the coverage of patent infringement lawsuits. According to the Nebraska Supreme Court in *Union Insurance Co. v. Land & Sky, Inc.*, an insurer should defend patent infringement inducement when the insured’s advertising is an element of the offense.\(^{93}\) In addition, the majority of cases upon which insurers rely involve a duty to indemnify, not a duty to defend, when there is direct patent infringement from the sale of a product covered by a utility patent.\(^{94}\) Some cases analyzing inducement claims

\(^{90}\) *See*, *e.g.*, United States Fidelity & Guar. Co. v. Star Techs., Inc., 935 F. Supp. 1110, 1114 (D. Or. 1996) (“Thus, ‘piracy’ encompasses patent infringement, which necessarily includes an inducement to infringe.”).

\(^{91}\) *See*, *e.g.*, *id.* at 1116 (“Unlike direct infringement, it is possible for inducement to infringe to occur during the course of advertising activities.”); *Union Ins. Co. v. Land & Sky, Inc.*, 529 N.W.2d, 773, 778 (Neb. 1995) (distinguishing direct patent infringement from inducing or contributing to patent infringement and concluding that inducement can satisfy the causal connection between the advertising activity and “advertising injury”).

\(^{92}\) *See* *Union Ins. Co.*, 529 N.W.2d at 778.

\(^{93}\) *See id.; see also* C.R. Bard, Inc. v. Advanced Cardiovascular Sys., Inc., 911 F.2d 670, 675 (Fed. Cir. 1990) (plaintiff alleging that defendant induced infringement under § 271(b) by “providing detailed instructions and other literature on how to use its catheter in a manner which would infringe”); Omnitel v. Chubb Group of Ins. Cos., 26 U.S.P.Q.2d 1933, 1937-38 (Cal. Super. Ct. 1993) (“Omnitel argues that Hayes’ real claim was that Omnitel’s advertising that its modems were Hayes’ compatible ‘induced’ users of the modem to violate Hayes’ patent.”).

\(^{94}\) *See*, *e.g.*, Everest & Jennings, Inc. v. American Motorsors Ins. Co., 23 F.3d 226, 229 (9th Cir. 1994) (holding that because “[the patent holder’s] complaint alleges infringement based on manufacture and sale only, and does not even mention [the insured’s] advertising” . . . [u]nder the plain language of the policy, [the insured] could not reasonably expect coverage [for defense or indemnity]”); Iolab Corp. v. Seaboard Sur. Co., 15 F.3d 1500, 1505-06 (9th Cir. 1994) (holding that insurer is not required to indemnify policyholder because the patent infringement “is not a form of piracy arising out of or committed in advertising and is not covered under the policies”); National
erroneously assume that a proximate, not a “but for,” causal standard governs the relationship between an advertising activity and an advertising injury “offense.” Many trial judges have found patent infringement inducement claims under identical policy language where, as here, a clear factual nexus exists between the covered offenses of “piracy,” “unfair competition,” or “misappropriation of advertising ideas or style of doing business” and the insured’s advertising activities. Some cases use an overly technical reading of the scope of the undefined offenses of “piracy,” “unfair competition,” or “misappropriation of advertising ideas or style of doing business” which are contrary to a layperson’s reasonable expectations of these generic terms, and are unique from any common law or statutory tort. Many policies are inconsistent with insurers’ contentions that coverage for piracy cannot encompass claims for patent infringement. Insurers

Union Fire Ins. Co. v. Siliconix Inc., 726 F. Supp. 264, 272 (N.D. Cal. 1989) (refusing to rule on whether claims for inducing patent infringement might be covered under policy when the patent holder has not yet asserted any such claims).

See, e.g., Davila v. Arlasky 857 F. Supp. 1258, 1263 (N.D. Ill. 1994) (“There must be a proximate causal connection between the advertising activity and the patent infringement, and further, that the alleged ‘advertising activity’ which causes the injury must occur in the very act of advertising.”); Gitano Group, Inc. v. Kemper Group, 31 Cal. Rptr. 2d 271, 277 (Cal. Ct. App. 1994) (requiring that a “separate harm” be shown from the advertising to satisfy the causal connection requirement); Polaris Indus., L.P. v. Continental Ins. Co., 539 N.W.2d 619, 622 (Minn. Ct. App. 1996) (“Direct or proximate causation requires the injury to be the actual result of the advertising activity, not merely the result of some other activity that happens to be advertised.”).

See, e.g., Aqua Queen Mfg., Inc. v. Charter Oak Fire Ins., 830 F. Supp. 536, 538 (C.D. Cal. 1993), rev’d on other grounds, 46 F.3d 1138 (9th Cir. 1995) (“Insured’s advertising activities were part and parcel of its sales and that selling an infringing product is an infringement occurring in the course of advertising and therefore covered by the Policy as a type of advertising injury.”); Continental Ins. Co. v. Del Astra Indus., Inc., 25 U.S.P.Q.2d 1317, 1319 (N.D. Cal. 1992) (“Under § 217(b) advertising alone can state a claim for infringement if the advertisement actively induces another to infringe.”); Aetna Cas. & Sur. Co. v. Watercloud Bed Co., No. SA CV88-200AHS, 1988 WL 252578, at *6-7 (C.D. Cal. Nov. 17, 1988) (holding that “piracy” and “unfair competition” encompass patent infringement).


In an Excess Overlayer Indemnity Policy (Policy), Aetna acknowledged that “piracy” and “plagiarism” are separate and distinct offenses. By force of the same argument relied on by Aetna, if “piracy” were interpreted to refer to “plagiarism,” the term “piracy” would be surplusage in its Policy. Moreover, if “piracy” encompasses “idea misappropriation,” then what does that distinct offense in Aetna’s Policy cover? If Aetna truly understood “piracy” to mean the same thing as
would have courts narrowly rewrite the applicable policy language to provide
limitations on coverage that are inconsistent with the representations of its
principal drafter, the Insurance Services Office.\textsuperscript{99} The insurers fail to consider the
nature of advertising injury coverage in CGL policies, which expressly exclude
coverage for advertisers.\textsuperscript{100} Finally, if the insurers have sought to avoid all coverage
of patent infringement lawsuits, they could have expressly excluded patent
infringement actions.\textsuperscript{101}

\textbf{VIII. CONCLUSION}

25. Counsel representing clients in patent infringement lawsuits should
promptly tender these claims to insurers, who are “at risk” from and after the date
when an insured asserts a claim for damages. Insurers will more than likely deny a
defense based on pertinent case law. Nevertheless, such denials may be ill-
considered and do not specifically address the factual elements necessary to prove
the pertinent patent claims. Careful analysis of the claims, in light of applicable
law and the character of the proof required in the underlying patent infringement
lawsuit, may support the basis of the insured’s claim against the insurer. The
rewards available to a persistent policyholder in pursuit of such claims can be
significant.

\textquotedblleft plagiarism,” or even “idea misappropriation,” it certainly would not have included both terms in its
Policy.

\textsuperscript{99} See, e.g., Steven L. Snell, \textit{Controlling Restrictive Business Practices in Global Markets:
(1997) (explaining how insurers have employed a number of legal strategies to avoid following ISO
requirements that were detrimental to the insurers’ interests). After lobbying efforts failed to
change certain ISO procedures, several insurers used different legal doctrines to argue that ISO
procedures were limited in their application. \textit{See id.}

\textsuperscript{100} See Michelle W. Tilton & Chad E. Milton, \textit{Insuring Intellectual Property Claims, in

\textsuperscript{101} Indeed, Aetna sought to do precisely that in its umbrella policy form which included an
Co.}, 838 F.2d 346, 349 (9th Cir. 1988). The policy provided: “Injury occurring in the course of the
named insured’s advertising activities, if such injury arises out of libel, slander, defamation,
violation of right of privacy, piracy, unfair competition, or infringement of copyright, title or slogan
(other than a patent).” \textit{Id.}