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"ADVERTISING INJURY": INSURANCE COVERAGE FOR INTELLECTUAL PROPERTY CLAIMS FROM "BLAST FAXES" TO COPYRIGHT INFRINGEMENT

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> We believe that the coverage afforded under this endorsement is the broadest package of coverage available to the average insured. ...
>
> The following is a general description of the coverages provided under this endorsement: ...
>
> Advertising injury covers the insured for various types of injuries such as piracy, unfair competition, infringement of copyright, etc., arising out of the insured's advertising, promotional or publicity activities.

Insurance Services Office ("ISO"), Explanatory Memorandum (undated) filed with state insurance regulators in 1976 (the "ISO Explanatory Memorandum").

* * * *

Insurance coverage for "advertising injury" was marketed and sold as part of the "broadest package of coverage available to the average insured." Id. ISO, an organization established by the insurance industry to prepare standard policy forms, submitted the ISO Explanatory Memorandum to state insurance regulators in many states. The history of the "advertising injury" provision shows that coverage was intended for a wide variety of offenses. Yet, in recent years, coverage for "advertising injury" has become increasingly more limited as the provision is more narrowly construed and exclusions are more regularly contained in policies. Nevertheless, a policyholder should be well aware of the potential coverage available to it under the "advertising injury" provision of its liability policy.

I. Potential Benefits of "Advertising Injury" Coverage

There are several enumerated "offenses" for which policyholders may be entitled to insurance coverage under their liability policy. Depending on the liability policy's vintage, the "advertising injury" provision may cover liability for copyright infringement, trademark and "trade dress" infringement, patent infringement or piracy, antitrust violations, unfair competition, defamation or privacy violations. This insurance coverage includes payment of attorney's fees incurred in defending such actions and judgments or settlements paid in such actions.

Risk managers and counsel for policyholders should be aware that many of the torts listed in the definition of "advertising injury" are classic business torts that can take place in relation to a policyholder's advertising.[1] Recent cases have upheld insurance coverage for certain business torts, including coverage for the policyholder's defense expenses under policyholders' liability or "litigation insurance." The policyholder may be entitled to coverage for attorney's fees incurred in defending the policyholder. This is an important measure of protection since defense costs in these cases can mount quickly and become enormous. The policyholder also may be entitled to insurance payment of judgments or settlements.

Several recent cases underscore the value to policyholders of their "advertising injury" coverage.[2] These recent cases show that insurance coverage is available for TCPA violations, copyright infringement, trademark or "trade dress" infringement, among others.

Excerpts from the Broad Form Liability Endorsement and the Post-1986 revision are set forth below. The 1973 Broad Form Liability Endorsement reads as follows:

> The company will pay on behalf of the insured all sums which the insured shall become legally obligated to pay as damages because of personal injury or advertising injury to which this insurance applies ... arising out of the conduct of the named insured's business ...
>
> "Advertising Injury" means injury arising out of an offense committed during the policy period occurring in the course of the named insured's advertising activities, if such injury arises out of libel, slander, defamation, violation of right of privacy, piracy, unfair competition, or infringement of copyright, title or slogan.

There is no indication that the words used in the definition of "Advertising Injury" are words of limitation. Nearly all of the enumerated torts are intentional torts. The Broad Form Liability Endorsement was sold to many thousands of policyholders with the promise of providing even "broader" coverage than already provided by "comprehensive" general liability insurance policies ("CGL"). See ISO Explanatory Memorandum

In 1986, the definition of "Advertising Injury" was changed as follows:

> "Advertising Injury" means injury arising out of one or more of the following offenses:
>
> A. 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;
>
> B. Oral or written publication of material that violates a person's right of privacy;
>
> C. Misappropriation of advertising ideas or style of doing business; or
>
> D. Infringement of copyright, title or slogan.

The ISO Introduction and Overview for the 1986 standard form Commercial General Liability Policy Revision indicated that no change in scope was intended with regard to the "personal and advertising injury" coverage within the policy. When comparing the previous (1970's) and revised (1986) policy language, ISO, specifically stated:

> Coverage in basic policy, simplified with no change in scope. Coverage triggered, as in current policy, by offense committed during policy period.

ISO Introduction and Overview (April 1985) (emphasis added).

Some insurance companies continued to sell policies with the 1973 Broad Form Endorsement after 1986. Noticeably absent from the 1986 definition were "unfair competition" and "piracy".

The policy form was again revised in 1998 and in 2001. These revised forms further altered the policy language regarding "advertising injury". These forms combined "personal injury" and "advertising injury" into a single coverage for "personal and advertising injury" and replaced two of the enumerated offenses with other similar offenses. Moreover, the 1998 form provides a definition of "advertisement" and the 2001 form refines that definition to include activities pertaining to the Internet. Also included in the 2001 form are new exclusions which serve to reduce the scope of coverage available to a policyholder under its liability policy. The 2001 form included an exclusion for certain Intellectual Property claims. Importantly though, actions that allege "copyright, trade dress, and slogan" infringement are explicitly excepted from the exclusion. Policyholders should argue a broad interpretation of these terms to continue to receive the promised "broadest package of coverage available to the average insured."

Moreover, certain insurance companies, for example The Harford, use "personal and advertising injury" forms that differ from the standard ISO CGL policy form discussed above. A policyholder must check its liability insurance policies to verify the language of the "advertising injury" coverage provision. A policyholder should consider obtaining supplemental insurance coverage available through specialized insurance products.

Several issues surface when seeking coverage under the "advertising injury" provision. For example, the scope of the definitions of "advertising injury," "advertising activities," and "advertisement" are critical to determining coverage.

II. Potentially Covered "Offenses"

Potentially covered "offenses" include: violations of the Telephone Consumer Protection Act, copyright violations, trademark or "trade dress" infringement, patent infringement or "piracy," antitrust violations, slander, libel, defamation, privacy violations, and unfair competition. These "offenses" arise in a variety of contexts, a number of which are described below.

A. Telephone Consumer Protection Act Actions

Despite what insurance companies may wish the policyholder to believe, courts consistently hold that insurance companies have a duty to defend policyholders for violations of the Telephone Consumer Protection Act (hereinafter "TCPA") under a liability policy's "advertising injury" provision. See Park Univ. Enters. v. American Cas. Co. of Reading, PA, 442 F.3d 1239, 1251 (10th Cir. 2006); Hooters of Augusta, Inc. v. American Global Ins. Co., 157 Fed. Appx. 201, 201 (11th Cir. 2005); Univ. Underwriters Ins. Co. v. Lou Fusz Auto. Network, 401 F.3d 876, 881 (8th Cir. 2005); Western Rim Inc. Advisors v. Gulf Ins. Co., 269 F. Supp. 2d 836, 848 (N.D. Tex. 2003), aff'd mem., 96 Fed. Appx. 960 (5th Cir. 2004); American Home Assurance v. McLeod USA, 475 F. Supp. 2d 766, 771 (N.D. Ill. 2007); Nutmeg Ins. Co. v. Employers Ins. Co. of Wausau, No. Civ.A. 3:04-CV-1762B, 2006 WL 453235, at *10 (N.D. Tex. Feb. 24, 2006); LensCrafters Inc. v. Liberty Mut. Fire Ins. Co., No. C 04-1001 SBA, 2005 WL 146896, at *1 (N.D. Cal. Jan. 20, 2005); Valley Forge Ins. Co. v. Swiderski Electronics, 860 N.E.2d 307, 319 (Ill. App. Ct. 2006).

The TCPA reflects Congress' attempt to protect consumers against invasive marketing tactics that have flourished over the past few decades thanks to inexpensive, easy-to-use technology. One of the TCPA's functions is to protect the privacy rights of individuals who receive certain types of unsolicited advertisements, including those sent by facsimile. Before passing the Act, the United States Congress specifically found that "[u]nrestricted telemarketing…can be an intrusive invasion of privacy…" H.R. Rep. No. 102-317 at 2 (1991). By limiting the Act's protections only to advertising and not to other written material, Congress recognized that advertising can have a uniquely intrusive quality when sent to persons who have not requested it.

Generally, the TCPA makes it unlawful for a person to use any telephone facsimile machine, computer or other device to send an unsolicited advertisement to a telephone facsimile machine. 47 U.S.C. § 227 (b)(1)(c) (2005). Specifically, the TCPA prohibits the use of any telephone facsimile machine to send an unsolicited advertisement unless: 1) the sender has an established business relationship with the recipient, or 2) the recipient voluntarily made available its facsimile number for public distribution, either directly to the sender or through a public directory. Id. at § 227 (C)(i)(ii). The Act creates a private right of action that permits recipients of unwanted faxes to seek injunctions and damages, and allows courts to grant treble damages if they find a fax sender has acted "willfully or knowingly." Id. at § 227 (b)(3).

As stated above, many insurance companies offer "advertising injury" coverage in their liability policies. See e.g., Park Univ. Enter., 442 F.3d at 1243. The typical clause will require the insurance companies to defend any lawsuit seeking damages for "advertising injuries"—typically defined as "oral or written publication of material that violates a person's right to privacy." See e.g., Technaoro Inc. v. United States Fid. & Guar. Co., No. 05 Civ. 9216(GEL), 2006 WL 3230299, at *1 (S.D.N.Y. Nov. 7, 2006). While insurance companies have argued that violations under the TCPA are not covered by the typical "advertising injury" provision, courts have held otherwise.

In Park Univ. Enter. v. American Cas. Co. of Reading, PA, the United States Court of Appeals for the Tenth Circuit held that the insurance company did, in fact, have a duty to defend the underlying policyholder in a TCPA action. 442 F.3d 1239, 1251 (10th Cir. 2006). Park University Enterprises ("Park") was sued in a state court class action by JC Hauling Co. for alleged violations of the TCPA. Id. at 1241. Park's insurance company, American Casualty ("American") declined to provide any defense or coverage in the action. Id. On cross-motions for partial judgment on the pleadings, the District Court concluded that American did, in fact, owe Park a defense. Id.

The "advertising injury" provision of the liability policy at issue covered injuries "arising out of…[o]ral or written publication of material that violates a person's right of privacy." Id. Since these terms were not defined in the policy, the parties disputed the meaning of the terms and whether such terms were implicated by a TCPA violation. Id. at 1247. The Tenth Circuit, however, found that the plain and ordinary meaning of privacy includes the right to be left alone, and that the insurance company could have imposed a more restrictive, technical, and legal definition to the term "privacy." Id. at 1249. The court noted that "American failed to provide specific terms in the policy to narrow the scope of privacy interest violations for which it intended to provide coverage, and we decline to permit it to do so now." Id. at 1250.

In Valley Forge Ins. Co. v. Swiderski Electronics, the court similarly held that the insurance company owed the policyholder a duty to defend pursuant to the policies' "advertising injury" provision:

> Our conclusion in this case that the insurers owe Swiderski a duty to defend pursuant to the policies' "advertising injury" provision is consistent with the conclusion reached by the majority of federal courts of appeals that have considered the applicability of "advertising injury" coverage to TCPA fax-ad claims. In addition, our conclusion is consistent with that reached by the majority of courts that have examined policy language identical to the language at issue here.

860 N.E.2d at 319.

In American Home Assurance v. McLeod USA, the District Court of Illinois held that the policies' "advertising injury" provision included coverage for junk fax lawsuits under the TCPA. 475 F. Supp. 2d 766, 771 (N.D. Ill. Feb. 2, 2007). The dispute concerned whether two insurance companies were required to defend lawsuits alleging that McLeod violated the TCPA by sending junk faxes. Id. at 767. In 2003, a corporation and individual jointly filed class action lawsuits seeking $500 for each fax sent to thousands of class plaintiffs, who had no prior business relationship with McLeod. Id. After initially defending these suits, the insurance companies refused to continue the defense, claiming that McLeod's liability policies did not cover the lawsuit. Id. at 768.

Deciding that Iowa state law likely applied, and that the Iowa Supreme Court and appellate courts had been silent as to whether an insurance company issuing a policy covering "advertising injury" has a duty to defend TCPA suits, the court had to predict what the Iowa Supreme Court would do if presented with this issue. Id. at 769. The court found that, like the Illinois Courts, that Iowa would interpret the "advertising injury" provision to include TCPA junk-fax suits. Id. at 771. The court noted, in its argument, that Iowa and Illinois courts use virtually identical rules to interpret insurance policy provisions.

> Iowa and Illinois law both require an insurer to defend an insured if a claim is potentially within the scope of the policy's coverage. Both Iowa and Illinois law construe an underlying complaint liberally and resolve any doubts in favor of imposing a duty to defend. Iowa and Illinois law both give policy language its plain and ordinary meaning and resolve any ambiguities in favor of the insured. And, most importantly for present purposes, when words are undefined in a policy, both Iowa and Illinois courts give those words their plain and ordinary meaning instead of a technical meaning.

Id. at 771. Noting the approach "of the vast majority of courts that have looked at this issue," the court concluded that the insurance companies had a duty to defend the policyholder.

The Texas Court of Appeals affirmed the trial court's decision that the Dallas Mavericks ("Mavericks") were wrongfully denied a defense by its insurance company. See TIG Ins. Co. v. Dallas Basketball, Ltd., 129 S.W.3d 232, 238-39 (Tex. Ct. App. 2004) abrogated on other grounds, Lamar Homes v. Mid-Continent Cas. Co., 242 S.W. 3d 1 (Tex. 2007). In 2000, the Mavericks were named as defendants in a class action lawsuit (the "Rodriguez litigation"). Id. at 235. The plaintiffs alleged that the Mavericks violated the TCPA by sending unsolicited advertisements for basketball tickets to their fax machines. Id. One year later, a second class action lawsuit was filed against the Mavericks alleging near identical facts. Id. The Mavericks requested from its insurance company, TIG, a defense and indemnification against both suits under their liability policy. Id. TIG denied coverage in both cases. Id.

TIG argued that in both suits, the plaintiffs failed to allege how the transmissions violated their right to privacy—thus, eradicating TIG's duty to defend. Id. at 238-39. The court, however, noted that it was not necessary for plaintiffs to specify how the advertising invaded their privacy. Id. Thus, the court held: "[t]he trial court correctly concluded the petitions in the underlying litigation set forth claims that, if proved, were covered by the terms of the Mavericks comprehensive general liability insurance and TIG wrongfully refused to tender a defense against those claims." Id.

Recently, in Penzer v. Trans. Ins. Co., the Supreme Court of Florida found that liability policies generally cover liability for unsolicited junk faxes which violate the TCPA.

No. SC08-2068, 2010 WL 308043 (Fla. January 28, 2010). At issue in Penzer was whether a provision in the liability policy that "provides coverage for advertising injuries," including "oral or written publication of material that violates a person's right of privacy," covers a violation of the TCPA, which, according to the decision, "provides the privacy right to seclusion." Id. Transportation denied coverage and argued that the provision "provides coverage only for injuries to privacy rights caused by the content of the material," not by its mere publication. Id.

The Florida Supreme Court disagreed, finding, "[e]ven if the phrase 'that violates a person's right of privacy' only modifies the term 'material,' it does not follow that only the secrecy right to privacy is implicated because 'material' could also invade one's seclusion." Id. More broadly, the court held that the plain meaning of the policy provided coverage for the TCPA violation. Id.

B. Copyright Infringement Actions

Insurance coverage is available for liabilities from allegations of copyright infringement. Copyright infringement takes place whenever one exercises the rights reserved exclusively for the copyright owner without authorization. 17 U.S.C § 501(a) (2002). These exclusive rights generally include: (1) reproduction; (2) derivative work; (3) distribution; (4) performance; and (5) display. Infringement of the reproduction right and derivative work right may take place privately without any public component. Generally, distribution, performance and display involve public activity and infringement.

The Federal District Court for the District of New Jersey held that Farm Family Casualty Insurance Company ("Farm") had a duty to defend the underlying claims under their policies' "advertising injury" provision. Columbus Farmers Market v. Farm Family Cas. Ins., No. 05-2087, 2006 WL 3761987, at *8 (D.N.J. Dec. 21, 2006). Record companies who were members of the Recording Industry Association of America ("RIAA") instigated the Arista litigation ("Arista") against Columbus Farmers Market ("Market") alleging contributory copyright infringement and vicarious liability. Id. at 3. Specifically, the RIAA asserted that the Market was a 'pirate bazaar' where vendors "sell pirated and counterfeit compact discs and cassette tapes in violation of federal copyright and state laws. Id. The Arista complaint alleged contributory copyright infringement, claiming that Market engaged in a business of knowingly and systematically causing the unauthorized reproduction of copyrighted recording owned by RIAA members. Id. The RIAA alleged vicarious liability for copyright infringement, claiming that Market had the ability to supervise and/or control the infringing conduct and derived a direct financial benefit from the infringed recordings. Id.

Once the original complaint was filed, plaintiffs made a demand on its insurance company requesting that a defense and indemnification be provided for the underlying complaint, which was refused. Id. at 4. Overall, plaintiff claimed they incurred over $1 million in defense costs. Id.

In their motion for partial summary judgment, Market argued that the insurance company had a duty to defend pursuant to the "advertising injury" provision contained in the four liability policies at issue if: (1) the injury falls within one of the categories defined by the policy (according to the policies, "advertising injury" includes, "injury arising out of…[i]nfringement of copyright, title or slogan."), and (2) there is a causal connection between the advertising and the injury. Id. at 6.

In reaching its holding, the court found it undisputed that the injury (infringement of copyrights) fell within one of the four categories defined in the policies as an "advertising injury". Id. at 8. The court also agreed that Market satisfied a showing of the requisite causal link between the advertising activity and the offense, noting, among other things, that plaintiffs advertised on their website the availability of sound recordings. Id. The court concluded that "[a]s such…Defendants have a duty to defend Plaintiffs in the Arista Litigation under the "advertising injury" provision." Id.

A Federal District Court in the Western District of Washington held that two insurance companies must pay the attorney's fees incurred by Microsoft Corporation ("Microsoft") in defending a copyright infringement action brought by Apple Computer ("Apple") in the Northern District of California. See Federal Ins. Co. v. Microsoft Corp., 1993 WL 373843 (W.D. Wash. Jan. 15, 1993), reconsideration denied (W.D. Wash. Apr. 14, 1993), decisions vacated pursuant to settlement.[**]

In the first count of its three count complaint against Microsoft in the underlying action, Apple alleged copyright infringement:

> Microsoft's distribution and sale of Windows 2.03 and its copying and adaption of the Macintosh audiovisual works exceed limited license rights granted to Microsoft by Apple and infringe Apple's exclusive rights under the Copyright Act.

Microsoft, 1993 WL 373843, at *2. In its second count for contributory infringement, Apple alleged that Microsoft

[**] For years, insurance companies, with the help of numerous insurance industry trade groups, have paid big money to wipe pro-policyholder decisions off the law books. Although the legal term for this practice is "vacatur," the practice is also known by another name — "buying and lying." Insurance companies repeatedly make post-judgment offers to pay substantial dollars to settle in exchange for having the court withdraw its pro-policyholder decisions. In this way, insurance companies are able to erase the "bad" decisions while retaining the "good" ones. The insurance companies then re-litigate the same issues with a deck increasingly stacked in their favor. The strategy eradicates pro-policyholder case law and enables insurance companies to shape insurance law — regardless of whether they have won or lost. See U.S. Bancorp Mortgage Co. v. Bonner Mall Partnership, 115 S. Ct. 386 (1994); see also Jill E. Fisch, The Vanishing Precedent: Eduardo Meets Vacatur, 70 NOTRE DAME L. REV. 325 (1994); Penelope Pether, Inequitable Injunctions: the Scandal of Private Judging in the U.S. Courts, 56 STNLR 1435, 1512 (2004); Stephen R. Barnett, Making Decisions Disappear: Depublication and Stipulated Reversal in the California Supreme Court, 26 LOY. L.A.L. REV. 1033, 1067 (1993).

committed contributory infringement when it "aided and assisted Hewlett-Packard in using Windows 2.03 in conjunction with New Wave [a similar Hewlett-Packard software product]." Microsoft, 1993 WL 373843, at *2. In its third and final count, Apple alleged that the activities complained of constituted unfair competition and violations of California statutory and common law. Id.

Microsoft, the policyholder, filed an answer and counterclaims against Apple in the underlying action. Id. Microsoft sought insurance coverage for the Apple action under the "advertising injury" provision of its liability policies. Id. Instead of paying the claim, the insurance companies sued Microsoft for a declaration that the policies did not provide coverage. Id. The liability insurance companies lost. Id.

In ruling that Microsoft was entitled to insurance coverage for the attorney's fees that Microsoft incurred in defending against the Apple action, the court held that the insurance companies must look beyond the complaint to "readily ascertainable facts" available in pleadings filed subsequent to the complaint and in discovery requests. The court noted further that "while it is clear that the underlying Apple lawsuit primarily concerns claims that production and sales of Microsoft Windows software infringed Apple copyrights, a small portion of the Apple claims could involve claims for infringement that occurred in Microsoft advertising". Id. at *5.

The Microsoft court expressly looked beyond the complaint against the policyholder to Apple's answer to Microsoft's counterclaims. Id. In its answer to the counterclaims, Apple alleged "Microsoft has infringed Apple's copyrights by marketing, distributing and licensing Windows 2.03, without authorization…" Id. at *2. The court stated "[t]he term 'distributing' is broad enough to include advertising, but more importantly the term 'marketing' relates specifically to promoting goods in the form of advertising". Id. at *5. Allegations of "distributing" or "marketing" may give rise to insurance coverage for such actions under the "advertising injury" provision of liability policies.

The Microsoft Court held: "Microsoft is entitled to partial summary judgment, as plaintiff Insurance Companies are as a matter of law required to defend any claims brought by Apple that could trigger coverage under policy no. 3520-97-12". Id. at *5. The Microsoft Court denied the insurance companies' motion for reconsideration of its January 15, 1993 determinations. Id. The court held that "[c]onsidering these facts together in the light most favorable to Microsoft, the Court must conclude that the Insurance Companies have failed to carry their burden of proving that Apple has clearly not alleged at least some claims that Microsoft advertising infringed Apple copyrights." April 14, 1993 Order Denying Reconsideration at 9, reprinted in Mealey's Litigation Reports — Intellectual Property, Vol. 1, No. 14 (Apr. 23, 1993). The court reiterated its holding that Microsoft could be found to have infringed Apple copyrights. Id. Apple's allegations that "'Microsoft had infringed Apple's copyrights by marketing, distributing and licensing Windows...' showed that advertising as part of marketing could be alleged to have infringed Apple copyrights." Id. at 8.

Several other courts have found that insurance companies have a duty to defend policyholders in copyright infringement actions under the "advertising injury" provision of the policyholder's liability policy. In Swfte Int'l Ltd. v. Selective Ins. Co., the United States District Court for the District of Delaware found that the insurance company had a duty to defend a computer software manufacturer in an underlying copyright infringement action. 1994 WL 827812 (D. Del. 1994); see also J.I.P., Inc. v. Reliance Ins. Co., 165 F.3d 35 (9th Cir. 1998) (assigning commonly understood meaning of term "advertising activities" to determine that a complaint including a claim for copyright infringement triggered the insurance company's duty to defend); West American Ins. Co. v. Symington Const., No. Civ. 01C00145, 2003 WL 1985804 (D.N.D. 2003) (interpreting the undefined term "advertising" to include the presentation of plans for a dairy barn to a prospective purchaser and imposing duty to defend and duty to indemnify upon insurance company); Interface, Inc. v. Standard Fire Ins. Co., No 1:99 –CV-1485MHS, 2000 WL 33194955 (N.D. Ga. 2000) (granting policyholder's motion for summary judgment for coverage under liability policy where underlying action was for copyright infringement); Fight Against Coercive Tactics Network Inc., v. Coregis Ins. Co., 926 F. Supp. 1426 (D. Colo. 1996) (insurance company must pay policyholder defense costs as incurred in two copyright infringement and misappropriation of trade secret lawsuits).

In Kirk King, King Constr., Inc. v. Continental W. Ins. Co., the Missouri Court of Appeals upheld the trial court's finding of the insurance company's duty to defend its policyholder in a copyright infringement suit. 123 S.W.3d 259, 261 (Mo. Ct. App. 2003). In Kirk King, a contractor constructed homes by allegedly using copyrighted plans. Kirk King turned on whether a sign placed next to a construction site qualified as "advertising." Kirk King, 123 S.W.3d At 261. In determining that the sign's placement was indeed "committed in the course of advertising" as covered by the liability policy, the appellate court upheld the decision obliging the insurance company to pay the contractor policyholder's defense and settlement costs. Id. at 261.

In Stratford Homes, Inc. v. Lorusso, the United States District Court for the Western District of New York rejected an insurance company's motion for summary judgment and held that the insurance company was obligated to defend its policyholder against a copyright infringement lawsuit. 1995 WL 780977 (W.D.N.Y. 1995). The court held that the complaint in the underlying copyright lawsuit — which alleged that the policyholder "will continue its course of conduct, and will wrongfully use, infringe upon and sell, advertise and otherwise profit from the plaintiff's copyright" — brought the claim within the scope of the "advertising injury" provision. Id.; see also Copart, Inc. v. Travelers Ins. Co., 11 Fed. Appx. 815 (9th Cir. 2001); Zurich Ins. Co. v. Killer Music, Inc., 998 F.2d 674 (9th Cir. 1993); W. Am. Ins. Co. v. Moonlight Design, Inc., 95 F. Supp. 2d 838 (N.D. Ill. 2000) (applying New York law); Ryland Group, Inc. v. Travelers Indem. Co., No. Civ.A.-00-CA-233 JRN, 2000 WL 33544086 (W.D. Tex. 2000) (Interim Report and Recommendation of the United States Magistrate Judge)[1]; Amway Distr. Benefits Assoc. v. Fed. Ins. Co., 990 F. Supp. 936 (W.D. Mich. 1997) (insurance company must defend under "advertising injury" provision against claim by Arista Records that policyholder Amway violated copyrights by using songs in motivational and sales tools at conferences and conventions); Tri-State Ins. Co. v. B&L Prod., Inc., 964 S.W.2d 402 (Ark. Ct. App. 1998) (copyright infringement action involving "Koolnotes" and competing "GeoNotes" must be defended by insurance company).

Courts have also awarded coverage for copyright infringement claims under the "personal injury" provision. Phoenix Control Sys., Inc. v. Ins. Co. of N. America, 796 P.2d 463 (Ariz. 1990) (en banc). In Phoenix Control, the definition of "personal injury" included "[a]ny infringement of copyright or improper or unlawful use of slogans in your advertising." Phoenix Control, 165 Ariz. at 33, 796 P.2d at 465. The Phoenix Control court reversed the trial court's grant of summary judgment denying coverage. Id.

Many policies include language conferring insurance coverage for "copyright" infringement. Policyholders are often able to secure coverage under their liability policies for such offenses.

C. Trademark or "Trade Dress" Infringement Actions

Under certain versions of the "advertising injury" provision, insurance coverage also is available for liabilities from allegations of trademark or "trade dress" infringement. In 2003, the United States Court of Appeals for the Third Circuit affirmed a District Court's order granting summary judgment in favor of the policyholders on their claim that the "advertising injury" provision of their liability policy entitled them to coverage. In Cat Internet Services, Inc. v. Providence Washington Ins. Co., Magazines.com (the "Tennessee Plaintiff") sued appellees, CAT Internet Services, Inc. ("CAT") and Internet Supply Co. ("INS")., alleging that through the use of CAT's and INS's Internet domain name, MAGAZINE.COM, CAT and INS infringed on its name and trademark for the purpose and with the effect of diverting sales of magazines and other products to their own affiliates (the "Tennessee litigation"). 33 F.3d 138, 139 (3d Cir. 2003). After notice of the Tennessee Plaintiff's suit, CAT's and INS's insurance companies, Providence Washington and York, declined to undertake their defense under the "advertising injury" provisions of their policies. Id. at 140.

Addressing the question of whether the complaint in the Tennessee litigation alleged an "advertising injury" within the meaning of the liability policies, the District Court held that it did. Id. at 141. The court then concluded that under Pennsylvania law (which governed the policies), the "advertising injury" provisions covered trademark infringement as a "misappropriation of an advertising idea or style of going business." Id.

The Third Circuit held that when a complaint alleges that a policyholder misappropriates and uses trademarks in connection with marketing and sales for the purpose of gaining customers, such conduct constitutes "misappropriation of an advertising idea or a style of doing business." Id. at 142. Thus, the court held, since CAT and INS established that at least one claim in the complaint potentially fell within the policy's "advertising injury" coverage, such triggered the insurance company's duty to defend. Id. at 143.

In Century 21, Inc. v. Diamond State Ins. Co., the United States Court of Appeals for the Second Circuit held that, under New York law, a claim that the policyholder marketed allegedly infringed goods was potentially covered by the "advertising injury" provision of the insured' liability policy, thus triggering the insurer's duty to defend. 442 F.3d 79, 84 (2d Cir 2006). In the underlying action, plaintiff Gucci America, Inc., ("Gucci"), sought damages for alleged trademark infringement by Century 21, Inc. ("Century"). Id. at 81. Gucci alleged that Century sold items bearing unauthorized copies of the Gucci registered trademark "with a resulting likelihood of consumer confusion." Id.

In 2002, Century gave notice of the Gucci action to its insurance companies, Diamond Insurance Company ("Diamond"). In response, Diamond disclaimed coverage, claiming that Gucci was not asserting any claim of "advertising injury" against Century within the meaning of the liability policy. Id. Century subsequently commenced a breach of contract and declaratory judgment action against Diamond, seeking recovery of attorneys fees and a declaration that Diamond was under a duty to defend Century in that action. Id. The District Court granted summary judgment in favor of Diamond, stating that "Diamond is under no duty to defend or indemnify Century" and dismissed the action. Id. at 82.

On appeal to the Second Circuit, Century argued that Gucci's allegation of injury resulting from its marketing of allegedly infringed foods may include potential grounds for relief that are covered under the policy as "[m]isappropriation of advertising ideas or style of doing business" Id. at 82. The Second Circuit agreed, noting:

[1] Notably, the parties subsequently settled this dispute and attempted to have the Magistrate Court's decision vacated. Denying the parties' motion to withdraw the Magistrate Court's Interim Report and Recommendation, the Magistrate Judge observed: "if the Defendants desired to avoid an unfavorable decision, they of course could have settled their dispute before this Court issued the Report and Recommendation." Ryland Group, Inc. v. Travelers Ins. Co., 2001 WL 1200655 (W.D. Tex. 2001)

> The New York cases establish that "[s]o long as the claims [asserted against the insured] may rationally be said to fall within policy coverage, *whatever may later prove to be the limits of the* insurer's *responsibility to pay*, there is no doubt that it is obligated to defend." In other words, a separate contractual duty to defend exists, and perdures until it is determined *with certainty* that the policy does not provide coverage."

Id. at 83.

The question, according to the Second Circuit, is whether Gucci's claim that Century "marketed" allegedly infringed goods was within the embrace of the policy. The court stated that a term as broad as "marketing" may be construed to include activities that are "within the embrace" of "advertising." Id. The Second Circuit noted that even if it is later determined that "marketing" does not fall within the "advertising injury" provision, Diamond still has a duty to defend Century in the present:

> Diamond's obligation to defend Century endures unless and until there is a point in the Gucci proceeding at which the factual nature of Gucci's allegation of injury resulting from "market[ing]" is clarified "with certainty" to exclude any issue relating to Century's conduct in the court of advertising. Furthermore…even if Diamond's duty to defend may have ceased, Diamond is not relieved of paying for Century's defense up to the point it would have been certain in the proceeding that no further defense was owed under the insurance contract.

Id. at 84.

In Houbigant, Inc. v. Federal Ins. Co., the United States Court of Appeals for the Third Circuit reversed a District Court's decision of judgment to the insurance company that refused coverage to its policyholder. 374 F.3d 192 (3d Cir. 2004). In Houbigant, a fragrance manufacturer-licensee sought indemnification under its liability policy. In the underlying suit, the policyholder had been granted a license to manufacture and sell certain Houbigant fragrance and to make use of the trademarks that were associated with those fragrances. Id. at 195. The policyholder, however, was "required to manufacture, package, and label Houbigant products in accordance with particular specifications in order to ensure authenticity and quality." Id. The policyholder was accused of directly or contributorily infringing the trademarked titles and breaching contractual obligations. Id. Specifically, the policyholder allegedly "(1) sold a 'watered-down version of [the manufacturer's] 'Chantilly' fragrance; (2) sold the 'know-how' and physical components required to make Chantilly and three other fragrances to unlicensed fragrance producers who sold the products worldwide; (3) used the Houbigant name to sell non-Houbigant products; and (4) indicated that the Chantilly fragrance was produced by the Insureds." Id. at 196. The court granted coverage to the policyholders reasoning that: (1) the policy exclusion stating that the policy "does not apply to…. advertising injury…arising out of … infringement, violation or defense of any… trademark or service mark or certification mark or collective mark or trade name, *other than trademarked or service marked titles or slogans*" did not apply because manufacturer's marks did indeed qualify as "trademarked titles". Id. at 197 (emphasis in original)(internal quotations and citations omitted); (2) the conduct was an "advertising injury" committed in the course of advertising of the policyholder's goods, products or services. Id. at 202; and (3) policy exclusion disallowing coverage for "advertising injury" arising out of breach of contract did not apply because policyholder's actions were tortuous in nature. Id. at 203.

Similarly, the United States District Court for the Southern District of New York in Energex Systems Corp. v. Fireman's Fund Ins. Co., held as follows:

> [t]he underlying complaint in this action was clearly concerned with preventing or ending any confusion between Energex's product and that of Anton/Bauer's. Although the word advertising was not used in the complaint, it is clear that the confusion which was created through Energex's communications with its customers took place through advertising. Additionally, the claim for trade dress or trademark infringement includes as an element of proof some communication between seller and consumer.

No. 96 Civ. 5993 (JSM), 1997 WL 358007, at *4 (S.D.N.Y. June 25, 1997); see also Hyman v. Nationwide Mut. Fire Ins. Co., 304 F.3d 1179, 1179 (11th Cir. 2002) (trade dress infringement claim could trigger "advertising injury" coverage under liability policy); Assurance Co. of Am. v. J.P. Structures Inc., 132 F.3d 32, 32 (6th Cir. 1997) (insurance company must defend policyholder against trademark infringement claims under "advertising injury" provision); Central Mutual Ins. Co. v. StunFence, 292 F. Supp. 2d 1072, 1072 (N.D. Ill. 2003) (finding duty to defend policyholder in underling action for trademark infringement); Summit Bancorp v. TIG Ins. Co., Civil No. 99-5424 (GEB) (D.N.J. Mar. 9, 2001) (definition of "advertising injury" includes claims of trademark and trade dress infringement); U.S.A. Nutrasource, Inc. v. CNA Ins. Co., No. C-00-4536, 2001 WL 125341 (N.D. Cal. Feb. 5, 2001) (duty to defend attaches where the facts alleged in the complaint or known to the insurance company would support a claim or remedy that is not pleaded); CAT Internet Sys. Inc. v. Providence Washington Ins. Co., No. 00-3238 (E.D. Pa 2001) (duty to defend trademark action alleging infringing use of internet domain names); Elcom Tech. Inc. v. Hartford Ins. Co. of the Midwest, 991 F. Supp. 1294, 1294 (D. Utah 1997) (claim alleging false advertising under both common law and Lanham Act in statements contained in advertising brochures must be defended by insurance company); Fireman's Fund Ins. Co. of Wis. v. Bradley Corp., 660 N.W.2d 666, 666 (Wis. 2003) (holding in favor of coverage where underlying claim alleged trademark infringement).

The United States District Court for the Southern District of New York held in favor of coverage in Ben Berger & Son v. Am. Motorist Ins. Co. 36 U.S.P.Q. 2d 1105 (S.D.N.Y. June 29, 1995). In Ben Berger, the plaintiff was sued by a children's clothing designer, Cynthia McKinney, who alleged that, subsequent to her termination of a licensing relationship with Ben Berger, Berger's "continued manufacture and marketing of clothing accessories that were identical or similar in design to her own injured her business reputation, caused consumer confusion and diminished her sales." 1995 WL 386560, at *1.

In rejecting the insurance company's argument that such misappropriation of trade dress did not constitute "advertising injury", the court in Ben Berger first noted that, because the terms of the "advertising injury" provision were not defined, they must be given their ordinary meaning:

> [s]ince those terms are not defined, they will be given their common, everyday meaning. "Advertising" is action intended to make something known to the public or to call public attention to something by emphasizing its desirable qualities so as to arouse a desire to buy. With respect to "style of doing business," that term's common meaning clearly encompasses trade dress as concepts, ideas and styles.

Ben Berger, 1995 WL 386560 at *5, n. 3.

In light of the common, everyday meaning of the terms, the Court in Ben Berger concluded that the alleged misconduct constituted "advertising injury" for purposes of insurance coverage:

> [p]laintiff argues that McKinney's Lanham Act claims allege injuries that occurred from its misappropriation of McKinney's advertising ideas and style of doing business and thus required American to defend. I agree. Berger copied McKinney's "style of doing business" because it manufactured gloves and socks that were startlingly similar to McKinney's. The injury caused by Berger's infringement of McKinney's trade dress is an advertising injury because it was Berger's advertising its similar products in its catalogue, in which McKinney's own product had previously been advertised, that diluted McKinney's distinctive trade dress and caused confusion as to the source of the products.

Ben Berger at *3; see also Acaro Corp. v. American Intern. Specialty Lines Ins. Co., 676 F. Supp. 2d 738 (S.D. Ind. 2009); Gen. Las. Co. of Wisconsin v. Wozniak Travel, 762 N.W.2d 572 (Minn. 2009); Platinum Tech., Inc. v. Federal Ins. Co., No. 99 C 7378, 2000 WL 875881 (N.D. Ill. June 28, 2000); Massachusetts Bay Ins. Co. v. Penny Preville, Inc., No. 95 Civ. 4845 (RPP), 1996 WL 389266 (S.D.N.Y. July 9, 1996); Allou Health & Beauty Care, Inc. v. Aetna Cas. & Sur. Co., 703 N.Y.S.2d 253 (2d Dep't 2000); B.H. Smith v. Zurich Ins. Co., 285 Ill. App. 3d 536 (Ill. App. Ct. 1996) (decided under New York law).

In Poof Toy Prod., Inc. v. United States Fid. & Guar. Co., the United States District Court for the Eastern District of Michigan held that an insurance company which had sold the policyholder a liability insurance policy was obligated to defend the policyholder in a trademark infringement case. 891 F. Supp 1228 (E.D. Mich. 1995). The court ruled that "the allegations of trademark and trade dress infringement are 'advertising injuries' caused by an offense committed in the course of advertising the [policyholder's] goods, products or services" and thus give rise to the insurance company's duty to defend. Id. at 1237; see also P.J. Noyes Co. v. American Motorists Ins. Co., 855 F. Supp. 492 (D.N.H. 1994); but see Advance Watch Co., Ltd. v. Kemper Nat'l Ins. Co., 99 F.3d 795 (6th Cir. 1996), reh'g en banc, denied, 99 F.3d 795 (6th Cir. 1996); see also Fireman's Fund Ins. Co. of Wisconsin v. Bradley Corp., 660 N.W.2d 666, 682 (Wis. 2003).

In First State Ins. Co. v. Alpha Delta Phi Fraternity, an Illinois appellate court held that a trademark infringement claim filed by the policyholder was within the scope of coverage of a liability policy sold to a college fraternity. No. 1-94-1050, 1995 WL 901452 (Ill. App. Ct. Nov. 3, 1995). In the underlying action, the policyholder-fraternity was sued for trademark infringement after it continued to use the name "Alpha Delta Phi," although it was no longer affiliated with the national fraternity organization.

The policyholder sought coverage under a liability policy. The insurance company rejected the policyholder's claim and refused to defend. The First State Court held that the manner in which the fraternity used the trademark name constituted "advertising" within the meaning of the "advertising injury" provision. The First State court rejected the insurance company's argument that coverage is unavailable because trademark infringement was not one of the enumerated offenses in the "advertising injury" provision.

A California appellate court held that trademark and "trade dress" infringement claims may give rise to a duty to defend under the "advertising injury" provision of liability policies. In Feinberg v. Canadian Ins. Co., a competitor of the policyholder filed suit for trademark infringement and unfair competition. 12 Cal. App. 4th 878 871 (Cal. App. Ct. 1993) ("depublished" under California court rule). The policyholder tendered defense of the lawsuit to its insurance company under its liability policy which contained an "advertising injury" provision. The policyholder, a potato chip manufacturer, marketed its product under the name "Rusty's Island Chips." Another potato chip maker, Aloha Pacific, Inc. ("Aloha"), also marketed its product under the name "Rusty's Island Chips." The policyholder was sued by Aloha for alleged trademark infringement. The lawsuit sought to enjoin the policyholder from using the name "Rusty's Island Chips."

The insurance company rejected the policyholder's tender of defense on the grounds that the complaint did not seek "monetary damages." Subsequently, in the underlying action, an injunction was granted against the policyholder.

Aloha then informed the policyholder that Aloha intended to amend its complaint to seek damages.

Although a trial court found that the insurance company had no duty to defend the policyholder based upon the allegations in the original complaint, the appellate court reversed and held in favor of the policyholder. The appellate court reversed the trial court's grant of summary judgment against the policyholder on the issue of the duty to defend. The Feinberg Court examined several factors outside the original complaint to find that Aloha potentially sought "damages" within the coverage of the liability insurance policy. Feinberg, 15 Cal. Rptr. 2d at 874.

The United States Court of Appeals for the Ninth Circuit has upheld insurance coverage for trademark infringement. See Aetna Cas. & Sur. Co. v. Centennial Ins. Co., 838 F.2d 346 (9th Cir. 1988). In the underlying action in Centennial, the plaintiff charged that the policyholder had engaged in unfair competition by advertising "Allflex's distinctive animal tags as their own." Centennial, 838 F.2d at 349. The lawsuit alleged false designation of origin and unfair competition under Section 43(a) of the Lanham Act, 15 U.S.C. §§1125(a), common law trademark infringement and unfair competition. Aetna accepted the defense, admitted coverage and brought a lawsuit against the other insurance companies to recover the cost of defense. The District Court ruled that the insurance companies which afforded "advertising injury" coverage had a duty to defend, and rejected the argument that the exclusion for infringement of a registered trademark applied. Centennial, 838 F.2d at 349-50. The Ninth Circuit affirmed the District Court finding of a duty to defend and found there was no coverage under other insurance policies which afforded coverage only for libel and slander. Id.; see also Philips Oral Healthcare Inc. v. Federal Ins. Co., 83 Fed. Appx. 963 (9th Cir. 2003) (finding covering for false advertising under the advertising injury providing coverage); Letro Products, Inc. v. Liberty Mut. Ins. Co., 114 F.3d 1194 (9th Cir. 1997).

Several decisions have interpreted the advertising injury offense of "infringement of title": Williamson v. North Star Cos., No. C3-96-1139, 1997 WL 53029 (Minn. Ct. App. Feb. 11, 1997); J.A. Brundage Plumbing & Roto-Rooter, Inc. v. Massachusetts Bay Ins. Co., 818 F. Supp. 553 (W.D.N.Y. 1993), vacated pursuant to settlement, 153 F.R.D. 36 (W.D.N.Y. 1994); Merchants Co. v. American Motorists Ins. Co., 794 F. Supp. 611, 618 (S.D. Miss. 1992).

Brundage involved coverage for claims of: (1) federal trademark and servicemark infringement; (2) false designation of origin; (3) state servicemark infringement; (4) dilution and injury to business reputation; (5) unfair competition; and (6) breach of contract. Brundage, 1993 WL 117115, at *6. The policy language in Brundage did not list either "piracy" or "unfair competition" as a covered offense under the advertising injury coverage. Id. The policy did, however, list "infringement of copyright, title, or slogan" as a covered advertising injury. Id.

The Brundage Court found that the trademark infringement claims could be encompassed within the "advertising injury" coverage for "infringement of title". Id. The court reasoned that "title" was not defined in the policy. Id. Further, the court noted that the ordinary definition of "title" included protected property rights that entitled the owner to exclusive use of his property. Id. Accordingly, the court found that the insurance company was required to defend the action. Id.

In Merchants, the court found that allegations that a policyholder improperly utilized its competitor's customer list "may be said to involve an infringement of [the competitor's] title to the customer list." 794 F. Supp. at 618. The Merchants court specifically rejected the insurance company's contention that "infringement" should be construed solely to refer to copyright infringement, because "that is not what the comprehensive general liability insurance and Catastrophe policies state." Id.

Further, the court noted that, because "infringement" was not defined in the policies, it had to be given "its plain, ordinary or popular sense definition." Id. The court found such plain meaning to be "breaking into; a trespass or encroachment upon; a violation of law, regulation, contract or right." Id. The court concluded that this definition applied to the allegations that the policyholder misused the customer list, and required the insurance company to both defend and indemnify its policyholder. Id.

Even when an insurance policy at issue expressly excludes insurance coverage for "trademark infringement," a policyholder may yet be entitled to coverage for "infringement of title" under another covered offense. In Touch of Class Imports, Ltd. v. Aetna Cas. & Sur. Co., the United States District Court for the Southern District of New York held that a policyholder's infringement of a trademark may qualify for coverage under an "advertising injury" provision. 901 F. Supp. 175 (S.D.N.Y. Oct. 25, 1995); see also COS Indus. Inc., v. Charter Oak Fire Ins. Co., No. 10-CV–3186, 2010 WL 720320 (E.D.N.Y. Nov. 16, 2010).

Additionally, when the trademark infringement action alleges the use of the phrase as "an attention getting device," or a "slogan," and not merely as a trademark, then the policyholder may be entitled to coverage under the "advertising injury" provision enumerating infringement of a "slogan." Courts have interpreted the term "slogan" in the "advertising injury" provision broadly.

In Ultra Coachbuilders, Inc. v. Gen. Security Ins. Co., the United States District Court for the Southern District of New York held that under California insurance law, "'QVM or 'Quality Vehicle Modifier' could potentially qualify as a slogan under either of these articulations [for the purposes of 'personal and advertising injury' coverage]." No. 02 CV 675(LLS), 2002 WL 31528474 (S.D.N.Y July 15, 2002).

In Ultra Coachbuilders, Inc., the Ford Motor Company ("Ford") had a certification program called Quality Vehicle Modifier, or, QVM for short. Id. QVM-certified companies were authorized to convert Ford vehicles into limousine-style stretch vehicles (i.e., an SUV-limo). Id. Ford sued Ultra Coachbuilders ("Ultra") for infringing on the QVM mark by using a similar "VQM" mark in advertising and selling converted Ford vehicles. Id. Ultra tendered to its insurance company, who denied the claim because it alleged trademark infringement. Id. Ultra argued that it fit with the exception to the bar on coverage for trademark claims for use of a slogan in the policyholder's advertising. Id.

The court addressed the issue of whether "the alleged infringement of Ford's unregistered marks 'Quality Vehicle Modifier' or the abbreviation, 'QVM,' could support a claim of slogan infringement, there is a duty to defend." Id. (emphasis added). Id. The court stated that the "Supreme Court of California offers this definition of slogan: 'A slogan is a brief attention-getting phrase used in advertising or promotion or a phrase used repeatedly, as in promotion.'" Id. The court held that under California insurance law, "'QVM or 'Quality Vehicle Modifier' could potentially qualify as a slogan under either of these articulations [for the purposes of 'personal and advertising injury' coverage]." Id.; see also Super Duper Inc. v. Pennsylvania Nat. Mut. Cas. Ins. Co., 683 S.E.2d 792 (S.C. 2009).

Recently, in Hudson Ins. Co. v. Colony Ins. Co., the United States Court of Appeals for the Ninth Circuit affirmed the District Court and held that allegations by NFL Properties that the policyholder had counterfeited league jerseys, including the use of the words "Steel Curtain" on t-shirts for the Pittsburgh Steelers, were covered under the policyholder's "advertising injury" provision. 624 F.3d 1264 (9th Cir. 2010). Specifically, the Ninth Circuit held that "Steel Curtain" was a term used to promote fan loyalty and was a "brief attention-getting phrase used in advertising or promotion" and, thus, met the standard for a "slogan." Id.

Therefore, insurance coverage is available for certain trademark or "trade dress" infringement as well as for "infringement of title" actions.

D. Patent Infringement Actions/"Piracy"

Insurance coverage is available for liabilities from allegations of patent infringement. Courts interpreting the meaning of the term "piracy" in the "advertising injury" provision have held that patent infringement is a form of "piracy." For example, in Union Ins. Co. v. Land & Sky, Inc., the insurance company refused to defend its policyholder in an action alleging patent infringement. 529 N.W.2d 773 (Neb. 1995). The insurance company contended that patent infringement was not covered under the liability policy's "advertising injury" provision. Id. The Nebraska Supreme Court rejected that contention, holding that the term "piracy" encompasses patent infringement and requiring the insurance company to defend its policyholder. Id.

Dictionaries define "piracy" as, among other things, "patent piracy" or "patent infringement." As the Land & Sky court stated:

> [f]or example, Black's Law Dictionary 1148 (6th ed. 1990) defines piracy as the 'unlawful reproduction or distribution of property protected by patent and trademark laws'; Webster's Encyclopedic Unabridged Dictionary of the English Language 1096 (1989) defines piracy as `the unauthorized appropriation or use of a . . . patented work'; and The Oxford English Dictionary 897 (2d ed. 1989) defines piracy as 'infringement of the rights conferred by a patent or copyright.'

247 Neb. at 701; see also Elan Pharm. Research Corp. v. Employers Ins. of Wausau, 144 F.3d 1372 (11th Cir. 1998) (insurance company required to defend policyholder against suit alleging infringement of drug patent). Accordingly, "piracy" includes patent infringement.

An insurance company may have a duty to defend the policyholder under the "personal injury" and "advertising injury" provisions where there are assertions of inducing patent infringement. So held the Supreme Judicial Court of Maine, answering a question certified by the United States District Court for the District of Maine, in Foundation for Blood Research v. St. Paul Marine and Fire Ins. Co. 730 A.2d 175 (Me. June 3, 1999). The Blood Research Court observed that "[i]nducing patent infringement can be committed by conduct 'as broad in scope as the range of actions by which one may cause, urge, encourage, or aid another to infringe.'" 730 A.2d At 175. The court held that an insurance company had the duty to defend its policyholder under the liability policy at issue. 730 A.2d At 175.

Inducement to infringe a patent often may occur in connection with advertising or marketing activities. There are many ways in which one can induce infringement of a patent, one of which is through advertising an infringing device or method. See, e.g., Rexnord Inc. v. Laitram Corp., 6 U.S.P.Q. 2d 1817, 1842 (E.D. Wis. 1988) ("Liability under 35 U.S.C. § 271(b) can be established where a party takes active steps to induce infringement through advertising..."); see also Everett Assoc., Inc. v. Transcontinental Ins. Co., No. C-97-4308 (N.D. Cal. May 26, 1999). As the court stated in Fromberg Inc. v. Thornhill, "the term [inducing infringement] is as broad as the range of actions by which one in fact causes, or urges, or encourages, or aids another to infringe a patent." 315 F.2d 407, 411 (5th Cir. 1963),

Changes to U.S. Patent Law resulting from the codification of the General Agreement on Tariffs and Trade ("GATT") permit patent infringement claims based upon "offers to sell" infringing products. 35 U.S.C. 271(a). Prior to this change, § 271(a) imposed liability for infringement upon on one who "makes, uses or sells" an infringing device. The GATT-inspired revision imposes patent infringement liability upon one who "makes, uses, offers to sell or sells any patented invention....” 35 U.S.C. 271(a). Policyholders can argue that direct patent infringement liability arises from “offers to sell” which includes marketing and advertising activities. Thus, the usual insurance company argument that patent infringement does not “occur in the course of” advertising may have even less force under the revised statute.

Courts have found broad coverage under the post-1986 “advertising injury” provision. Cases have held that patent infringement claims may be covered under “advertising injury” endorsements that include “piracy” in the definition of advertising injury. For example, in Nat’l Union Fire Ins. Co. v. Siliconix Inc., a policyholder faced liability for patent infringement. 729 F. Supp. 77 (N.D. Cal. 1989). The insurance company argued that patent infringement is not encompassed by the phrase “piracy.” Id. The Siliconix court found that the term “piracy” must be read to include patent infringement in part because the insurance policy contained no definition of “piracy” and because dictionary definitions of the term include patent infringement. Id. at 79 (the policyholder ultimately lost the duty to defend issue); see also Aqua Queen Mfg., Inc. v. Charter Oak Fire Ins., 830 F. Supp. 536 (C.D. Cal. 1993) , rev’d, 46 F.3d 1138 (9th Cir. 1995).

The best evidence of whether “piracy” includes patent infringement comes from the insurance companies themselves. United National Insurance Company represented to a federal court that it did “not dispute that the term ‘piracy’ as used in its policy may be interpreted to include patent infringement.” United National Insurance Company’s Supplemental Memorandum in Opposition to Intex’s Motion for Summary Judgment (filed Oct. 5, 1990) at 6, Intex Plastic Sales Co. v. United Nat’l Ins. Co., 18 U.S.P.Q. 2d 1567 (C.D. Cal. Dec. 6, 1990).

Of course, not all cases in this area are policyholder—friendly. For example, in Fluoroware, Inc. v. Chubb, the trial court held that the insurance companies had a duty to defend a patent infringement action against the policyholder where the underlying action was based on the policyholder’s sale of an allegedly infringing product. No. CT 94-9505 (4th Jud. Dist. Minn. 1995). On appeal, however, the Fluoroware appellate court held that the insurance company’s obligation to defend the policyholder for “advertising injury” arising out of “advertising activity” did not extend in that case to injury caused by patent infringement. See Fluoroware, Inc. v. Chubb Group of Ins. Co., 545 N.W.2d 678 (Minn. Ct. App. 1996).

Nevertheless, as detailed above, insurance coverage is available for certain patent infringement actions.

E. Customer Lists Actions

Coverage may be available for allegations including misappropriation of customer lists and pricing information. Claims that a policyholder misappropriated trade secrets, including customer lists, marketing techniques, and other inside and confidential information from a competitor, may also trigger a defense obligation. In Sentex Systems, Inc. v. Hartford Accident & Indem. Co., the united States Court of Appeals for the Ninth Circuit held that the insurance company, Hartford Accident and Indemnity Company (Hartford), breached its duty to defend under its liability policy. 93 F.3d 578, 581 (9th Cir. 1996); abrogation recognized by Rombe Corp v. Allied Ins. Co., 128 Cal. App. 4th. (Cal. App. Ct. 2005).

In the underlying action, the complaint alleged that Sentex, a company that designs entry security systems, misappropriated a competitor’s trade secrets, including customer lists. Id. at 579-80. Sentex twice requested Hartford to defend the suit, and on both occasions Hartford refused. Id. at 580.

Hartford’s liability policies provided coverage for “sums that the insured becomes legally obligated to pay as damages because of… ‘advertising injury.’” According to the policies, “advertising injury” is an injury arising out of any of the offenses enumerated in the policies, including the “[m]misappropriation of advertising ideas or style of doing business.” Id.

Hartford argued that “advertising injury” includes only alleged wrongdoing that involves the text, words, or form of an advertisement. Id. The Ninth Circuit, however, believed that the policy’s language, given its ordinary meaning, did not limit itself to the misappropriation of an actual advertising text, but rather, is concerned with “ideas,” a broader term. Id.

F. Antitrust Violations

Insurance coverage is available for liabilities from allegations of antitrust violations. Antitrust violations have been held covered as “personal injury.” See Ethicon, Inc. v. Aetna Cas. & Sur. Co., 737 F. Supp. 1320 (S.D.N.Y. 1990). Antitrust violations may be covered as “piracy,” “unfair competition” or “misappropriation of ideas.”

Claims against policyholders based on antitrust law and common law interference with business give rise to a duty to defend the policyholder. See Tews Funeral Home, Inc. v. Ohio Cas. Ins. Co., 832 F.2d 1037 (7th Cir. 1987); and Flodine v. State Farm Ins. Co., No. 99 C 7466, 2001 WL 204786 (N.D. Ill. Mar. 1, 2001) (holding that insurance company had a duty to defend its policyholder in a suit alleging violations of deceptive business and trade practices arising from the marketing of “southwestern style” arts and crafts).

The insurance company in Tews argued that the antitrust violations, unfair competition and defamation alleged in the underlying action against the policyholder was intended and, thus, excluded under the “occurrence” definition. Tews, 832 F.2d at 1042-44. The court observed, “‘Advertising offense’ is defined to include many torts that characteristically require intent, maliciousness or willfulness....” Id. at 1045.

The Tews court observed that "one part of [the] policy insure[d] against intentional torts or acts, while another part of the policy attempts to exclude coverage for these same acts." Tews, 832 F.2d The Tews court construed the ambiguity against the insurance company, under "the well recognized rules of insurance contract construction and interpretation." Tews, 832 F.2d

In CNA Cas. of California v. Seaboard Sur. Co., the court upheld insurance coverage for antitrust violations and misappropriation of trade secrets. 176 Cal. App. 3d 598 (Cal. Ct. App. 1986). The policyholder, a regional clearinghouse for the Mastercard credit systems, had purchased liability policies that included an "advertising injury" provision. A competitor filed a lawsuit alleging federal antitrust violations and intentional interference with contractual relationships. CNA accepted the defense of the lawsuit and brought an action for contribution against three other insurance companies to recover the costs of that defense. The court ruled that the alleged activities, including antitrust violations, were covered by the "advertising injury" provision:

> [the Complaint] charged that [the policyholder] misappropriated, stole and misused property interests and trade secrets and made misrepresentations to the Salveson plaintiffs "in an effort to further eliminate the competition of plaintiffs." These charges are arguably within Seaboard's coverage for piracy, unfair competition and idea misappropriation, particularly since these terms are undefined in Seaboard's policy, and must therefore be construed against the insurance carrier... similarly, Seaboard's unfair competition provision and the provisions in the INA and Pacific insurance policies for libel, slander or other defamatory or disparaging material potentially covered allegations in [the complaint that the policyholder] misrepresented "the business, property and rights possessed by [plaintiffs] to persons with whom plaintiffs did business in an effort to disrupt and prevent" the business relationships between those persons and the plaintiffs.

222 Cal. Rptr. at 281 (citations omitted); cf. St. Paul Mercury Ins. Co. v. Engineered Prod. Co., No. C7-97-3501 (Minn. Dist., Ramsey Co.) (insurance company has duty to defend unfair competition claims under the "advertising injury" provision).

Insurance companies are on the record in support of the position that antitrust violations are covered as "unfair competition." Continental Casualty Insurance Company has argued successfully that "an antitrust violation is commonly considered unfair competition" and there is no need to "strain the construction" of the phrase "unfair competition" in an insurance policy to arrive at that conclusion. Reply Brief of Respondent CNA Casualty of California in Reply to Appellants Seaboard Surety Company and Insurance Company of North America and Opening Brief of Cross-Appellant CNA Casualty of California (dated Aug. 15, 1984) at 31, CNA Cas. of Calif. v. Seaboard Sur. Co., 176 Cal. App. 3d 598 (Cal. Ct. App. 1986). The California Court of Appeal agreed.

> A Crum & Forster company made a similar argument in Illinois:
>
> [t]he language of the [comprehensive general liability] policy makes it abundantly clear that FLORISTS [Mutual Insurance Company] had the affirmative duty and obligation to defend any suit against its insured seeking damages for unfair competition issues arising out of advertising activity. The federal [antitrust] action sought this type of damages.

Brief of Appellant [International Insurance Company] (filed Nov. 30, 1989) at 6, Int'l Ins. Co. v. Florist's Mut. Ins. Co., 201 Ill. App. 3d 428, 559 N.E.2d 7 (Ill. App. Ct. 1990) (emphasis added).

As discussed above, therefore, insurance coverage is available for certain antitrust violation actions.

G. Slander, Libel, Defamation or Invasion of Privacy Actions

Insurance coverage is available for liabilities from allegations of libel, slander and defamation. The United States District Court for the Eastern District of Pennsylvania held that an insurance company must defend a policyholder against allegations of libel, slander and defamation. Safeguard Scientifics Inc. v. Liberty Mut. Ins. Co., 766 F. Supp. 324 (E.D. Pa. 1991), aff'd in part rev'd in part on other grounds mem, 961 F.2d 209 (3d Cir. 1992). The Safeguard court found that the insurance company had a duty to defend the policyholder from allegations by the former president of the policyholder of slander, defamation and misrepresentation. Id. In the underlying action, the former president claimed that the defamatory statements injured his ability to practice his trade. Id. The Safeguard court held that the allegations in the underlying action could be read to include negligent or reckless defamation, and, thus, held the insurance company had a duty to defend the policyholder. Id.

The Safeguard court noted that the definition of "advertising injury" [apparently a post-1986 form] includes injury arising out of "[o]ral 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". Id. at 329. The Safeguard court found that the coverage "provisions are unambiguous and apply on their face to the allegations of defamation contained in" the underlying action. Id. The insurance company was found to have a duty to pay the attorney's fees and costs the policyholder incurred in defending the underlying action. Id.

The Seaboard court also observed that defamation potentially is covered:

> [e]ven 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 announcements....” [I]t 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 [the policyholder’s] function was to serve as the advertising arm of its member banks, and the entire question of the use or misuse of the Mastercard “service mark” was central to the Salveson lawsuit.

222 Cal. Rptr. at 285 (citation omitted, emphasis added).

The Seaboard court refused to enforce an exclusion in the policy which purported to eliminate coverage for false, misleading, deceptive, fraudulent, or misrepresenting advertising or unfair competition. Id. The court found that the exclusion was inconsistent with the grant of coverage in the “advertising injury” provision. Id.

Aetna argued that defamation and disparagement are covered. Aetna Cas. & Sur. Co. v. Centennial Ins. Co., 838 F.2d 346, 349 (9th Cir. 1988) (Aetna asserted potential coverage for “defamatory or disparaging” material). Similarly, Seaboard Surety Company argued that a violation of a right of privacy is covered under an “advertising injury” provision. Memorandum of Points and Authorities in Support of Defendant Seaboard Surety Company’s Motion to Dismiss (dated March 6, 1992) at 5, Iolab Corp. v. Seaboard Sur. Co., No. 91-5995 (C.D. Ca.).

At least one court has held that an insurance company has a duty to defend a suit where possible defamation is at issue, even if the complaint did not specifically assert a claim for slander or libel. In Federal Ins. Co. v. Golden Eagle Ins. Corp., the United States District Court for the Southern District of California held that insurer Golden Eagle Insurance Corp. (“Golden Eagle”) breached its duty to defend policyholder Emerald Bay Community Association (“Emerald Bay”) in an underlying state court lawsuit (the “Lopez Action”). Federal Ins. Co. v. Golden Eagle Ins. Corp., Civil No. 05cv1853-L(LSP), 2007 WL 1851677, at *6 (S.D. Cal. June 26, 2007). In this action, plaintiff Federal Insurance Co. (Federal) sought reimbursement from Defendant Golden Eagle for its defense and indemnity payments to their mutual insured Emerald Bay in the Lopez Action. Id. at 1.

The plaintiffs in the Lopez Action alleged that directors of their homeowners’ association publicly disparaged them, referred to them in derogatory and degrading terms, and suggested to the community that plaintiffs were dishonest and untrustworthy. Id. at 1. Federal argued that Golden Eagle owed a duty to defend because the liability policy provided coverage for oral or written publication of material that slanders or libels a person and because the Lopez Action alleged that the policyholder referred to the underlying plaintiffs in a defamatory manner. Id. Although the district court acknowledged that the plaintiffs in the Lopez Action did not assert a claim for slander or libel, the court noted that such “is not required for a duty to defend to arise.” Id. at 3.

> Accordingly, Golden Eagle’s argument that any potential for coverage is thwarted because the Lopez Action does not sufficiently allege defamation damages is rejected on this ground as well…If a single issue exists which is even potentially within the policy coverage, [the insurer] has a duty to defend…[the] action in its entirety.

Id. at 5.

H. Unfair Competition

Some courts have interpreted the phrase “unfair competition” in accord with a common law meaning. The earliest case to address the use of the term “unfair competition” in the “advertising injury” liability context held that it applied to torts involving harm to competitors. Ruder & Finn, Inc. v. Seaboard Surety Co., 52 N.Y.2d 663, 439 N.Y.S.2d 858, 422 N.E.2d 518 (1981).

Courts have found coverage for unfair competition claims. See State Auto Prop. and Cas. Ins. Co. v. Travelers, 343 F.3d 249 (4th Cir. 2003); New Hampshire Ins. Co. v. Foxfire, Inc., 820 F. Supp. 489, 495-496 (N.D. Cal. 1993) (finding that the facts as alleged gave rise to a potential liability for common law unfair competition and, therefore, there exited a duty to defend); Hoosier Ins. Co. v. Audiology Foundation of America, 745 N.E.2d 300 (Ind. Ct. App. 2001) (duty to defend claim of unfair competition based on policy provision of misappropriation of style of doing business); Feinberg v. Canadian Ins. Co. of Calif., 12 Cal. App. 4th 878 (Cal. Ct. App. 1993) (duty to defend claim of unfair competition, trademark and “trade dress” infringement in sale of “Rusty’s Island Chips”) (“depublished” in California).

Insurance companies themselves have acknowledged, in a number of contexts, that there should be no artificial limitation of coverage for “unfair competition” to archaic common law offenses only. Aetna has argued that the “advertising injury” provision covers statutory unfair competition violations:

> [o]n January 14, 1986 the California Court of Appeal in CNA Casualty v. Seaboard Surety Co., 86 D.A.R. 285, made a ruling which is critical to this case. It clearly establishes that each of the defendants herein have wrongfully denied coverage and defense to the insured, and must reimburse plaintiff all defense fees generated in the underlying action as well as the fees generated for the prosecution of this action.

Supplemental Memorandum of Points and Authorities in Support of Plaintiff’s Motion for Summary Judgment (filed Feb. 12, 1986) at 1, Aetna Cas. & Sur. Co. v. Great American Ins. Co., No. CV 84-2995-WPG (C.D. Cal.).

CNA is on the record in support of the position that antitrust violations are covered as “unfair competition.” Reply Brief of Respondent CNA Casualty of California in Reply to Appellants Seaboard Surety Company and Insurance Company of North America and Opening Brief of

Cross-Appellant CNA Casualty of California (dated Aug. 15, 1984) at 31, CNA Cas. of Calif. v. Seaboard Sur. Co., 176 Cal. App. 3d 598, 222 Cal. Rptr. 276, review denied (1986).

A Crum & Forster company argued in Illinois that "unfair competition" includes statutory federal antitrust actions. Brief of Appellant [International Insurance Company] (filed Nov. 30, 1989) at 6, International Ins. Co. v. Florist's Mut. Ins. Co., 201 Ill. App. 3d 428, 559 N.E.2d 7 (Ill. App. 1st Dist. 1990).

The Hartford Group also has acknowledged the ambiguous nature of the undefined term "unfair competition." In a reply brief submitted to the Illinois Court of Appeals, Hartford's sister company, First State Insurance Company, represented to that court that "[u]nfair competition is an ambiguous tort." Reply Brief of Plaintiff-Appellant First State Insurance Company, in First State Ins. Co. v. Alpha Delta Phi, 1995 WL 901452 (Ct. App. Ill., 1st Dist., 6th Div.), at *12. Similarly, First State represented that "advertisements can take many forms, including direct mail, billboards, or classified advertising in publications." Alpha Delta Phi, at *13.

The positions of these insurance companies on the "unfair competition" issue show the reasonableness of the policyholder's position that coverage for "unfair competition" should not be limited to the ancient common law definition.

Moreover, the case law describing the bounds of "unfair competition" confirms Hartford's sister company's contention that the term is inordinately vague. See Johnson & Johnson v. Quality Pure Mfg., Inc., 484 F. Supp. 975 (D.N.J. 1979) ("When competition is engaged in beyond the boundaries of fair play, there is unfair competition."); Water Gremlin Co. v. Ideal Fishing Float Co., 401 F. Supp. 809 (D. Minn. 1975) ("the essence of the law of unfair competition is fair play"); Atlantic Monthly Co. v. Frederick Ungar Publ'g Co., 197 F. Supp. 524 (S.D.N.Y. 1961). Indeed, long before the Broad Form Comprehensive General Liability Endorsement was drafted in the 1970's, the undefined nature of a claim for unfair competition was expressed as follows:

> [i]t is easy to tell whether the conduct of defendant is fair or foul. This law is given an appropriate name of "unfair competition." One can feel the unfairness better than one can express it from the bench.

Champion Spark Co. v. Champion, 23 F. Supp. 638 (D. Mich. 1938).

After much attention in the press, the California Supreme Court rendered its decision in Bank of the West v. Superior Court (Industrial Indem. Ins. Co.), 2 Cal. 4th 1254 (Cal. 1992). In Bank of the West, the policyholder sought liability insurance coverage under "advertising injury" provisions in connection with its settlement of a consumer class action. The insurance industry claims that it never meant to cover the kinds of liability facing policyholders such as the Bank of the West (the "Bank").

In Bank of the West, the Bank had developed an installment program to finance automobile insurance premiums. The Bank did not advertise its program directly to consumers, but instead informed insurance agents that it was willing to lend money to finance premiums and that it would pay agents who referred such customers to the Bank.

When a customer wanted an installment payment plan, the agent would obtain a down payment, obtain the customer's power of attorney, and apply for a loan in the customer's name. The customer received notice from the Bank indicating its acceptance of the loan and disclosing the terms of the loan. Many customers apparently were unaware of the terms, which included interest fees and penalties.

A number of consumers filed suit against the Bank alleging violations of California's Unfair Business Practices Act. The Bank settled the suit. The Bank argued the settlement of the litigation constituted "damages" for "unfair competition" that had occurred in the course of the Bank's advertising activities. The California Supreme Court stated:

> [t]he Bank has invoked this rule of construction too early in the interpretive process... If contractual language is clear and explicit, it governs. On the other hand, "[i]f the terms of a promise are in any respect ambiguous or uncertain, it must be interpreted in the sense in which the promisor believed, at the time of making it, that the promisee understood it." This rule, as applied to a promise of coverage in an insurance policy, protects not the subjective beliefs of the insurer but, rather, "the objectively reasonable expectations of the insured." Only if this rule does not resolve the ambiguity do we then resolve it against the insurer.

Bank of the West, 2 Cal. 4th at 1264-65 (citations omitted). The court then attempted to determine a meaning for the undefined phrase "unfair competition":

> [t]he policy does not purport to cover "unfair competition" in the abstract; instead, it covers "damages" for "advertising injury" caused by unfair competition." Read in this context, the term "unfair competition" can only refer to a civil wrong that can support an award of damages.

Bank of the West, 2 Cal. 4th at 1265.

The court concluded that "damages" were not available under the Unfair Business Practices Act for "unfair competition" and that, therefore, a claim under the Act is not covered under the "advertising injury" provision:

> the Unfair Business Practices Act does not authorize an award of damages, and a definition of "unfair competition" that cannot support of claim for damages cannot reflect the objectively reasonable expectations of the insured. Accordingly, we hold that the policy

> term "unfair competition" does not refer to conduct that violates the Unfair Business Practices Act.

Bank of the West, 2 Cal. 4th at 1272. Policyholders should note that the California Supreme Court expressed its decision on narrow grounds and that the decision should not necessarily affect other claims for advertising injury coverage.

At most, Bank of the West holds that a claim based solely on the California Unfair Business Practices Act, which does not authorize an award of damages for "unfair competition," will not be covered. Various common law claims were not addressed in Bank of the West. Thus, a policyholder's prospects for obtaining liability insurance coverage for alleged "unfair competition" claims under common law should not be affected. Further, when the policyholder is alleged to have damaged a "competitor," the claims should be covered even under an archaic common law definition of "unfair competition". See, e.g., Feinberg v. Canadian Ins. Co. of Calif., 12 Cal. App. 4th 878 (Cal. Ct. App. 1993) ("depublished" in California).

Therefore, insurance coverage may indeed be available for liability arising out of unfair competition actions.

III. Legal Issues

Two prominent areas of legal controversy are: 1) what relationship, if any, must "advertising activities" or "advertisement" have with the alleged "offense," and 2) what constitutes "advertising activity" or "advertisement."

A. "Causation"

The connection between the "advertising activities" or "advertisement" and the alleged "offense" is attenuated. The policyholder's position is often that the "offense" need only occur during the "advertising activity' or "advertisement." John Deere Ins. Co. v. Shamrock Indus., Inc., 696 F. Supp. 434 (D. Minn. 1988), aff'd. 929 F.2d 413 (8th Cir. 1991) (only a broad relationship between injury and advertising needed); Merchants Co. v. Am. Motorists Ins. Co., 794 F. Supp. 611 (S.D. Miss. 1992) (part of the alleged conduct — sending out flyers — 'relates to' advertising and, thus, is "in the course of" advertising). Insurance company counsel will argue, however, that there must be a direct causal connection between the company's "advertising activities" or "advertisement" and the alleged "offense".

In the Insurance Services Office ("ISO") Explanatory Memorandum for the 1976 Broad Form Endorsement, ISO stated:

> Advertising Injury covers the insured for various types of injuries such as piracy, unfair competition, infringement of copyright, etc., arising out of the insured's advertising, promotional or publicity activities.

ISO Explanatory Memorandum (1976) (emphasis added). ISO itself drew no distinction between "arising out of" and "in the course of " — using the phrases interchangeably. This explanation of the "advertising injury" provision is important because it demonstrates what the insurance industry represented at the time it offered the Broad Form Endorsement for sale. Courts have often relied upon such insurance industry representations in construing policy terms. See Joy Tech., Inc. v. Liberty Mut. Ins. Co., 421 S.E.2d 493 (W.Va. 1992) (in a different context); Just v. Land Reclamation, Ltd., 456 N.W.2d 570, modified, 157 Wis. 2d 507 (Wis. 1990) (in a different context).

The explanation that injury must merely "arise out of" the "advertising activities" or "advertisement" suggests only the most minimal, tangential connection between the injury and advertising:

> "Arising out of" are words of much broader significance than "caused by." They are ordinarily understood to mean "originating from," "having its origin in," "growing out of" or "flowing from," or in short, "incident to, or having connection with."

Continental Cas. Co. v. City of Richmond, 763 F.2d 1076, 1080 (9th Cir. 1985).

In Continental Ins. Co. v. Application Group, Inc., the United States District Court for the Northern District of California held that the policyholder was entitled to coverage after it was sued for alleged infringement of intellectual property rights. No. 93-03753, 1995 WL 91348 (N.D. Cal. March 12, 1996). The court found that "advertising activity" need not be the sole cause of the injury alleged in order to trigger the insurance company's duty to defend. Id.

In fact, insurance companies are on record in support of an absence of a "causal" connection. A Crum & Forster insurance company argued that "[t]here is no direct causation required whatsoever." Brief of Appellant [International Insurance Company] (filed Nov. 30, 1989) at 7, International Ins. Co. v. Florist Mut. Ins. Co., 201 Ill. App. 3d 428, 559 N.E.2d 7 (1990).

B. "Advertising Activity"

The 1998 ISO form defines "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" Yet, in many insurance policies, the phrase "advertising activities" remains undefined and as such, will be construed against the insurance company. Very little "advertising" is needed for coverage under the advertising injury coverage provision.

The phrase "advertising activities" has been construed broadly by courts and by insurance companies themselves. Mailing a flyer to selected persons on a "misappropriated" customer list caused "advertising injury" in the course of advertising. Merchants Co. v. Am. Motorists Ins. Co., 794

F. Supp. 611, 619 (S.D. Miss. 1992). In finding that the liability insurance company had a duty to defend the policyholder, the Merchants court observed that neither "advertising" nor "in the course of advertising" were defined in the policy. Id. at 619. Sending a flyer to "some of" the persons on a customer list is conduct "committed in the course of advertising". Id.

As discussed *supra*, in First State Ins. Co. v. Alpha Delta Phi Fraternity, an Illinois appellate court held that a fraternity was entitled to insurance coverage for defense against a trademark infringement lawsuit. The court held that prominently displaying the trademark fraternity name at the fraternity house, misrepresenting to others that the fraternity was affiliated with the parent organization, listing the fraternity name in various publications including campus and telephone directories, newsletters and other correspondence constituted advertising.

Even a mere three letters can constitute "advertising activity." In John Deere Ins. Co. v Shamrock Indus., Inc., a broad definition of "advertising activities" was applied by the court. 696 F. Supp. 434 (D. Minn. 1988). In John Deere, the policyholder wrote three letters to a potential customer promoting the policyholder's product. The court held that "advertising" encompasses any form of solicitation, and that three letters were sufficient to constitute "advertising activity." 794 F. Supp. at 439-40.

In Continental Ins. Co. v. Application Group, Inc., the United States District Court for the Northern District of California held that the policyholder was entitled to coverage after it was sued for alleged infringement of intellectual property rights. No. C-93-3753 (N.D. Cal. March 12, 1996). The policyholder had initially entered into a software development contract with a software vendor. Id. The policyholder subsequently made a written proposal to another vendor. Id. The policyholder was then sued by the first vendor for alleged infringement of intellectual property rights and violating a confidentiality agreement. Id. In requiring the insurance company to defend the policyholder, the court held that the policyholder's proposal to the second vendor was "at least, possible advertising." Id.

Little connection is required between the advertising activities of the policyholder and the alleged "offense." An insurance company's duty to defend is triggered upon the showing that a broad relationship exists between the "advertising activity" and the offense. In John Deere, the policyholder advertised products that misappropriated trade secrets. The insurance company contended that there was no coverage because the underlying plaintiffs injuries did not "arise out of" the advertising activities of the policyholder. 696 F. Supp. at 440. The court found that there was insurance coverage because there was no express requirement that the "advertising activity" be a proximate cause of the plaintiff's injury. Id. at 440; but see Bank of the West, 2 Cal. 4th at 1276-77.

John Deere Insurance Company argued that letters sent to a single customer and demonstrations of a machine's performance constitutes "selling" activities, not "advertising activities." John Deere, 696 F. Supp. at 439-40. Furthermore, the insurance company argued that advertising injury should be narrowly defined as public or widespread distribution for advertising material. Id.

The court disagreed, citing to the definition of "advertising" in Black's Law Dictionary, which "encompasses any form of solicitation of one person." Id. The court noted that if the insurance company had wanted to limit the definition of "advertising activity" to wide dissemination of materials, it could have written it that way in the insurance policy. Id. The court held that there is more than one reasonable interpretation of the meaning of "advertising activity" as it is used in the insurance policy. Id. The court held the term is ambiguous and must be construed in favor of the policyholder and in favor of providing insurance coverage. Id. The John Deere court held that there was insurance coverage for the policyholder which had been sued in a patent case where the patented device had been advertised to no more than one potential customer. Id. Thus, solicitation of even a single potential customer may constitute "advertising activity."

Insurance companies themselves have argued that mailing eleven letters constitutes "advertising activity." Seeking to defeat coverage in Playboy Enterprises, Inc. v. St. Paul Fire & Marine Ins. Co., 769 F.2d 425 (7th Cir. 1985), St. Paul argued that mailing eleven letters is advertising. In Playboy, the insurance policy contained an exclusion for advertising.

Unsurprisingly, when advertising is covered, the insurance industry argues that mailing letters is not advertising. When advertising is excluded, however, the insurance industry argues that mailing letters is advertising. So goes the insurance industry's story. What is incredible is that the insurance industry uses policyholder premium dollars to pay insurance company counsel to find hypertechnical interpretations of any issue provided that it results in a denial of coverage.

C. Applicability of Policy Exclusions

Insurance companies are notorious for denying coverage to policyholders when certain allegations in the underlying complaint arguably fall within exclusions of the policy. See, e.g., Harbor Ins. Co. v. Continental Bank Corp., 922 F.2d 357, 359 (7th Cir. 1990). This is true even when other allegations contained in the very same complaint bring the claim within the scope of insurance coverage. See, e.g., American Home Assurance Co. v. Port Auth. of New York and New Jersey, 412 N.Y.S.2d 605 (1st Dep't 1979).

In Corporate Risk Int'l, Inc. v. Assicurazioni Generali, S.P.A., the United States District Court for the Eastern District of Virginia held that an insurance company was obligated to defend its policyholder against allegations of unfair competition and violation of the Lanham Act through false designation of origin and false description. 1996 U.S. Dist. LEXIS 19720 (E.D. Va. March 15, 1996).

Although the liability policy at issue contained a purported exclusion for claims of trademark infringement, the court held that the allegations against the policyholder triggered the insurance company's duty to defend. Id. The court reasoned that because the "complained of conduct goes beyond trade or service mark infringement," the insurance company could not deny coverage on the basis of the trademark infringement exclusion. Id.; see also Capitol Indem. Corp. v. Elston Self Service Wholesale Groceries, Inc., No. 08-1885 (7th Cir. March 13, 2009); Bay Elec. Supply, Inc. v. Travelers Lloyd's Ins. Co., 61 F. Supp. 2d 611 (S.D. Tex. 1999); Irons Home Builders, Inc v. Auto-Owners Ins. Co., 839 F. Supp. 1260 (E.D. Mich.).

Thus, even if certain claims are excluded from coverage under an insurance policy, other allegations in the underlying suit may very well bring the claim under the scope of coverage and trigger the insurance company's obligation to defend the policyholder.

IV. Intellectual Property Insurance

As discussed above, the insurance industry has narrowed the scope of the "advertising injury" provision over the last ten years and courts have responded accordingly. The insurance industry now provides specific products to address risks associated with Intellectual Property. Policyholders should consider whether the insurance products described below are appropriate for the type of risks they may encounter regarding their Intellectual Property.

The insurance companies selling these products say that Intellectual Property insurance policies are written to cover risk from patent, trademark, trade dress, trade secret and copyright infringement and include various ancillary services, and are designed to provide coverage for an insurable risk, as opposed to standard business risk. The policies are restricted by a self-insured retention or deductibles, co-Insurance provisions, among other limitations.

Certain Intellectual Property Defense Insurance reimburses the outside legal expenses and damages awarded against the policyholder (up to policy limits) to defend against charges of intellectual property infringement. Sellers of the policies say that this policy is intended for any company that makes, uses or sells a product, or uses a word or mark in commerce.

Intellectual Property Abatement (Enforcement) Insurance is sold to assist intellectual property holders in enforcing their intellectual property rights against alleged infringers. The sellers of these policies say that the policy provides funds and services to enable policyholders to more effectively to negotiate, protect and enforce their intellectual property rights.

Intellectual Property Abatement (Enforcement) Insurance are marketed as including an Economic Benefit provision. This policy is marketed to indemnify a loss, not serve as a speculative opportunity to provide the policyholder with a profit. Thus, in the event policyholder prevails and realizes an economic benefit from the litigation, the policy may state that the policyholder is required to repay litigation expenses reimbursed by the insurance company.

Policyholders should consult expert insurance brokers to determine if any of these products make sense.

V. Control of Defense and Settlement

After a policyholder notifies its insurance company of claims against it, a question may arise as to whether the insurance company or the policyholder controls the defense and settlement of the claim. In cases involving the defense of intellectual property claims, specialized counsel are the rule.

An insurance company that agrees to pay for a policyholder's defense usually argues that the language of the insurance policy grants it the authority to control that defense. Primary standard-form comprehensive general liability insurance policies often provide the insurance company with control over the defense of the underlying claim, the selection of defense counsel, and settlement negotiations. See, generally, Charles Silver & Kent Syverud, The Professional Responsibilities of Insurance Defense Counsel, 45 DUKE L.J. 255 (1995) In the absence of a conflict of interests such an arrangement often will benefit the policyholder and insurance company alike.

In practice, however, the interests of the policyholder and the insurance company often diverge. Disagreements over the selection of counsel to handle the defense, or differing visions of what constitutes an adequate defense or a reasonable settlement, may cause tension to develop between the policyholder and its insurance company. Moreover, disagreements may arise as to the scope of the defense obligation — for instance, whether the insurance company has a duty to pursue counterclaims or third-party claims. Most egregiously, counsel selected by the insurance company sometimes pursue theories of defense in the underlying case which have the impact of limiting the policyholder's insurance coverage.

The law provides the policyholder some protection when such conflicts arise. An insurance company owes a fiduciary duty to its policyholder, as well as a duty of good faith and fair dealing. Moreover, in most jurisdictions counsel hired by the insurance company has an independent duty to represent the policyholder's interests exclusively. Counsel should be aware of the following principles when seeking a defense for, or settlement of, claims against the policyholder.

A. The Insurance Company's Duty To Defend and Settle Claims Against the Policyholder

A comprehensive general liability insurance policy usually both grants, and imposes upon, the insurance company the right and duty to investigate, defend and settle claims that are filed against the policyholder and are conceivably covered under the policy terms:

> [w]e will pay those sums that the insured becomes legally obligated to pay as damages because of "bodily injury" or "property damage" to which this insurance applies. We will have the right and duty to defend any "suit" seeking those damages. We may at our discretion investigate any "occurrence" and settle any claim or "suit" that may result.[2]

The insurance company must continue to act within the boundaries of good faith.[3] Concomitant with the right to control the defense is the duty to defend, which, as discussed above, is broader than the duty to indemnify,[4] and attaches even in cases where some of the claims alleged do not fall under the insurance policy's coverage, or, indeed, in any case which presents the possibility of a covered claim.[5]

In an "ordinary" case, there is no conflict between the policyholder and its insurance company. The insurance company generally retains the counsel for the policyholder it uses on a regular basis to litigate, settle or defend the claim under the direction of the insurance company.[6] As a practical matter counsel's loyalty and financial interest may lie with the insurance company from which it receives a regular stream of business referrals.[7] Where there is no conflict between the policyholder and the insurance company — for example, when the insurance company has acknowledged its obligation to pay the claim without any reservation — the insurance company's control of the defense usually does not present a problem.

In the intellectual property area, a policyholder may seek specialized counsel. In fact, such counsel may be necessary to properly defend a complex intellectual property matter.

B. Conflicts Between Insurance Companies and Policyholders Concerning Defense and Settlement

With the proliferation of claims against policyholders, more and more conflicts have arisen between insurance companies and policyholders regarding the proper way to conduct defense and settlement. Typically, these conflicts arise in disputes over the selection of counsel or whether, and at what price, a settlement offer should be accepted.

1. Choice of Counsel

When the insurance company determines that a claim against the policyholder should be litigated, a dispute may arise between the insurance company and the policyholder regarding the choice of counsel. Both the insurance company and the policyholder typically prefer to use the counsel with whom they regularly associate, and the insurance company may object to the policyholder's chosen counsel, which ordinarily will be more expensive than counsel chosen by the insurance company.

Such a conflict can usually be settled by agreement, particularly if the policyholder's counsel has special expertise litigating the particular type of claim. For example, if the policyholder wants to use its regular intellectual property counsel that charges $400 per hour, and the insurance company wants to use a law firm which charges $150 per hour. One way to avoid such problems is to endorse your policies now to add your preferred defense counsel at heir prevailing billing rate.

The policyholder is satisfied because its chosen counsel, which the policyholder believes is preferable to the insurance company's counsel, conducts the defense of the claim. The insurance company is satisfied because it is relieved of responsibility for the defense, which, if handled

[2] THE JOHN LINER ORGANIZATION, YOUR GUIDE TO THE ISO COMMERCIAL LINES POLICIES, at 102 (4th ed. 1992) (emphasis added). This standard-form provision can be altered. Endorsements giving it the right to settle claims up to a certain dollar amount without prior approval of the insurance company, to consent to settlements, or to choose its own counsel may be sold.

[3] Every major insurance treatise addresses the duty to defend and the duty to exercise good faith, especially in the context of accepting or denying offers of settlement. See, e.g., 7C APPLEMAN, INS. LAW AND PRAC. §§ 4681, 4712 (1979); COUCH ON INS. 2D §§ 51:35, 51:3-51:7 (Rev. ed. 1982); ROBERT E. KEETON & ALAN I. WIDISS, INS. LAW: A GUIDE TO FUNDAMENTAL PRINCIPLES, LEG. DOCTRINES, AND COMM. PRAC., at 623-27, 875-80, 988-97 (1988); WILLIAM M. SHERNOFF ET AL., INS. BAD FAITH LIT., ch. 3 (1995); see also Charles Silver & Kent Syverud, The Professional Responsibilities of Insurance Defense Lawyers, 45 DUKE L.J. 255 (1995).

[4] See, e.g., Universal Underwriters Ins. Co. v. Stokes, 990 F.2d 598 (11th Cir. 1993); Jasper v. Employers Ins. Co., 987 F.2d 453 (7th Cir. 1993); Gulf Chem. & Metallurgical Corp. v. Associated Metals & Minerals Corp., 1 F.3d 365 (5th Cir. 1993); Nat'l Union Fire Ins. Co. v. Structural Sys., 964 F.2d 759 (8th Cir. 1992); Gregory v. Tennessee Gas Pipeline, 948 F.2d 203 (5th Cir. 1991).

[5] See, e.g., Playboy Enters. Inc. v. St. Paul Fire & Marine Ins. Co., 769 F.2d 425 (7th Cir. 1985); Trizec Properties, Inc. v. Biltmore Constr. Co., 767 F.2d 810 (11th Cir. 1985); St. Paul Fire & Marine Ins. Co. v. Sears, Roebuck & Co., 603 F.2d 1178 (9th Cir. 1979); United States Fid. & Guar. Co. v. Louis A. Roser Co., 585 F.2d 932 (8th Cir. 1978); Allstate Ins. Co. v. Brown, 834 F. Supp. 854 (E.D. Pa. 1993); Village Mgmt. Inc. v. Hartford Accident & Indem. Co., 662 F. Supp. 1366 (N.D. Ill. 1987); Treadway v. Vaughn, 633 So. 2d 626 (La. Ct. App. 1993), cert. denied, 635 So. 2d 233 (La. 1994); School Dist. v. Wausau Ins. Co., 170 Wis. 2d 347 (Wisc. 1992). For other cases supporting this proposition, see, generally ALLAN D. WINDT, INS. CLAIMS AND DISPUTES: REPRESENTATION OF INS. COS. AND INSUREDS § 4.12 (2d ed. 1988).

[6] Many insurance companies have a network of outside counsel with whom they have negotiated a reduced billing rate. Insurance companies maintain that there are several benefits to the policyholder when the insurance company chooses counsel. For example, an Assistant Vice-President and Claims Counsel of Reliance National states that insurance companies have more experience than policyholders and know which counsel have "a track record of appropriately aggressive and successful defense of claims." William C. Constant, The Right of the Insurer To Select Defense Counsel: A Benefit Under the Policy, THE CHOICE, Vol. VII, No. III, 4th Quarter 1996, at 8. The author also states that "as the foremost consumers of legal services, insurers are in a position of significant power in their ability to control legal expenses" and notes that a law firm retained by a particular insurance company has a clearer understanding of the insurance company's reporting procedures. Id. Liberty Mutual had a list of approximately 1,400 law firms it regularly uses. Angela Ward, GC Mansfield Saves Money 513 Ways at Liberty Mutual, CORP. LEGAL TIMES, Aug. 1995, at 16.

[7] See Charles Silver & Kent Syverud, The Professional Responsibilities of Insurance Defense Lawyers, 45 DUKE L.J. 255 (1995).

poorly, could result in a legal malpractice action against the insurance company.[8]

Satisfaction with a compromise billing arrangement will not last, however, unless the policyholder's chosen counsel is extremely careful about adhering to the insurance company's billing and reporting requirements, which may be more stringent than those to which it is accustomed.[9] The insurance company may have special requirements regarding budgets, prior approval of certain expenditures, or the format and schedule of billing. The importance of adherence by the policyholder's counsel to the insurance company's procedures and billing requirements cannot be overstated. Thus, a policyholder should anticipate this problem and, if necessary, work out modifications of the insurance company's requirements at the time counsel is retained.

2. Reservation of Rights by the Insurance Company

Other conflicts arise between the insurance company and the policyholder which may not be resolved as easily. For instance, when the insurance company has sent a reservation of rights letter stating that it will defend the claim, but reserves the right to challenge its obligation to pay any damages.[10] In such a situation, the policyholder must choose whether to accept or reject the defense by the insurance company's counsel under the conditions imposed by the insurance company.

A reservation of rights often indicates a divergence of interest between the policyholder and the insurance company sufficient to divest the insurance company of its right to control the defense and to select the policyholder's counsel. Some courts, applying common sense and ordinary conflict-of-interest principles, have agreed that a reservation of rights letter transforms the right and duty to defend into a duty to reimburse defense costs, freeing the policyholder to select its own counsel.[11] Other courts have held that a reservation of rights creates a conflict of interest that is only potential rather than actual, so the policyholder does not automatically obtain the right to select its own counsel.[12] If the insurance company breaches its obligation to provide a complete defense, however, the policyholder may have an action against the insurance company for breach of contract.[13]

3. Covered and Non-Covered Claims

Similarly, where the underlying complaint contains allegations that fall both within and outside the coverage of the insurance policy, as in a complaint that alleges both negligent and intentional damage (which may not be covered by the insurance policy), a conflict of interest is virtually automatic. The insurance company has an interest in attributing any damage to intentional conduct, while the policyholder has an interest in proving that any damages were solely the result of negligence. Most courts have concluded that, given such a conflict of interest, the insurance company must either provide the policyholder with independent representation or reimburse the policyholder for the costs of its own counsel.[14]

4. More Than One Insurance Company

A policyholder may encounter different problems where there is more than one insurance company obligated to provide a defense. In this situation, a particular insurance company may argue that it is required to pay only a portion of the costs and that the policyholder is obligated to secure payment of the balance of the defense. The duty to defend, however, is a joint and several obligation, attaching to all triggered insurance policies, to provide a complete defense. Thus, most courts have held that any insurance company whose policy is triggered and who is requested to provide a defense must provide a complete defense and seek

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8 See Stetler v. Fosha, 809 F. Supp. 1409 (D. Kan. 1992), aff'd, 7 F.3d 1045 (10th Cir. 1993); Hartford Accident & Indem. Co. v. Foster, 528 So. 2d 255, 268 (Miss. 1988); but see Merritt v. Reserve Ins. Co., 34 Cal. App. 3d 858 (Cal. Ct. App. 1983); Feliberty v. Damon, 517 N.Y.S.2d 632, 634 (4th Dep't 1987), aff'd, 531 N.Y.S.2d 778 (1988); see, generally Charles Silver & Ken Syverud, The Professional Responsibilities of Insurance Defense Lawyers, 45 DUKE L.J. 255 (1995).

9 See AMERICAN INTERNATIONAL COMPANIES, LITIGATION MANAGEMENT PROGRAM (May 1, 1994) (describing the policies and practices set forth by the American International Companies for all counsel retained by AIG member companies).

10 Insurance companies often claim the right to recoup amounts spent to defend the policyholder if it is ultimately determined that there is no insurance coverage. West Am. Ins. Co. v. Freeman, 44 Cal. Rptr. 2d 555, review granted and op. superseded by, 48 Cal. Rprt. 2d 777 (1995), review limited by, 48 Cal Rptr. 2d 897, review dismissed, cause remanded by, 59 Cal. Rprt. 2d 668 (1996), cert. denied, 117 S. Ct. (U.S. 1997). This, of course, contradicts fundamental duty to defend principles, which hold that the duty to defend is different, and broader, than the duty to indemnify, attaching even if there is but a possibility of coverage. Were policyholders obligated to refund such money the duty to defend and duty to indemnify would be equivalently broad.

11 Wood, Bender & Shaneyfelt, Corporate Policyholders' 50-State Guide: The Right to Independent Counsel (Anderson Kill 2009) See, e.g., Northern Ins. Co. v. Allied Mut. Ins. Co., 955 F.2d 1353 (9th Cir. 1992), cert. denied, 505 U.S. 1221 (1992); United States Fid. & Guar. Co. v. Louis A. Roser Co., 585 F.2d 932 (8th Cir. 1978); Colonial Gas Co. v. Aetna Cas. & Sur. Co., 823 F. Supp. 975 (D. Mass 1993) (insurance companies which make unjustified disclaimer decisions are liable for reasonable costs of defense and settlement); LaSalle Nat'l Trust, N.A. v. Schaffner, 818 F. Supp. 1161 (N.D. Ill. 1993); CHI of Alaska, Inc. v. Employers Reinsurance Corp., 824 P.2d 1364 (Alaska 1993); San Diego Navy Fed. Credit Union v. Cumis Ins. Soc'y, Inc., 162 Cal. App. 3d 358 (Cal. Ct. App. 1984); Nandorf, Inc. v. CNA Ins. Cos., 134 Ill. App. 3d 134 (Ill. App. Ct. 1985); Tank v. State Farm Fire & Cas. Co., 105 Wash. 2d 381 (Wash. 1986).

12 See Aetna Cas. & Sur. Co. v. General Dynamics Corp., 968 F.2d 707 (8th Cir. 1992). See, generally, ALLAN D. WINDT, INSURANCE CLAIMS AND DISPUTES: REPRESENTATION OF INSURANCE COMPANIES AND INSUREDS §4.18 (2d ed. 1988).

13 ALLAN D. WINDT, INSURANCE CLAIMS AND DISPUTES: REPRESENTATION OF INSURANCE COMPANIES AND INSUREDS § 4.17, at 169-71 (2d ed. 1988); but see EnSearch Corp. v. Shand Morahan & Co., Inc., 452 F.2d 1485 (5th Cir. 1992), clarified, reh'g denied, en banc, No. 90-1649, 1992 U.S. App. LEXIS 3786 (Mar. 9, 1992).

14 See, e.g., Howard v. Russell Stover Candies, Inc., 649 F.2d 620 (8th Cir. 1981); Cunniff v. Westfield, Inc., 829 F. Supp. 55 (E.D.N.Y. 1993); Prahm v. Rupp Constr. Co., 277 N.W.2d 389 (Minn. 1979); Public Serv. Mut. Ins. Co. v. Goldfarb, 442 N.Y.S.2d 422 (N.Y. 1981); see generally ALLAN D. WINDT, INSURANCE CLAIMS AND DISPUTES: REPRESENTATION OF INSURANCE COMPANIES AND INSUREDS §4.18, at 171-172 (2d ed. 1988).

contribution from other insurance companies in a subsequent action.[15]

C. Settlements that Exhaust Policy Limits

Standard-form liability insurance policies typically limit the insurance company's duty to defend as follows:

> Our right and duty to defend ends when we have used up the applicable limit of insurance in the payment of judgments or settlements under Coverages A or B or medical expenses under Coverage C.

Obviously, an insurance company that is faced with a prolonged and expensive defense may be tempted to terminate its defense obligation artificially by exhausting the applicable policy limits through settlement. Courts and commentators alike, however, recognize that insurance companies cannot act out of self—interest where the defense obligation is involved. The authors of one insurance treatise have noted that:

> [S]ettlements undertaken by an insurer that exhaust policy limits will terminate the insurer's defense obligation only if made in good faith and in the best interests of the insured.
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> * * *
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> [S]ettlements must be consistent with the best interests of the insured and may not be entered into merely as a means of terminating the insurer's duty to defend. Otherwise, the insurer risks being subject to charges of bad faith.[16]

Courts are similarly loath to permit an insurance company to eradicate the duty to defend by the simple expedient of paying out or tendering policy limits. In Emcasco Ins. Co. v. Davis, after filing a lawsuit and paying the policy limits into the registry of the court, the insurance company sought an order discharging it from any further obligation to defend the policyholder. 753 F. Supp. 1458 (D. Ark. 1990). The court rejected the insurance company's transparent attempt to terminate its defense obligation, noting that insurance policies impose duties on an insurance company beyond the mere dollar limits of liability:

> [t]his court firmly believes that, when the average insurance purchaser goes into an agent's office and purchases an insurance policy, he intends to purchase more than the policy limits afforded. In addition to protection to the extent of those policy limits, the insureds desire, need, and purchase much more than that. In addition to the right to a defense specifically set forth in this policy and others like it, insureds intend to hire the expertise of that carrier to take care of them in times of need, and they rightfully believe that the insurance carrier has agreed to provide those services. They expect, and the insurance carrier agrees to provide, expert assistance in the administration of claims made against them. They contracted for experts within the insurance company to collect and assimilate all of the information necessary after an accident to determine whether they are liable and, if so, the dollar amount of their liability. They contract for the services of the insurance carrier in attempting to settle claims made against them and, if that proves not to be possible, to defend them in lawsuits that are filed. They do not contract for an insurance policy in which an insurance carrier quickly assesses the claims against them and "throws in the towel," providing them with none of the services that they contracted for and expected except provision of the liability limits dumped into a court, leaving them dangling at the mercy of claimants with substantial claims to make against them.

Id. at 1460-61 (emphasis added).

Similarly, in Aetna Ins. Co. v. Borrell-Bigby Electric Co., 541 So. 2d 139 (Fla. Ct. App. 1989) the Florida Court of Appeals rejected an insurance company's attempt to "truncate" its duty to defend by paying the policy limits into the court registry:

> [w]e find this duty precludes an insurer from interpleading its policy limits and walking away from the defense of its insured, at either the trial or appellate level. . . . In this case Aetna acted based on its own best interests, disregarding the advice of its own counsel and the interests of its insured.
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> This is not to say that the policy provision offers no protection to the insurer. As to actions instituted after its policy limits have been exhausted through payment of a valid judgment or settlement it may decline to defend. However, the insurer cannot truncate its defense obligations by leaping to pay a questionable judgment or claim, as Aetna attempted to do here; it must first in good faith establish the validity of such a judgment before paying out its limits and ceasing to defend.

Id. at 141. Thus, an insurance company cannot put its interests ahead of those of its policyholder in order to exhaust the policy limits, leaving the policyholder to pick up the defense of remaining claims.

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[15] See, e.g., Inst. for Shipbound Educ. v. Cigna Worldwide Ins., 821 F. Supp. 181 (S.D.N.Y. 1993), aff'd, 22 F.3d 414 (2d Cir. 1994); Texas Employers Ins. Ass'n v. Underwriting Members of Lloyd's, 836 F. Supp. 398 (S.D. Tex. 1993); Pacific Employers Ins. Co. v. P.B. Holidale Co., 789 F. Supp. 1117 (D. Kan. 1992); Brinco Mining, Ltd. v. Federal Ins. Co., 552 F. Supp. 1233 (D.D.C. 1982); see, generally, Michael D. Gallagher & Edward C. German, Resolution of Settlement Conflicts Among Insureds, Primary Insurers, and Excess Insurers: Analysis of the Current State of the Law and Suggested Guidelines for the Future, 61 NEB. L. REV. 284 (1982).

[16] BARRY R. OSTRAGER & THOMAS R. NEWMAN, HANDBOOK ON INSURANCE COVERAGE DISPUTES, § 5.04, at 182-83 (8th ed. 1995) (emphasis added, citations omitted) (the authors regularly represent insurance companies in insurance coverage disputes); see also 7C APPLEMAN, INS. LAW AND PRACTICE, § 4682 (1979) ("[T]he primary insurer may not walk away from the insured by paying relatively low limits into court and abandon the insured with a substantial judgment simply because the cost of appeal or other handling may be formidable.").

The defense of intellectual property claims is a very expensive problem for policyholders. Insurance policies should provide the full measure of protection purchased.

VI. CONCLUSION: WHAT SHOULD A RISK MANAGER OR CORPORATE COUNSEL DO?

When a policyholder is subjected to an action that alleges copyright violation, trademark infringement, patent infringement or "piracy," antitrust violations, defamation, slander, privacy violations, or unfair competition, the underlying action should be examined for potential insurance coverage under the "advertising injury" coverage provision of the policyholder's liability insurance policies. Liability insurance policies should be checked for the presence of "advertising injury" coverage provisions. While many insurance companies use standard form insurance policy language, such language may be altered or modified in a specific policy. The advertising injury coverage provision is found either as a standard insuring agreement within the body of the liability insurance policy, or is found as an endorsement to the liability insurance policy.

Risk managers or corporate counsel should check whether such a liability insurance policy was in effect during the time period of the alleged offense, and determine whether the underlying action alleges that wrongful acts occurred during the effective period of the liability insurance policy. Then, if it appears that a claim falls within the "advertising injury" coverage provision, a notice of claim should be sent immediately to the policyholder's insurance company or companies. This usually is done through the insurance broker or agent. See Northbrook Prop. & Cas. Ins. Co. v. Applied Sys., Inc., 729 N.E.2d 915 (Ill. App. Ct. 2000) (by failing to review the insurance policy and complaint together to determine whether "advertising injury" was implicated, policyholder and its general counsel, unjustifiably delayed notification of insurance company).

Policyholders should also investigate whether there is specialized insurance coverage that may better protect its needs than a standard commercial general liability policy. There are several insurance products available which purport to offer specific, stand-alone insurance coverage.

Outside counsel should also advise its client that the cost of defending an intellectual property lawsuit may be covered by the client's liability insurance policies. In Jordache Enterprises, Inc. v. Brobeck Phleger & Harrison, 49 Cal. App. 4th 609 (Cal. Ct. App. 1996), a California appellate court held that a policyholder had a legal malpractice claim against a law firm that failed to advise the policyholder to give notice to the policyholder's insurance company. The law firm had been hired by the policyholder to defend a case against the policyholder. The law firm was not asked for and did not offer any advice about insurance. The Jordache case imposes an obligation on every lawyer hired to defend a policyholder the duty to look for insurance. Although the Jordache case involves the statute of limitations, it potentially supports the broader proposition that lawyers can be sued for legal malpractice for failure to advise clients to give notice of a claim to their insurance companies.

There is valuable insurance coverage available to policyholders for the defense and indemnification of many business tort claims under the "advertising injury" coverage provision of liability insurance policies. Policyholders who want insurance coverage payments for judgments or settlements paid in, or attorney's fees incurred in defending, actions alleging copyright violations, trademark infringement, patent infringement or "piracy", antitrust violations, defamation, slander, privacy violations, or unfair competition should pursue the insurance coverage they paid hard earned dollars in premiums to secure.

ENDNOTES

[1] For further discussion of "advertising and personal injury" insurance coverage, see Gauntlett, INS. COVERAGE OF INTELLECTUAL PROPERTY ASSETS (2010); and Antonucci & Passannante, Getting Insurance Coverage For Your Intellectual Property Claims: Healing Advertising Injuries, Corporate Counsel (April 2010);

[2] Some other courts have refused to find "advertising injury" coverage for various "offenses" in different fact patterns. St. Paul Fire and Marina Ins. Co. v. Brother Intern. Corp., 319 Fed. Appx. 121 (3d Cir. 2009) (TCPA); Auto-Owners Ins. Co. v. Websolv Computing, Inc., 580 F.3d 543 (7th Cir. 2009) (TCPA action); Melrose Hotel Co. v. St. Paul Fire and Marine Ins. Co., 432 F. Supp. 2d 488 (E.D. Pa. 2006) (TCPA action); Resource Bankshares Corp. v. St. Paul Mercury Ins. Co., 407 F.3d 631 (4th Cir. 2005) (TCPA action); American States Ins. Co. v. Capital Assoc. of Jackson County, Inc., 392 F.3d 939 (7th Cir. 2004) (TCPA action); Custom Hardware Eng. & Consulting, Inc. v. Assurance Co. of America, 295 S.W.3d 557 (Mo. App. Ct. 2009) (copyright action); Capitol Indem. Corp. v. Elston Self Service Wholesale Groceries, Inc., 559 F.3d 616 (7th Cir. 2009) (counterfeiting); America's Recommended Mailers Inc. v. Maryland Cas. Co., 339 Fed. Appx. 467 (5th Cir. 2009) (trademark action); Gartner, Inc. v. St. Paul Fire and Marine Ins. Co., No. Civ. 3:08 CV 405 (JBA), 2010 WL 918075 (D. Conn. Mar. 11, 2011) (trademark Action); Dish Network Corp. v. Arch Specialty Ins. Co., No. 09-447, 2010 WL 3310025 (D. Colo. Aug. 19, 2010) (patent action); Custom Hardware Eng. & Consulting, Inc. v. Assurance Co. of America, No. ED91441 (Mo. App. Ct., E.D. Aug. 11 2009) (copyright and unfair competition actions); Hyundai Motor America v. Nat'l Union Fire Ins. of Pittsburgh, PA, No. 08-56327, 2010 U.S. App. LEXIS 6978 (9th Cir. 2010); Shefman v. Auto-Owners Ins. Co., 687 N.W.2d 300 (Mich. App. 2004) (refusing to grant coverage for copyright infringement claim where claim did not sufficiently allege a causal relationship between the advertising and injury sustained); Atlas Fencing Inc. v. Hartford Insurance Co., No. CV020468174S, 2004 WL 1925892 (Conn. Super. July 23, 2004) (applying policy exclusions to deny coverage under liability policy); Nutrition Inc. v. Old Republic Ins. Co., No. 01-292 (D. Minn. 2001) (trademark infringement); IDG, Inc. v. Continental Cas. Co., 275 F.3d 916 (10th Cir. 2001) (no duty to defend copyright infringement where failure to show causation); Solers, Inc. v. Hartford Cas. Ins. Co., No. 00-1947-A, 2001 WL 629845 (E.D. Va. 2001) (submission of proposals on a one-to-one basis does not constitute "advertising activity"); Heritage Mut. Ins. Co. v. Advanced Polymer Tech., Inc., 97 F. Supp. 913 (S.D. Ind. 2000); Ziman v. Fireman's Fund Ins. Co., 87 Cal. Rptr. 2d 397 (Cal. Ct. App. 2d 1999) (copyright infringement); Indus. Indem. Co. v. Apple Computer, Inc., 83 Cal. Rptr. 2d 866 (Cal. Ct. App. 1999), as modified, 1999 WL 312377 (Cal. Ct. App. May 17, 1999) (trademark infringement); Delta Computer Corp. v. Frank, 196 F.3d 589 (5th Cir. 1999) (misappropriation of copyrighted computer software); Palmer v. Truck Ins. Exch., 90 Cal. Rptr.2d 647 (Cal. Ct. App. 1999); ShoLodge, Inc. v. Travelers Indem. Co. of Illinois, 168 F.3d 256 (6th Cir. 1999) (service mark infringement); Frog, Switch & Mfg Co., Inc. v. Travelers Ins. Co., 193 F.3d 742 (3rd Cir. 1999); Winklevoss Consultants Inc. v. Federal Ins. Co., 1998 U.S. Dist. LEXIS 11308 (N.D. Ill. Jan. 26, 1998) (software company trade secret misappropriation); Clark Mfg. d/b/a Sundance Spas v. Northfield Ins. Co., No. ED CV 95-0354-RT (C.D. Cal. 1998) (no duty to defend claims of misappropriation of trade secrets); Advance Watch Co., Ltd. v. Kemper Nat. Ins. Co., 99 F.3d 795 (6th Cir. 1996), reh'g en banc, denied 1996 U.S. App. LEXIS 34340 (6th Cir. Dec. 30, 1996); Microtec Research, Inc. v. Nationwide Mut. Ins. Co., No. C 92-20154 JW, 1993 WL 280753 (N.D. Calif. Apr. 26, 1993) (no duty to defend under either personal injury or advertising injury coverage provision); Sentry Ins. Co. v. R.J. Weber, Inc., No. CA-3-92-1199-R (N.D. Texas Feb. 12, 1993) (copyright infringement action involving distribution of free samples);

Standard Fire Ins. Co. v. Peoples Church of Fresno, 985 F.2d 446 (9th Cir. 1993) (negligent misrepresentations made to investors in failed project); Big Sur Waterbeds Inc. v. Maryland Cas. Co., No. CV-92-4298-WMB (C.D. Cal. December 22, 1992) (no duty to defend patent infringement action); Aetna Cas. & Sur. Co. v. M.&.S. Indus., Inc., 827 P.2d 321 (Wash App. Ct. 1992) (deceptive advertising); Chatton v. National Union Fire Ins. Co., 10 Cal. App. 4th 846 (Cal. Ct. App. 1992) (statutory "unfair competition" claims); Bank of the West v. Superior Court (Industrial Indem. Ins. Co.), 2 Cal. 4th 1254 (Cal. 1992) (claim based solely on California Unfair Business Practices Act which does not authorize award of damages for "unfair competition"); Dugger v. Upledger, 795 F. Supp. 184 (E.D. La. 1992), summ. judgment granted, in part, 1992 U.S. Dist. LEXIS 12777 (E.D. La. 1992) (claim for misrepresentation); MGM, Inc. v. Liberty Mut. Ins. Co., 839 P.2d 537 (Kan Ct. App. 1992) (claim for violation of privacy); Practice Mgmt. Assoc., Inc. v. Old Dominion Ins. Co., 601 So. 2d 587 (Fla. Ct. App. 1992), review denied, 1992 Fla. LEXIS 2121 (Fla. 1992) ("unfair competition" refers to conduct affecting competitors); Mgmt. Automation Servs. Inc., et al. v. Hartford Cas. Ins. Co., No. C-92-4069-WHO (N.D. Calif.) (copyright infringement). Further, in contrast to the Supreme Court of Nebraska's decision in Land & Sky, several courts have held that the "advertising injury" provision of a liability policy does not cover patent infringement claims. See Fluoroware, Inc. v. Chubb Group of Ins. Co., 545 N.W.2d 678 (Minn. Ct. App. 1996). See also Lumbermens Mut. Cas. Co. v. Dillon Co., Inc., No. 00-9299 (2nd Cir. May 25, 2001) (summary order) (no duty to defend patent infringement suit); Custom Teleconnect, Inc. v. Reliance Ins. Co., CV-S-00-0156-DWH (LRL) (D. Nev. Mar. 29, 2001) (no duty to defend claim of unfair competition); Cigna Lloyd's Ins. Co. v. Bradleys' Electric, Inc., 33 S.W.3d 102 (Tex. Ct. App. 2000) (no duty to defend against patent infringement counterclaim); Filenet Corp. v. Chubb Corp., 735 A.2d 1203 (N.J. Super. 1997), aff'd, 735 A.2d 1170 (N.J. Super. Ct. App. Div. 1999); United National Ins. v. SST Fitness Corp., 182 F.3d 447 (6th Cir. 1999) (patent infringement is not an advertising injury as defined by the insurance policy and that insurer has no duty to defend) ; Mez Indus., Inc. v. Pacific Nat'l Ins. Co., 90 Cal.Rptr.2d 721 (Cal. Ct. App. 1999); Maxconn Inc. v.Truck Ins. Exch., 88 Cal.Rptr.2d 750 (Cal. Ct. App. 1999); U.S. Test, Inc. v. NDE Envtl. Corp., 196 F.3d 1376 (Fed. Cir. 1999) (no duty to defend in patent infringement suit); The Home Ins. Co. v. American National Can Co., No. 97 C 0975, 1997 U.S. Dist. Lexis 11980 (N.D. Ill. 1997) (denying insurance coverage to policyholder for patent infringement claim); Simply Fresh Fruit, Inc. v. Continental Ins. Co., No. 94-56061, 1996 U.S. App. LEXIS 5278 (9th Cir. 1996); Techmedica, Inc. v. Vanguard Underwriters Ins. Co., No. CV-92-1674-RSWL (C.D. Cal. August 12, 1993), aff'd 59 F.3d 176 (9th Cir. 1995) (finding two insurance companies had no duty to defend or indemnify their policyholder against a patent infringement lawsuit); The Rich Co. v. American Guaranty & Liability Ins. Co., No. 94-0251-CIV (S.D. Fla. June 20, 1995); Joseph Julian v. Liberty Mut. Ins. Co., No. CV 93-04596375 (Conn. Super. Ct. Hartford-New Britain, Jan. 6, 1995); Gitano Group, Inc. v. Kemper Group, 26 Cal. App. 4th 49 652 (Cal. Ct. App. 1994) (denying insurance coverage to policyholder for patent infringement claim); Continental Ins. Co. v. Del Astra Industries, Inc., No. 93-15245, 1994 U.S. App. LEXIS 24375 (9th Cir. September 6, 1994); Everest and Jennings, Inc. v. American Motorists Ins. Co., 23 F.3d 226 (9th Cir. 1994); Intex Plastics Sales Co. v. United National Ins. Co., 23 F.3d 254 (9th Cir. 1994); New Hampshire Ins. Co. v. R.L. Chaides Construction Co., Inc., 847 F. Supp. 1452 (N.D. Cal. 1994); Atlantic Mut. Ins. Co. v. Brotech Corp., 857 F. Supp. 423 (E.D. Pa. 1994). A number of the unfavorable California cases rely, in part, upon a California state insurance statute that California courts have used to restrict coverage. This California statute does not apply outside California.

About Anderson Kill

Anderson Kill practices law in the areas of Insurance Recovery, Anti-Counterfeiting, Antitrust, Bankruptcy, Commercial Litigation, Corporate & Securities, Employment & Labor Law, Health Reform, Intellectual Property, International Arbitration, Real Estate & Construction, Tax, and Trusts & Estates. Best-known for its work in insurance recovery, the firm represents policyholders only in insurance coverage disputes, with no ties to insurance companies and no conflicts of interest. Clients include Fortune 1000 companies, small and medium-sized businesses, governmental entities, and nonprofits as well as personal estates. Based in New York City, the firm also has offices in Newark, NJ, Philadelphia, PA, Stamford, CT, Ventura, CA and Washington, DC. For companies seeking to do business internationally, Anderson Kill, through its membership in Interleges, a consortium of similar law firms in some 20 countries, can provide service throughout the world.