Intellectual Property Infringement: The Question of Advertising Injury

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Intellectual Property Infringement: The Question of Advertising Injury

by

HILARY DITCH *

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I. Introduction

Over the past several decades, business entities have increasingly relied on Commercial General Liability insurance for coverage and protection against the significant costs of defending against intellectual property lawsuits. However, despite this increased usage, the coverage provided for intellectual property infringement claims by Commercial General Liability insurance policies (hereinafter “CGL”) remains uncertain and indeterminate.¹ This frustrating conclusion, reached by numerous courts, legal scholars and insurance practitioners, captures the current state of the law as it applies to CGL coverage for intellectual property infringement claims. Consequently, many business entities seeking to apply their insurance policies to defend against intellectual property claims may face uncertainty or, worse, non-coverage.

Generally, when faced with a lawsuit involving intellectual property infringement businesses will look to the advertising injury clause of their CGL insurance policy.² CGL policies provide coverage for the costs of defending, as well as the subsequent judgments arising from a suit brought against an organization carrying the insurance. Standard CGL policies include an “advertising injury” clause originally intended to provide coverage for the advertising activities of an organization whose business was not advertising, broadcasting, publishing or telecasting.³ Early CGL policies did not contemplate the possibility of coverage for intellectual property infringement under the advertising injury clause, and as these policies have developed to address the proper treatment intellectual property infringement claims, the inadequacies of such policies have become more apparent.⁴ Many businesses are unaware of the limits of their

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4. See Robert D. Chesler & Stefan B. Kalina, A Specialized Risk: IP Coverage No Longer Available Under CGL Policies, THE METROPOLITAN CORPORATE COUNSEL, June 2007, at 22 (noting that the insurance industry has reacted to a series of early cases finding coverage for intellectual property claims under a broad interpretation of the “advertising injury” clause by narrowing the language of CGL policies).
CGL policy and rely upon it for all of their indemnification and coverage needs, unaware of the potential risks imposed by such reliance.\(^5\)

This note will first provide a brief history and overview of current and previous CGL policies. Second, this note will briefly discuss what constitutes infringement of the three core areas of intellectual property law: copyright, trademark and patent. Third, it will cover the elements required to establish an advertising injury under a CGL policy, and address the challenges that are unique to copyright, trademark and patent infringement claims. This note ultimately concludes that CGL policies should be adapted to address the special needs of intellectual property infringement claims in order to avoid continued confusion and unnecessarily expensive litigation. This note further concludes also that these adaptations should be made with an eye towards the importance of maintaining the valuable quality of standardization that CGL policies provide.

II. Intellectual Property Infringement

The infringement of intellectual property occurs when another person or entity makes an unauthorized copy or use of the protected creation. Federal intellectual property rights are traditionally divided into three categories: patents, trademarks and copyrights.

A. Copyright

Copyrights provide exclusive rights in original forms of expression that have been recorded in some tangible form and arise automatically when the author’s original expression is fixed in a permanent or concrete form.\(^6\) A copyright provides a limited but long-lived monopoly to encourage the authorship of expressive works.\(^7\)

B. Trademark

Trademarks are words or symbols that distinguish the product or service from one person or that distinguish one entity from another, and regardless of if a trademark is registered it must be distinctive, non-

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5. See id. (stating “many companies are confident that they are protected against IP risks [due to early cases finding coverage under CGL ‘advertising injury’ language]. That confidence is misplaced”).


7. ROBERT P. MERGES & PETER S. MENELL, INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 25 (4th ed. 2007). The extent of the copyright holder’s right is limited to the manner of expression, and the holder gets no ownership in any underlying idea. See Edward Samuels, The Idea-Expression Dichotomy in Copyright Law, 56 Tenn. L. Rev. 321, 323 (1999) (“the ‘ideas’ that are the fruit of an author’s labors go into the public domain, while only the author’s particular expression remains the author’s to control”).
functional and the holder must certify that it is used in commerce. A trademark provides perpetual protection for distinctive nonfunctional names and dress in order to improve the quality of information in the market place. The Lanham Act governs federal trademark law, and common law governs unfair competition.

C. Patent

Patents are granted for new, useful and non-obvious products or processes. A patent grants a limited monopoly to encourage production of utilitarian works in exchange for immediate disclosure and ultimate enrichment of the public domain.

III. The Meaning of ‘Advertising Injury’ in CGL Insurance Policies

A. The Scope of CGL Policies and the ISO

CGL policies are typically based on standard forms developed by the Insurance Services Office (hereinafter “ISO”). The ISO is an insurance trade organization made up of liability and property insurers. The analysis in this note relies on the language provided by these standard forms because insurers’ typically adopt it verbatim in drafting their CGL policies.

The ISO issued forms in 1973, 1986, 1998, and 2001, and each form articulates a different definition of what constitutes advertising injury. The changes to these forms are both responsive the needs of the insurance companies that use them, and reactive to judicial interpretation of provisions contained in earlier forms. Consequently, the extent of coverage for intellectual property claims can often turn on the language of the particular ISO form used by a given insurer since insurance companies are

9. MERGES & MENELL, supra note 7, at 25.
10. Id.
12. MERGES & MENELL, supra note 7, at 25.
13. 2-9 MILGRIM ON TRADE SECRETS § 9.09 (2008) [hereinafter MILGRIM].
free to (and often do) use old forms even after new ones have been published. While the standardized nature of ISO forms offer both insurer and insured the comfort of a uniform set of policies, the continuous development of the definition of "advertising injury" makes a basic understanding of current and previous ISO CGL forms important, since seemingly relevant case law may have interpreted a previous form's definition, potentially rendering it inapplicable to a new situation.

B. The Evolution of ISO CGL Policies

1. The 1973 ISO CGL Policy

The 1973 ISO CGL policy form did not provide explicit coverage for "advertising injury," but it was not uncommon for it to be included in endorsements. In 1976 the advertising injury clause was included in the "broad form comprehensive general liability endorsement" which defined "advertising injury as: '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.'" 6

2. The 1986 ISO CGL Policy

In 1986 the definition of "advertising injury" was revised, eliminating "piracy" and "unfair competition," and adding "misappropriation of advertising ideas or style of doing business." The majority of cases discussed in this note rely upon this version of the policy, which states that

[a]dvertising 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 service; (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. 7

16. MILGRIM, supra note 13.
17. Id.
18. See id. This note will primarily deal with issues arising from (c) and (d) of the 1986 ISO CGL policy's definition of Advertising injury.
3. The 1998 ISO CGL Policy

In 1998 the ISO CGL policy was amended to define "personal and advertising injury" as

injury . . . arising out of one or more of the following offenses . . .
(d) 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; (e) oral or written publication of material that violates a person's right of privacy; (f) the use of another's advertising idea in your "advertisement"; or (g) infringing upon another's copyright, trade dress or slogan in your advertisement.20

4. The 2001 ISO CGL Policy

The newest ISO CGL policy "contains an intellectual property exclusion that bars coverage for injury arising out of 'infringement of copyright, patent, trademark or trade secret' . . . except for 'infringement, in your "advertisement," of copyright, trade dress or slogan.'"21 The 2001 form also supplements its 1998 definition of advertising injury by adding

for the purposes of this definition: (a) Notices that are published include material placed on the Internet or on some similar electronic means of communication; and (b) Regarding web-sites, only that part of a web-site that is about your goods, products or services for the purposes of attracting customers is considered an advertisement.22

There is currently relatively little case law interpreting the language of the most current ISO CGL policy, released in 2001, as the bulk of litigation implicating CGL insurance policies uses the language provided by the ISO's 1986 form.23

IV. Establishing Advertising Injury

A duty to defend or indemnify pursuant to "advertising injury" coverage generally requires the existence of three elements: "(1) an advertising injury as defined in the policy, (2) a course of advertising, and (3) proof of a causal relationship between the first and second elements."24

20. Id. at 87-88.
21. Id.
22. Id. at 88.
23. See Martin et al., supra note 14, at 1988 ("the majority of CGL policies in use today are based on the 1986 CGL ISO form"). The 1986 form is still used by many insurance companies; therefore, this note will rely primarily upon its definition of advertising injury.
24. Hayward v. Centennial Ins. Co., 430 F.3d 989, 991 (9th Cir. 2005).
In addition to these requirements, the advertising injury itself cannot trigger exclusions explicitly prohibited by the insurance policy. Exclusions have come to play a major role in intellectual property litigation because the evolution of the ISO’s CGL forms has demonstrated a trend favoring specific exclusions barring intellectual property claims from coverage.

Original CGL policies contemplated advertising activities such as print advertising, billboards, radio and television broadcasting as falling within their advertising injury clause. However, the increased usage of internet, e-mail and other electronic communications has created a situation where “the ways in which a business can advertise have multiplied exponentially” and “[e]ven the smallest business can create a Web site and instantly advertise its products to consumers around the world.” Consequently, there is an “increased likelihood that a business may infringe on the intellectual property of another in the course of those activities,” exposing itself to serious legal and financial liabilities. The possibility of being sued for infringing upon the intellectual property right of another can prove financially devastating to a business even if the suit ultimately proves to be without merit. Indeed, the mere cost of defending oneself in such a lawsuit can cost hundreds of thousands, if not millions, of dollars, and this is before considering the cost of judgments or settlements that may ultimately come due.

A. Step 1: Identifying an Advertising Activity

Before coverage may extend to an intellectual property infringement claim it must be clear that the claim occurred during the course of an advertising activity. The majority view holds that an advertising injury requires “widespread promotion to the public such that one-on-one

26. Id.
27. Sarner, supra note 3, at 23.
28. Id.
29. See, e.g., J. Cam Barker, Note, Grossly Excessive Penalties in the Battle Against Illegal File-Sharing: The Troubling Effects of Aggregating Minimum Statutory Damages for Copyright Infringement, 83 Tex. L. Rev. 525, 536 (2004) (noting that copyright infringement cases could result in judgments of hundreds of thousands, if not millions, of dollars); Edward Hsieh, Note, Mandatory Joinder: An Indirect Method for Improving Patent Quality, 77 S. Cal. L. Rev. 683, 687 (2004) (“The costs of litigating patent infringement can run into the millions of dollars”). It is critical to understand that an insurer’s duty to defend is broader than the duty to indemnify; indeed, the duty to defend arises whenever a complaint contains any factual allegation which could render the insurer liable to the insured under the policy.
30. See Hameid v. National Fire Ins. of Hartford, 71 P.3d 761, 764-65 (Cal. 2003) (requiring the insured to “show that: (1) he was engaged in ‘advertising’ during the policy period when the alleged ‘advertising injury’ occurred”).
solicitation of a few customers does not give rise to the insurer's duty to defend the underlying suit.”

Despite this general agreement, some courts have adopted a broader definition of advertising whereby “promotional activities directed at particular individuals or groups rather than to the public at large may also be considered advertising.” Claims involving intellectual property are often more complicated than determining whether or not the activity was within the scope of advertising activity. “Even if the insured has widely distributed infringing materials to the public, such as by posting them on its web site, the ‘advertising activity’ requirement may not be satisfied if the infringing materials” themselves do not constitute an advertisement. Therefore, unless the materials were intended for use by the firm as a method of advertisement, CGL policies may not provide coverage even if the effect of distribution was to increase knowledge of the firm’s products.

B. Step 2: Establishing Causation

“Even if a particular claim is within the scope of a policy’s enumerated ‘advertising injury’ offenses and the insured’s activities are considered ‘advertising activities,’ there will only be coverage for those advertising injuries ‘arising out of the offense committed during the policy period occurring in the course of the named insured’s advertising activities.” In 1992, the California Supreme Court explained the causation requirement in the famous case of Bank of the West v. Superior Court. There the court held that the language “in the course of . . . advertising activities” requires a causal connection between the insured’s advertising activities and the advertising injury alleged in the underlying action. This forecloses any possibility that coverage may be found where “any connection, however, remote exists between the [insured’s] advertisements and the lending practices that harmed . . . plaintiffs, even if the advertisements, themselves, did not cause the harm.” Bank of the West sought to establish rational boundaries to accommodate the reality that “the definition of ‘advertising’

31. Id. at 762.
33. See, e.g., State Farm Fire & Cas. Company v. Steinberg, 393 F.3d 1226, 1231 (11th Cir. 2004) (outlining a three-part test for adjudicating coverage disputes); Elan Pharm. Research Corp. v. Employers Ins., 144 F.3d 1372, 1375 (11th Cir. 1998); Hyman v. Nationwide Mut. Fire Ins. Co., 304 F.3d 1179, 1187 n.7 (11th Cir. 2002).
35. Id. at 445.
37. Id. at 560-61.
38. Id. at 558.
is quite broad and may encompass a great deal of activity.\textsuperscript{39} Nonetheless, courts have struggled with the causation requirement and when one seeks to regard an intellectual property infringement claim as an advertising injury the analysis becomes very complicated. A lack of clear guidance from the courts on this point means that firms seeking to apply their policies against infringement claims may face significant uncertainty in their policy coverage.

V. The Problem of Intellectual Property and Advertising Injury

The confusion over how an advertising injury provision should be applied to intellectual property infringement claims is in large part due to disparities among state and circuit courts in the application of the basic test for finding advertising injury.\textsuperscript{40} This confusion is further amplified by the fact that courts are forced to evaluate intellectual property infringement claims within a framework of standardized language that fails to address the complexities of intellectual property, varies from form to form and is simply inadequate to the task.\textsuperscript{41}

Most businesses and many legal practitioners base their evaluations of intellectual property coverage needs upon three statistically demonstrated trends: (1) infringement claims regarding copyright infringement claims will typically trigger an insured's duty to defend;\textsuperscript{42} (2) a majority of courts have held that patent infringement claims do not fall within any CGL "advertising injury" language;\textsuperscript{43} and (3) courts are split on the issue of trademark infringement, but a growing majority of courts have found cause to recognize trademark infringement under the CGL advertising injury provision.\textsuperscript{44} Even though these patterns can be readily identified in a general sense by evaluating the big picture, actual reliance upon these trends is risky. Not only is the reasoning that courts have used to reach these generalities inconsistent across jurisdictions, it relies on very fact

\textsuperscript{39} Id. at 559 (quoting Nat'l Union Fire Ins. Co. of Pittsburgh v. Siliconix Inc, 729 F. Supp. 77, 79–80 (N.D. Cal. 1989)).

\textsuperscript{40} See Kardassakis, supra note 2, 131, 136-41 (discussing the treatment of "advertising injury" by various courts).

\textsuperscript{41} Chesler & Kalina, supra note 4.

\textsuperscript{42} See MILGRIM, supra note 13 (ISO "policies likely provide coverage for copyright infringement claims if the advertising activity and causation requirements are met").

\textsuperscript{43} See MILGRIM, supra note 13 ("The majority of courts which have considered the issue have held that patent infringement does not fall within any of the enumerated ‘advertising injury’ coverage elements of CGL policies").

\textsuperscript{44} See MILGRIM, supra note 13 ("Some courts have found trademark and trade dress infringement to be included in ‘misappropriation of advertising ideas or style of doing business.’ Other courts, however, have held that trademark infringement is not included in that offense").
specific situations, and often only applies to the language of one of the many ISO forms.  

A. Coverage Likely for Copyright Infringement

CGL policies almost always list “infringement of copyright” as an enumerated offense, falling within the purview of the advertising injury clause. Therefore, as a general matter, most courts will assume that a copyright infringement claim is covered by a CGL policy. Despite the general trend of finding coverage in copyright infringement cases, courts still require that there be “clear allegations of actual advertising activity that caused the injury in question” before the insured can secure coverage. This requirement can complicate matters, at times barring coverage in cases where one might think it should exist. For example, in an unpublished decision in Pennsylvania General Ins. Co. v. Distronics, Inc., the Ninth Circuit held that mere allegations that the policyholder had manufactured and sold infringing laser discs did not trigger the duty to defend. There, Rodesch, a manufacturer of a video horse racing gambling machine that used laser discs to generate audio and visual images sued Distronics Inc. for copyright and trade dress infringement when Distronics duplicated and sold 1,000 copies of Rodesch’s “Quarter Horse Video Discs” to a client for use in competing horse racing gambling machines. Distronics turned to its insurance company for help, but upon completion of discovery the insurance company decided it was not bound by the terms of the contract to defend Distronics. Distronics argued that its activities were within the meaning of the term advertising, supporting its claim by pointing to its practice of producing a “one-off” video disc for customers. Disctronics

45. See generally Chesler & Kalina, supra note 4.
46. See, e.g., Western Am. Ins. Co. v. Moonlight Design, Inc., 95 F. Supp. 2d 838, 844 (N.D. Ill. 2000) (copyright infringement coverage expressly included in the agreement); Farmington Cas. Co. v. Cyberlogic Tech., 996 F. Supp. 695, 699 (1998); Zurich Ins. Co. v. Killer Music, Inc., 998 F.2d 674, 677 (9th Cir. 1993) (noting that “[a]dvertising injury’ was defined to include infringement of copyright). Infringement of copyright is an expressly enumerated “advertising injury” covered item in the 1976 ISO Broad Form Comprehensive General Liability Endorsement, the 1986 ISO CGL policy, and the 1998 ISO CGL policy lists “infringing upon another’s copyright... in your ‘advertisement,’ these policies likely provide coverage for copyright infringement claims if the advertising activity and causation requirements are met.” MILGRIM, supra note 13.
47. Devries & Dunham, supra note 25.
49. Id. at *1–2.
50. Id. at *2.
51. Id. at *5–6. When a customer requested video disc reproductions, the manufacturer would take the customer’s master video tape and records a single “one-off” video disc, and if
argued that the “one-off” disc constituted a “selling tool” akin to an advertisement. The Ninth Circuit held in favor the insurance company, rejecting such an expansive view of the term “advertising.” The Ninth Circuit reasoned that since the “one-off” was not a free sample provided to potential customers, it was “much closer to a proof a printer provides his or his [sic] customer for inspection prior to duplicating the product in quantity.”

The insurance industry has also responded to the general tendency of courts to find coverage in copyright infringement claims by taking every opportunity to limit the scope of coverage by explicitly including exclusions, limitations and prerequisites in the language of their forms. Even though the ISO’s proactive approach to the question of copyright infringement claims under CGL policies does not appear to favor the interests of the insured, it is helpful to the extent that these limitations provide consistent guidance to courts in assessing disputes involving copyright infringement. By clearly defining the situations in which copyright infringement does not constitute legitimate advertising injury, it becomes easier for courts to identify those situations in which coverage is proper. For example, “one of the most litigated issues under advertising injury is what constitutes a policyholder’s ‘advertising activities,’ particularly under policies using the 1973 and 1986 Forms which lack the definition of ‘advertisement’ present in the 1998 and 2001 Forms.” Since recent policies now define “personal and advertising injury” to mean “infringing upon another’s copyright . . . in your ‘advertisement,’” courts are given the discretion necessary to require “that the alleged copyright infringement must have been in the advertisement itself.”

B. Coverage Unlikely for Patent Infringement

An analysis of the treatment of patent infringement claims is especially relevant to intellectual property issues in insurance law for two distinct reasons. First, the rejection of patent infringement claims under CGL advertising injury provisions is so uniformly accepted that any disparity in such acceptance is highly significant. Second, it is so uniformly rejected that it has become common advice to suggest that those needing protection satisfied with the “one-off” the customer would order the reproductions in the desired quantity.

52. Id. at *6.
53. Id. at *9 (rejecting Disctronics’ definition of “advertising”).
54. Id.
55. See Chesler, supra note 4.
56. Schlesinger & Bandy, supra note 19, at 89-90.
57. Kardassakis, supra note 2.
for patent infringement should buy separate insurance designed specifically for that purpose.

Coverage for patent infringement is largely dependent upon whether the CGL policy is pre- or post-1986. In 1986, the advertising clause was revised and coverage for unfair competition and piracy was eliminated, thereby limiting the already narrow possibility of establishing a viable advertising injury for patent infringement. Concurrent with these limitations has been a rise in the number of applications for patents, resulting in a heightened need for protection against findings of patent infringement liability.

The vast majority of courts have held that patent infringement simply does not fall within any of the enumerated "advertising injury" coverage elements of CGL policies. However, the unique facts and reasoning of Amazon.com International, Inc. v. American Dynasty Surplus Lines Insurance Company provide a rare example where coverage was granted. Amazon involved a patent holder who alleged that the insured, an Internet retailer, used its technology to enable customers to preview music products on its website. The insured was covered by both a primary insurer and an excess insurer, both of whom refused to defend. Despite recognizing that "[p]atent infringement arising from the manufacture of an infringing product is not an advertising injury even if the infringing product is used in advertising," the court held in favor of the insured.

In the opinion, the court distinguished the case from the vast majority of authority to the contrary by stating "patent infringement may constitute an advertising injury ‘where an entity uses an advertising technique that is itself patented.’" Based upon this standard the court was able to find that Intouch’s allegation that its patented music preview technology was an element of Amazon’s advertisement could therefore conceivably comprise one of the enumerated advertising injuries listed in the policy. Having surpassed this initial hurdle the court went on to conclude that the "course of advertising" requirement was satisfied because “Amazon’s website

58. See MILGRIM, supra note 13.
59. LEO P. MARTINEZ & JOHN W. WHELAN, CASES AND MATERIALS ON INSURANCE LAW 445 (5th ed. 2006).
60. See supra text note 43 and accompanying text.
62. Id. at 975.
63. Id.
64. Id. at 977.
65. Id. (quoting Iolab Corp. v. Seaboard Surety Co., 15 F.3d 1500, 1507 (9th Cir. 1994)) (emphasis removed).
66. Id.
exists for the purpose of promoting products for sale to the public."67
Leaving no room for doubt the court concluded: "[t]his is advertising."68

The Amazon court then noted that the next step of the analysis, the causation requirement, is usually the reason that most patent infringement claims fail to constitute advertising injuries because the basis of such claims is typically the sale of infringing products, not the advertisement.69
The court went on to observe that "here, the alleged injury derived . . . from its use as the means to market goods for sale. In other words, the infringement occurred in the advertising itself," and thus, "Intouch's allegations therefore satisfied the causation requirement for a potential advertising injury."70

On the surface, the Amazon result and reasoning make sense given that the situation at bar in that case was quite unique. However, when compared to the justifications that a majority of courts use to allow for trademark infringement claims, the test laid out in Amazon seems a bit superficial. Auto Sox USA Inc. v. Zurich N. Am. Ins. Group involved the infringement of a patented apparatus for attaching a removable advertising sign to the roof of a vehicle.71 The insured argued that the patent was an advertising idea because it expressly pertained to the vehicle rooftop signs designed to advertise.72 The court rejected this reasoning on the grounds that the argument ignored the distinction between an advertising idea and an advertised product.73 "Auto Sox did not take Mr. Elmer's ideas about how to solicit customers with his patented design for a rooftop sign . . ." rather it "took his idea for the manner in which a rooftop sign is attached to a vehicle. In other words, Auto Sox's alleged infringement occurred not in advertising but in the manufacture and sale of an infringing product."74

The reasoning in Auto Sox illuminates the deficiencies of the Amazon rule. In Amazon the court was able to extend coverage for a patent infringement of a type of advertising on the grounds that giving listeners a preview of music before purchasing it constituted an advertising idea, which it certainly does. However, in Auto Sox the court held that the infringement of something that is merely designed to advertise did not constitute infringement of an advertising idea. If anything, it would seem

67. Id.
68. Id.
69. Id.
70. Id. at 978.
72. Id. at 1011.
73. Id.
74. Id.
that taking one’s advertising idea and then manufacturing and selling it would be a more serious advertising injury than using it for oneself to advertise as in *Amazon*. In the former situation a patent holder’s advertising idea is being marketed while he receives no compensation—the same is true for the latter. The *Amazon* decision is the exception to the rule, carving out a very specific set of circumstances where coverage may be permitted; it does not however provide a rule that transcends all patent infringement claims.

In a more recent decision, *Discover Financial Services LLC v. National Union Fire Insurance*, an Illinois district court addressed the issue of whether a claim that the insured has infringed a patent for a telephone call processing system constitutes a claim of “advertising injury.” In 2005, Ronald A. Katz Technology Licensing L.P. (RAKTL) sued Discover for patent infringement, alleging that Discover infringed RAKTL’s patents for “interactive call processing systems.” Essentially, RAKTL alleged that Discover “operated automated telephone systems, including without limitation the Discover Bank and Discover Card automated customer service systems,” which are systems “that allow their customers to perform banking credit card, and other functions over the telephone,” and that Discover infringed (or induced others to infringe) patents belonging to RAKTL by “making, using, offering to sell, and/or selling” these automated telephone systems in the United States.

Discover, acknowledged in its response that it did in fact operate telephonic systems—including the Discover Bank and Discover Card automatic customer service systems—but asserts that such systems perform “‘other functions’ such as advertising and/or promoting Discover’s goods and services.” The court cited the *Amazon* decision for the rule that “the advertising activities must cause the injury, not merely expose it; an injury that could have occurred independent and irrespective of any advertising is not an advertising injury.” Based upon this rule, the court stated that it felt that Discover would have trouble establishing a “causal connection” between RAKTL’s injury and advertising injury and demonstrating the

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76. *Id.*
77. *Id.*
78. *Id.* at n.3.
“more rigorous requirement that RAKTL’s injury ‘arises solely out of’ Discover’s advertising activities.”

Discover relied upon the “misappropriation of advertising ideas” clause—found in section (c) of the 1986 ISO CGL policy form—as the basis for the claim that the infringement was advertising activity. “Construed broadly, that expression refers to ‘the wrongful taking of the manner by which another advertises its goods or services’ or the wrongful taking of ‘an idea about the solicitation of the business.’” Despite the court’s broad interpretation of the term advertising it concluded Discover could not rely upon this provision because “misappropriation of advertising ideas must occur ‘in the elements of the advertising itself—in its text, form, logo or pictures—rather than in the product being advertised.’” The court reasoned that “the mere fact that Discover’s allegedly infringing telephone systems, like many other technologies, are capable of advertising goods or carrying promotional messages, does not transform the technology into an advertising idea.” In support of this contention, the court then went on to distinguish Amazon, where “[a]s in this case, Amazon sought declaratory relief that its excess insurance carrier had a duty to defend because the patent infringement claim was a covered advertising injury.” The court suggested that patent infringement was only found to be covered by the advertising injury provision in Amazon because “Intouch alleged that its patented music preview technology was an element of Amazon's advertisement”; here, however, the court interpreted Discover’s alleged infringement to be unrelated to actual advertising and “distinctly different from Discover’s taking an advertising idea, despite the underlying invention’s advertising capabilities.” This distinction is yet another example of that made in Auto Sox, and highlights the fact that the court is drawing a very fine line between what constitutes infringement of an advertising idea and what is simply infringement of a product.

In Amazon it is clear that an advertising idea was infringed upon. However, the advertising idea, that is, the ability to preview music before

80. Id.
81. See Milgrim, supra note 13.
82. Discover Financial Services, 527 F. Supp. 2d at 823.
83. Id. at 824 (quoting Amazon.com, 85 P.3d at 976). Courts follow the general principle that an insurance policy should be construed in favor of the insured. Here, the Court followed this principle and adopted a broad definition of the term “advertising.” See id. at 826.
84. Id. (quoting Amazon.com, 85 P.3d at 977).
85. Id.
86. Id.
87. Id. at 825.
88. Id.
buying it, represents a technological innovation, which is certainly a product. It is this reality that suggests that in the two cases discussed above, the courts are relying heavily on the fact that the advertising ideas infringed upon (the technology of an automatic telephone system, or a rooftop sign that is visible at night) are inseparable from the tangible product that hosts the technology. This distinction is hard to follow because the injury suffered in both cases involved an infringement on technology—certainly phones and signs existed before the infringement—and so it seems the courts are missing the actual harm for which the plaintiff is being sued, and are using the tangible nature of the hosts of most technology as a shield against extending liability.99

The Discover court next turned to the question of whether the patent infringement was caused by an occurrence of an offense within the terms of the policy.90 The court asked whether “Discover’s alleged patent infringement was committed in the course of Discover’s advertising its goods, products and services.”91 Once again the court began its analysis by distinguishing Amazon. “Amazon’s website existed for the purpose of promoting products for sale, which undoubtedly amounted to advertising.”92 The court then went on to note that Intouch’s argument implicitly alleged that because of the inherently promotional nature of the website, “Amazon used its allegedly infringing product . . . in the course of advertising.”93 The court concluded that “there are no allegations that Discover’s automated telephone system exists for that purpose; rather, the allegations only specifically mention the telephone system’s banking and credit card functions.”94 This distinction requires however that the technology infringed upon in Amazon was useful for no other purpose than that of advertising, which is simply not the case. Consumers typically want to know as much about a product as possible before purchasing it and the function of technology in Amazon was certainly, in part, intended to enhance the customer experience in purchasing music by providing the customer with the opportunity to assess the product, quickly and efficiently before purchasing it. When framed in this way it becomes harder to understand why the court rejected Discover’s contention that “the injury could not have occurred ‘but for Discover’s advertising activities.’”95 Just

89. Indeed, in Discover the court even refers to the infringement as being that of “automated telephone system technology.” Id.
90. Id. at 826.
91. Id.
92. Id.
93. Id.
94. Id.
95. Id. at 827.
as customers would be drawn to Amazon’s website based upon knowledge of this incredibly customer friendly technology, so too would customers be drawn to Discover if they were promised superlative customer service based upon highly developed telephone systems. The bottom line is, unless courts are willing to refuse patent infringement liability in every case where the technology infringed upon possessed a use beyond advertising, then it will remain difficult to draw and understand the fine lines the court draws in both Discover and Auto Sox.

C. Coverage Uncertain for Trademark Infringement

Courts are split as to whether coverage exists for trademark infringement claims under a CGL’s advertising injury provision.\(^\text{96}\) Although pre-1986 policies often expressly exclude coverage for trademark infringement, post-1986 policies tend to lack such language leaving courts to focus on whether the type of claim falls “within the meaning of the offenses of (1) infringement of title or slogan or (2) misappropriation of advertising ideas or style of doing business.”\(^\text{97}\)

In *Lebas Fashion Imports of United States Inc. v. ITT Hartford Insurance Group*, the Court of Appeal of California concluded that allegations of damage as a result of trademark infringement were a sufficient to trigger a duty to defend.\(^\text{98}\) The court reasoned that

> A trademark serves three distinct and separate purposes: (1) It identifies a product’s origin, (2) it guarantees the product’s unchanged quality and (3) it advertises the product. Injury to the trademark in any of its offices as an identifying, guaranteeing or advertising device should suffice to constitute an infringement thereof.\(^\text{99}\)

In other words, “the advertising of a good or service is one of the ways in which an act of infringement can occur.”\(^\text{100}\) The conclusion that an infringement of any of the “offices” of a trademark should suffice to constitute an advertising injury is inconsistent with the narrow scope afforded to patent infringement claims that essentially bars all claims except those that are purely “advertising ideas.”\(^\text{101}\) If the same rules were

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97. Id.
100. Id.
101. *Cf. supra* text accompanying notes 75-95 (discussing coverage of patent infringement claims for “advertising ideas” in *Amazon* and *Discover*).
applied to trademarks as are typically applied to patent claims then the first two "offices" cited by Lebas Fashion would no longer be helpful in soliciting advertising injury coverage. The first office, which serves to identify the product's origin, would fail under the Amazon test as applied by Auto Sox because this function is not an advertisement and critically, it certainly is not an advertising idea. A claim based on injury to the second office would reach the same fate because offering proof of an unchanged product is both not an advertisement, nor is it an advertising idea.

Both "offices" can also be analyzed the other way around—certainly someone selling your patented product as their own, as in Auto Sox, injures your ability to vouch for either its origin (office one) or its unchanged quality (office two). While it must be conceded that the nature of a trademark and the nature of a patent are two separate and distinct things, this does change the fact that the reasoning for accepting one but not the other cannot be reconciled. Besides the function of the patent or trademark in question, another argument courts often rely upon to reject coverage for patent infringement is that "[l]iability for inducing patent infringement can only be imposed where the defendant 'knowingly induced' the infringement."102 This is significant because, at least in California, coverage for such damages is not permitted,103 and therefore, "as a matter of law there is no potential for recovery of covered damages for inducement of infringement in the absence of a showing that the insured acted with specific intent to induce the infringement" and where there is no potential for coverage, there is no duty to defend.104

VI. Proposal

A. Suggestions for the Insurance Industry

Issues arising from intellectual property infringement is now and unavoidable part of doing business.105 Given the continued prevalence of these issues insurance companies should recognize that the failure to include clear provisions for intellectual property causes of action in their CGL policies will ultimately prove more detrimental. The copyright analysis above demonstrates that the ISO is capable of making clear when

102. See Aetna Casualty and Surety Co. v. Superior Court of Orange County, 23 Cal. Rptr. 2d 442, 448 (Cal. Ct. App. 1993); see also MARTINEZ & WHELEN, supra note 58, at 439.
103. Id. ("Coverage for such damages is barred by Insurance Code section 533 and Civil Code section 1668").
104. Id.
and to what extent copyright infringement claims will be covered.\textsuperscript{106} This clarity is important because it provides consumers with clear rules on which to base their decisions regarding insurance. The failure of the ISO to address patents and trademarks in the same manner is harmful to the conscientious consumer because if consumers are aware of the dismal chance of getting protection for patent infringement they may be more likely to purchase additional insurance should be purchased beyond that of the CGL policy.

Insurance companies seem to be compensating for the inadequate nature of intellectual property coverage under CGL policies by offering a wide variety of products to fill the gap.\textsuperscript{107} These new policies often involve first and third party coverage exclusively for patents.\textsuperscript{108} It is notable that insurers have begun to offer patent specific policies which recognize that an insured's business viability may very well depend on its ability to enforce its intellectual property rights against others, and as a result come with the added bonus of reimbursing the costs of initiating and litigating an infringement suit.\textsuperscript{109} This will have the effect of hurting smaller businesses that manage to expose themselves to intellectual property suits, but who could not reasonably have foreseen such an occurrence. Such businesses will probably rely upon an inadequate CGL policy for a defense while the other party reaps the benefits of being indemnified for bringing the action. Further, specialized intellectual property enforcement policies may be prohibitively expensive to smaller businesses since premiums are often very expensive and "companies require validity opinions to be prepared by qualified patent counsel at the cost of the insured."\textsuperscript{110}

While the customizable nature of such specialized products is a positive addition to the offerings of any insurance provider, these new policies are simply not an adequate replacement for the benefits that should arise from holding a CGL policy, most notably the benefit of obtaining a standardized product. Intellectual property is different from other forms of property and it is often very difficult to appraise its value or for that matter, recognize its existence; further, the difficulty in appraising intellectual property creates uncertainty as to what a fair rate for specialized protection should be.\textsuperscript{111} Specialized intellectual property policies, unlike CGL

\textsuperscript{106} See infra Part V.A.


\textsuperscript{108} \textit{Martinez \& Whelan, supra} note 58, at 445.

\textsuperscript{109} \textit{Id}.

\textsuperscript{110} \textit{Gruner et al., supra} note 107, at 875.

\textsuperscript{111} \textit{Martinez \& Whelan, supra} note 58, at 445.
policies are not standardized. These policies are generally streamlined for specific needs thus making it necessary for consumers to identify their specific intellectual property coverage needs. Smaller businesses are unlikely to have such a sophisticated understanding of their intellectual property exposure; therefore, without the guidance of standardized insurance policies thus putting these entities at a distinct disadvantage.

Another problem with this move away from standardized insurance policies is that most of these policies have not been tested by the courts, which leaves the scope of these policies undefined. This is ironic given that one of the major reasons for moving away from a CGL policy is the fact that relying upon it for intellectual property indemnification is such a gamble.

Insurance companies should either take constructive steps to bring their CGL policies up to speed with growing presence of intellectual property in the workforce or should create a standardized supplemental policy to meet general needs that is widely advertised and available at a cost that will not prohibit smaller businesses from taking advantage of the protections provided by the supplemental policy.

B. Suggestions for Insureds

Insureds and their attorneys must be aware of the limitations of the advertising injury clause of most CGL policies and should take steps to find coverage through specialized insurance to bridge any gaps in protection. For the insured facing litigation and seeking indemnification from his insurer, he should remember that the content of his complaint will matter a great deal. For example, relying only upon a patent infringement claim is almost always going to be unsuccessful. The insured should evaluate the claim against him, and include if reasonably possible any and all other offenses that have received favorable treatment from the courts, as has been the case with copyright infringement claims, especially since an insured need only show one claim within the suit is potentially covered in order to secure indemnification.

112. Chesler & Kalina, supra note 4.
113. GRUNER ET AL., supra note 107, at 875; see also supra text accompanying note 107.
114. MARTINEZ & WHelan, supra note 58, at 445.
115. See McCue, supra note 105, at 14.
116. See DeVries & Dunham, supra note 25 (discussing various contexts in which the content and language of the complaint affects the strength of the case).
117. Id. (stating that the vast majority of courts hold that insurers have no duty to defend or indemnify patent infringement claims).
118. MARTINEZ & WHelan, supra note 56, at 444.
VII. Conclusion

While judicial interpretations of CGL policies tend to be inconsistent, this is a problem that will not easily be resolved without more consistency from the ISO as well as insurance companies. The advertising injury provision of the CGL policies as it stands today is not adequate to address the risks that intellectual property rights pose. It is no secret that not every instance of intellectual property infringement will constitute an advertising injury; yet the current ISO CGL forms have created a dynamic where coverage is only achieved by performing linguistic and analytical back flips to achieve such a classification. While having a set of highly specialized policies for those entities that have a firm grasp on their intellectual property coverage needs is a step in the right direction, it is important to keep sight of the inherent benefits of giving consumers the option to purchase a reliable, standardized and clearly defined insurance policy.
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