

THE POLICYHOLDER ADVOCATE/IP COUNSELOR

NEWSLETTER

Volume 8, Issue 4: Summer 2004

RECENT VICTORY BY GAUNTLETT & ASSOCIATES

Nikken, Inc. v. American Motorists Insurance Company U.S.D.C., C.D. Cal., No. SA 01-925 DOC (MLGx)

June 17, 2004 – Special Master, Hon. James L. Smith, Ret., awards Nikken **\$547,032.04** for AMICO's bad faith failure to pay all attorneys' fees due for entire underlying action promptly (i.e., all pertinent attorneys' fees incurred in coverage action, seeking recovery of \$10 million settlement and multimillion dollar defense fees.). Gauntlett & Associates is coverage counsel for Nikken.



OPPORTUNITIES FOR PATENT INFRINGEMENT INSURANCE COVERAGE UNDER COMMERCIAL LIABILITY POLICIES MAY STILL EXIST

I. INTRODUCTION

Various international commercial general liability insurance policies may cover a broad range of offenses, including patent infringement lawsuits by virtue of their inclusion of the "piracy" offense. A number of courts have found, based on dictionary definitions, as well as the usage of that term, in patent law cases, that "piracy" may encompass patent infringement lawsuits, so long as they are advertising-based and injury arises out of the offense charged.

II. THE 1976 ISO POLICY MAY EMBRACE COVERAGE FOR PATENT INFRINGEMENT LAWSUITS

The 1976 Insurance Services Office ("ISO") Policy form provides coverage for the offense of "piracy," for seven distinct reasons:

First, the "offense" of "piracy" is not a defined tort and employs generic language. As any dictionary definition will evidence, it includes patent infringement. RANDOM HOUSE UNABRIDGED DICTIONARY 1475 (2d ed. 1993) ("piracy . . . 2. the unauthorized reproduction or use of a copyrighted book, recording, television program, **patented invention**, trademarked product, etc.: *The record industry is beset with piracy.*" (emphasis added)); BLACK'S LAW

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DICTIONARY 1169 (7th ed. 1999) (“piracy” means: “The unauthorized and illegal reproduction or distribution of materials protected by copyright, **patent**, or trademark law.” (emphasis added)); WEBSTER’S THIRD NEW INTERNATIONAL DICTIONARY OF THE ENGLISH LANGUAGE UNABRIDGED (1986) (defines “piracy” as “an unauthorized appropriation and reproduction of another’s production, invention or conception . . .”).

Second, courts often speak of “piracy” as denoting a form of patent infringement in discussing that tort, as well as analyzing insurance coverage for patent infringement lawsuits. *Union Ins. Co. v. Land & Sky, Inc.*, 529 N.W.2d 773, 776-77 (Neb. 1995) (emphasis added):

In *National Union Fire Ins. Co. v. Siliconix Inc.*, 729 F. Supp. 77 (N.D. Cal. 1989), the court stated that **“piracy”** was susceptible of two interpretations and that **patent infringement was included** in one of those interpretations. . . . [W]e note that the court in *Atlantic Mut. Ins. Co. [v. Brotech Corp.]*, 857 F. Supp. 423 (E.D. Pa. 1994) did not have to consider the additional evidence of an ambiguity present in this case – the express exclusion of patent infringement coverage in the excess policy. . . . [W]e find that the term **“piracy”** is ambiguous and is capable of at least two . . . reasonable interpretations, one **encompassing patent infringement** and one not, [therefore,] we construe the term “piracy” in favor of the insured as encompassing patent infringement.

Third, no case has analyzed patent infringement claims based on “use” where that “use” was as an advertisement and the policy covered “piracy.”

Fourth, by including “piracy” as one of the covered offenses in its policy forms, ISO used a general term which is commonly understood and defined to include patent infringement claims. Insurers recognize as much in crafting express exclusions for same where the offense at issue is “piracy.”

Some courts have distinguished *Land & Sky*, finding that “piracy” covers inducement of patent infringement claims premised on advertising due to a concurrent exclusion for patent claims in an umbrella policy. This is too narrow a reading of that case. The insurer’s crafting of such an exclusion evidences that the meaning of “piracy” must be contextually broad enough for that exclusion to be written, thereby demonstrating the reasonableness of such a policy construction. *American Casualty Co. v. Continisio*, 819 F. Supp. 385 (D.N.J. 1993) (Modifications of policy language can evidence what range of meanings ambiguous policy provisions can be construed to include.).

Fifth, a number of patent infringement coverage cases that ultimately did not find coverage clarified that they did so because different policy language was at issue, suggesting that the result may have differed had the offense at issue been “piracy.” In *Herman Miller, Inc. v. Travelers Indem. Co.*, 162 F.3d 454, 455 (6th Cir. 1998) (applying Michigan law), the court stated, “Viewed alone, **we could not say that the term[] ‘piracy’ . . . could never constitute patent infringement.**” (Emphasis added.)

In *St. Paul Fire & Marine Ins. Co. v. Advanced Interventional Sys., Inc.*, 824 F. Supp. 583, 586 n.6 (E.D. Va. 1993) (applying California law), *aff’d*, 21 F.3d 424 (4th Cir. (Va.) 1994), the court noted (citations omitted):

The majority of the cases relied upon by AIS involve policy language that includes amongst the predicate offenses “unfair competition” or “piracy.” The fact that these cases have found coverage for patent infringement under the policies in question is irrelevant to the present dispute because “unfair competition” and “piracy” are not predicate offenses under the language of the St. Paul policy.

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Sixth, in light of common usage, common dictionary definitions, and various intellectual property cases defining “piracy” to encompass patent infringement claims, the “plain meaning” of the term includes patent infringement.

Seventh, no California case law supports a contrary result. Although one Pennsylvania decision (*Atlantic Mut. Ins. Co. v. Brotech Corp.*, 857 F. Supp. 423, 428-29 (E.D. Pa. 1994), *aff’d*, 60 F.3d 813 (3d Cir. (Pa.) 1995)) analyzing a pre-“offer for sale” patent infringement case purported to depend on wholesale adoption of the reasoning in *Iolab Corp. v. Seaboard Sur. Co.*, 15 F.3d 1500 (9th Cir. (Cal.) 1994), *Iolab* does not support a contrary result. Additionally, the *Iolab* panel’s analysis was factually limited to indemnity (not defense) for direct infringement “sale” of apparatus patent claims prior to the change in the Patent Act that made “offers for sale” infringing conduct. 35 U.S.C. § 271(a) (“[W]hoever without authority makes, uses, **offers to sell**, or sells **any patented invention**, within the United States or imports into the United States any patented invention during the term of the patent therefor, **infringes the patent.**” (emphasis added) (effective 1/1/96, see 35 U.S.C. § 154)); see *Rotec Indus. v. Mitsubishi Corp.*, 215 F.3d 1246, 1251 (Fed. Cir. 2000). *Iolab* is inapposite where only a *potential* for “piracy” is all that need be established to trigger a duty of defense and the patent law has changed, making infringement by advertising possible.

III. 1986 ISO POLICY MAY ALSO EMBRACE PATENT INFRINGEMENT LAWSUITS

While a number of courts have found no possibility of coverage under the 1986 ISO policy provisions, they have reached that conclusion by:

- (1) Construing the equivalent meaning of that offense in a more narrow fashion than when discussing other possible torts that fall within it;
- (2) Failing to focus on how liability will attach in a particular case;
- (3) Presuming that the absence of the word “patent” in the policy is determinative, even though it is the insurer’s, not the insured’s, burden to phrase language in an appropriate fashion to clarify the meaning of coverage.

See David A. Gauntlett’s article, “*Offer for Sale*” Patent Infringement Lawsuits: New Opportunities for Insurance Coverage, *New Controversies*, SMU Law Review, Fall 2001.

In *Amazon.com Int’l, Inc. v. American Dynasty Surplus Lines Ins. Co.*, 85 P.3d 974, 978 (Wash. Ct. App. 2004) the court found a causal nexus and insurance coverage for claims of patent infringement based on use of the patented product in Internet advertising. At issue was a 1998 ISO Policy form which included potential coverage for patent infringement under the offense of “misappropriation of advertising ideas”:

[T]he alleged injury derived not merely from misappropriation . . . but from *its use as the means to market goods for sale*. In other words, the infringement occurred in the advertising itself. Intouch’s allegations therefore satisfied the causation requirement for a potential advertising injury.

In *Auto Sox USA Inc. v. Zurich North America*, 88 P.3d 1008 (Wash. Ct. App. 2004), the court found that no duty to defend arose in a patent infringement lawsuit under 1986 ISO policy provisions. The court conceded that the argument that the “misappropriation of advertising ideas” offenses were implicated so as to provide a defense in the patent infringement lawsuit where the insured took an idea for soliciting business or an idea about advertising. But if the allegation was that the insured wrongfully took a patented product and tried to sell that product, then no potential coverage was triggered. Affirming the *Amazon.com* court’s analysis, it stated that “patent infringement may constitute an advertising injury” even if the infringing product is not used in advertising. *Id.* at 1011.

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IV. 1998 ISO CGL POLICY IS AN UNTESTED RESOURCE FOR PATENT INFRINGEMENT COVERAGE

The 1998 ISO CGL policy includes coverage for “taking of the advertising idea of another in your advertisement,” a phrase which, to date, has been interpreted by few courts. Courts have found this offense potentially covers claims for trademark infringement or trade dress as forms of unfair competition and false advertising where the fact allegations meet the elements of the operative offense of “the use of another’s advertising idea in your advertisement.”

Although few courts have yet to interpret this language, it can fairly be construed to encompass the “use of a competitor’s promotional concepts for a new product or service.” In an appropriate case, this definition could encompass the use in advertisement of another’s business method subject to patent protection. So long as there is advertising-based liability for either acts of inducement of patent infringement or claims of direct patent infringement for “offer for sale” or “use” and the enumerated “offense” element is satisfied, a defense may arise.

V. CONCLUSION

Coverage for patent infringement lawsuits under CGL policies is extremely challenging, requiring a close understanding of how liability attaches in the underlying suit. It is not an enterprise to be undertaken without careful study and presentation of all facts that might bear on potential coverage. Nevertheless, it is at minimum worth providing notice to the insurer of losses so as to avoid the argument that notice was not properly given and that pretender fees may not be recoverable where notice is delayed. Finally, all insurers potentially at risk must be notified of claims for potential coverage.

PUBLICATIONS BY DAVID A. GAUNTLETT

David A. Gauntlett is the author of *Insurance Coverage of Intellectual Property Assets* published by Aspen Law & Business. The book and supplements are available for \$160.00 plus 8.5% tax; shipping and handling are free when full payment is enclosed with the order. Call 1-800-638-8437.

UPCOMING SEMINARS ON INSURANCE COVERAGE AND INTELLECTUAL PROPERTY WHERE DAVID A. GAUNTLETT IS SPEAKING OR ATTENDING

IPO Annual Meeting – David A. Gauntlett is Vice Chair of Insurance Committee and will be conducting a CLE Seminar – September 12-14, 2004, Boston, MA

78th Annual Meeting, Intellectual Property Institute of Canada, October 14-16, 2004 – Banff Springs, Alberta, Canada

ABTL Annual Seminar – October 20-24, 2004 – The Big Island of Hawaii

Defense Research Institute 2004 IP Litigation and Insurance Seminar [Mr. Gauntlett is a Featured Speaker] – October 28-29, 2004, San Diego, California

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Gauntlett & Associates specializes in policyholder insurance coverage and litigation re copyright, antitrust, patent, trademark, trade secret, business and general coverage disputes.

Specific services offered include:

- 1. Insurance coverage litigation focusing on IP and Antitrust Claims*
- 2. IP litigation*
- 3. Expert witness on insurance coverage issues, including fee disputes*
- 4. Counsel to IP case-in-chief counsel for insurance coverage, including:*
 - Choice of forum, and*
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- 5. Consultant to corporations regarding what type of policies to purchase to protect against IP litigation*
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If you have a topic you would like to see addressed in future issues, please feel free to contact us with your suggestions.

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