

# **ADVERTISING INJURY COVERAGE**

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## **I. Introduction**

Liability insurance coverage for advertising injuries is generally designed to cover third-party claims based on the actions or communications of the policyholder in advertising or promoting goods and services. This type of coverage will provide for defense costs and indemnification of the policyholder, and is generally found in Coverage Part B of a Comprehensive General Liability (CGL) policy. Many CGL policies follow the standard forms that are issued by the Insurance Service Office (ISO), and the advertising injury provisions of these ISO forms will be discussed herein. Despite the prevalence of these ISO forms, however, practitioners must carefully review the policy language at issue because many insurers modify the ISO language, particularly for specialized coverages.

## **II. Advertising Injury Coverage In ISO Forms Through the Years**

### **A. The 1973 Broad Form Endorsement.**

Coverage for advertising activities was first made available in ISO CGL policies in 1973 as part of the Broad Form Comprehensive General Liability Endorsement, an optional expansion of coverage available to some policyholders. The advertising injury coverage available in the 1973 Endorsement afforded coverage for “all sums which the insured shall

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become legally obligated to pay as damages because of . . . advertising injury to which [the] insurance applies.” In the 1973 Endorsement, “advertising injury” was defined 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.

The 1973 Endorsement did not define what would be considered “advertising activities.” The 1973 Endorsement typically included an exclusion of coverage for claims for “advertising injury arising out of . . . infringement of trademark, service mark or trade name, other than titles or slogans, by use thereof on or in connection with goods, products or services sold, offered for sale, or advertised.”

The 1973 Endorsement began the evolution of advertising injury coverage, which has since undergone numerous changes. In 1986, advertising injury coverage was revised and incorporated into the main ISO CGL policy form. Subsequently, there were two major changes to the advertising injury provision in the ISO CGL policy form, one in 1998 and another in 2001. ISO revisions also have attempted to address the increasing use of and liabilities arising out of electronic communications such as faxes, emails and the internet. It is important to keep these changes in mind when considering questions of coverage under the advertising injury provisions.

**B. The 1986 ISO Form: CG 00 01 11 85**

In 1986, ISO revised the advertising injury coverage provision and moved it from the Broad Form Endorsement to Part B of the main policy form. To date, advertising injury coverage remains in the Part B section of the CGL main policy form.

Like the 1973 Endorsement, the 1986 form did not define “advertising activities;” however, the enumerated offenses for which advertising injury coverage would apply were

revised. Advertising injury was now intended to cover 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

This description of advertising injury differed from the 1973 Endorsement in that it eliminated the enumerated offenses of "defamation," "piracy," and "unfair competition." The 1986 form added the offenses of "misappropriation of advertising ideas or style of doing business" and coverage for the "disparagement" of goods, products or services.

Another significant difference between the 1973 Endorsement and the 1986 form was the elimination of the exclusion for claims for "infringement of trademark, service mark, or trade name, other than titles or slogans[.]"

### **C. The 1998 ISO Form: CG 00 01 07 98**

Advertising injury coverage in the ISO form underwent major changes in 1998. The 1998 form combined the formerly separate advertising injury coverage provisions with the personal injury coverage provisions into a "Personal and Advertising Injury" coverage section as Part B. In addition, the 1998 form made several substantive changes to the enumerated offenses for advertising injury coverage. The 1998 form eliminated the term "misappropriation," replaced the term "title" with "trade dress," and added the phrase "in your advertisement" to the enumerated offenses in (c) and (d).

The offense of "misappropriation of advertising ideas or style of doing business" was changed to "use of another's advertising idea in your advertisement." Also, the offense of

“infringement of copyright, title or slogan” was changed to “Infringing upon another’s copyright, trade dress or slogan in your advertisement.”

Another important development was the definition of “advertisement” in the 1998 form. The 1998 form defined “advertisement” as a “notice that is broadcast or published to the general public or specific market segments about your goods, products or services for the purpose of attracting customers or supporters.”

**D. The 2001 Form: CG 00 01 10 01**

In 2001, ISO added language to the CGL form stating that “material placed on the Internet or on similar electronic means of communication” can be advertising. The new language also stated that only that portion of a website that is “about your goods, products or services for the purposes of attracting customers or supporters” would be considered as an advertisement.

ISO also incorporated into the CGL form several important exclusions. One exclusion addresses claims for copyright, patent, trademark and trade secret infringement. The exclusion included an exception for claims alleging infringement of copyright, trade dress or slogan in the insured’s advertisement to match the grant of coverage for these enumerated offenses. The exclusion reads as follows:

**2. Exclusions**

This insurance does not apply to:

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

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

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

In 2001 ISO also drafted an exclusion applicable to electronic communications on the internet. The exclusion applied to "Personal and Advertising Injury arising out of the unauthorized use of another's name or product in your email address, domain name or metatag, or any similar tactics to mislead another's potential customers."

#### **E. The 2005 Exclusion for Electronic Communications**

In 2005, ISO promulgated an exclusion applicable to telephones, facsimiles and emails. The exclusion reads as follows:

This insurance does not apply to any claim for or award of fines, penalties or damages resulting from violation of any federal, state or local statute, law or ordinance restricting or prohibiting unsolicited communications made via telecommunications equipment. For the purpose of this exclusion, this includes, but is not limited to:

1. Communications involving:
  - a. facsimile machines;
  - b. telephones, including cellular telephones, automatic dialing systems and/or pre-recorded voices;
  - c. computers and/or emails.

### **III. Analyzing Advertising Injury Coverage Claims.**

Generally, advertising injury coverage will apply if the following conditions are met: (1) there is advertising injury as defined by the policy, (2) there was advertising or an advertising activity, (3) there is a causal connection between the advertising activity and the alleged injury, and (4) coverage is not negated by an exclusion in the policy. *See Polaris Indus. v. Continental Ins. Co.*, 539 N.W.2d 619, 621-23 (Minn. App. 1995). It is important to

evaluate each of these four conditions when analyzing an advertising injury claim because policy language can vary and the interpretation of this language by the courts is not uniform.

**A. Does the Claim Fall Within an Enumerated Offense?**

The injury must fall within the scope of the coverage. To fall within the scope of coverage, there must be something more than just an esoteric connection between the underlying claim and the enumerated offense. *Fallon McElligott, Inc. v. Seaboard Surety Co.*, 607 N.W.2d 801 (Minn. App. 2000). Rather, the actual underlying claim must be described or identified by one of the enumerated offenses in the policy. *Ross v. Briggs & Morgan*, 540 N.W.2d 843, 847-48 (Minn. 1995) (rejecting policyholder’s argument that facts alleged in the complaint could have supported a claim enumerated in the advertising injury coverage part).

**1. Unfair Competition.**

Advertising injury coverage for a claim involving “unfair competition” was available in the 1973 Endorsement but was eliminated in the 1986 ISO form. Nevertheless, some insurers have continued to offer advertising injury coverage for “unfair competition” claims, and coverage for a claim of “unfair competition” may arise under a pre-1986 ISO form policy if the claim alleges the conduct of an insured prior to 1986.

The phrase “unfair competition” is generally understood to refer to a group or class of business torts, and is not an independent tort with specific elements under Minnesota law. *Midwest Sports Marketing, Inc. v. Hillerich & Bradsby of Canada, Ltd.*, 552 N.W.2d 254, 267 (Minn. App. 1996); *Rehabilitation Specialists, Inc. v. Koering*, 404 N.W.2d 301, 305-306 (Minn. App. 1987); Prosser & Keeton on Torts § 130 (5<sup>th</sup> ed. 1984). “Unfair competition” claims can include claims for tortuous interference with contract, improper use of trade secrets, an employee’s breach of loyalty to the employer, interference with

prospective advantage and infringement of a trade name. *See, e.g., Midwest Sports Marketing*, 552 N.W.2d at 267; *Kellar v. VonHoltum*, 568 N.W.2d 186 (Minn. App. 1997); *Howard Clothes, Inc. v. Howard Clothes Corp.*, 236 Minn. 291, 52 N.W.2d 753, 757 (1952).

Thus, a number of business torts could fall within the scope of advertising injury coverage for unfair competition. Predictably, there is split of authority on how broadly the coverage for unfair competition should be construed. In jurisdictions where unfair competition is a recognized independent tort (involving a business passing off the goods, products or services of another as its own), some courts interpret the coverage narrowly to apply only to the specific tort of unfair competition. Other courts interpret the coverage broadly to include all claims based on unethical business practices. *See, e.g., Novell, Inc. v. Federal Ins. Co.*, 141 F.3d 983, 987 (10<sup>th</sup> Cir. 1998) (discussing cases).

Advertising injury coverage for unfair competition claims can extend beyond traditional business torts and include alleged violations of statutes. In *Polaris Indus.*, the court found in favor of advertising injury coverage for a claim alleging a violation of Colorado's Consumer Protection Act based on the defendant's allegedly false advertising that it was the first to invent fuel injection for snowmobiles. 539 N.W.2d at 623 ("A public misrepresentation about a product's invention is within the ordinary and usual meaning of unfair competition."). Coverage for violations of the federal antitrust statute have been more difficult to establish where there is a lack of a connection to the defendant's advertising. *See, e.g., Heritage Mutual Ins. Co. v. Advanced Polymer Technology, Inc.*, 97 F. Supp. 2d 913, 930 (S.D. Ind. 2000). As for whether the term "unfair competition" would encompass claims of trademark, service mark, and trade name infringement, the 1973 Endorsement specifically excluded coverage for these claims. *See Bay Electric Supply, Inc. v. Travelers Lloyds Ins. Co.*, 61 F. Supp. 2d 611, 617 (S.D. Tex. 1999).

## 2. Infringement of Copyright, Title or Slogan.

The enumerated offense of “infringement of copyright, title or slogan” was originally set forth in the 1973 Endorsement and was retained in subsequent ISO policy revisions until the 1998 revision, when the term “title” was replaced with “trade dress.” One of the most significant issues litigated in connection with this provision is whether it provides coverage for claims of trademark and trade dress infringement under the federal Lanham Act and various state statutes and the common law.

Courts around the country have differed on whether trademark infringement claims fall within the definition of advertising injury as an “infringement of copyright, title or slogan.” The decisions of the Sixth and Third Circuits in *ShoLodge, Inc. v. Travelers Indemnity Co.*, 168 F.3d 256 (6<sup>th</sup> Cir. 1999), and *Houbigant, Inc. v. Federal Insurance Co.*, 374 F.3d 192 (3<sup>rd</sup> Cir. 2004) provide examples of the differing rationales courts have followed on this issue.

The Sixth Circuit in *ShoLodge* held that coverage did not exist for trademark infringement under the “infringement of copyright, title or slogan” provision. 168 F.3d at 259. In that case, one hotel chain alleged that another hotel chain had infringed its service mark. The insured, ShoLodge, argued that its insurer had a duty to defend and indemnify it in the underlying lawsuit because, *inter alia*, the underlying claims fell within the definition of advertising injury as “infringement of copyright, title or slogan.” The Sixth Circuit disagreed. The court found that trademarks and service marks were not “copyrightable,” that they were not “slogan[s],” and that they could not be considered “title[s],” as that term was not ambiguous. *Id.* at 259-60. The court observed that “the word ‘title’ generally refers to a noncopyrightable title of a book, film, or other literary or artistic work.” *Id.* The conclusion of no coverage, said the *ShoLodge*

court, was further bolstered by the “absence of any express reference to trade mark or service mark infringement” in the insuring agreement. *Id.* at 260.

By contrast, the Third Circuit in *Houbigant* concluded that trademark infringement is within the policy definition of “infringement of copyright, title or slogan.” 374 F.3d at 198. As in *ShoLodge*, the focus of the court’s analysis in *Houbigant* was the term “title.” The *Houbigant* court, however, reasoned that the term, “title,” has many meanings, including “a descriptive appellation.” *Id.* at 199. Responding to concerns that a broader definition of “title” would conflict with policy exclusions arising out of trade name infringement, the *Houbigant* court noted that the Lanham Act already distinguishes between “trademark” (which is defined as “any word, name, symbol, or device . . . used by a person . . . to distinguish his or her goods”) and “trade name” (which is defined as “any name used by a person to identify his or her business or ovation”). 374 F.3d at 199.

The *Houbigant* court also reasoned that limiting the definition of “title” to literary or artistic works creates ambiguity by “send[ing] insureds on a quixotic quest for literary works the title of which coincidentally mirrored the registered title alleged to have been infringed.” *Id.* at 200 (citation omitted). Thus, the Third Circuit concluded that “title” includes trademarks, and proceeded to find that “[t]rademarks . . . have the same purpose as advertising.” *Id.* at 202. The court, therefore, found that claims for trademark infringement were included in the definition of “advertising injury” as “infringement of copyright, title, or slogan.” *Id.*

The two competing cases in Minnesota on this issue reflect both lines of reasoning. The first case is an unpublished opinion from the Minnesota Court of Appeals, *Williamson v. North Star Cos.*, No. C3-96-1139, 1997 WL 53029 (Minn. App.

Feb. 11, 1997). The second case is from the Eighth Circuit, *Callas Enterprises, Inc. v. Travelers Indemnity Co.*, 193 F.3d 952 (8<sup>th</sup> Cir. 1999). In *Williamson*, the Minnesota Court of Appeals held that trademark infringement was included in the definition of advertising injury because the policy's definition included the word "title" in the same clause as "copyright." 1997 WL 53029 at \*4. The court reasoned that the definition means "title" in the intellectual property sense, and therefore "title" encompasses trademark infringement. *Id.*

Conversely, in *Callas*, the Eighth Circuit, applying Minnesota law, held that trademark infringement did not fall within the "copyright, title or slogan" definition. Following *ShoLodge*, the court concluded that the word "title" generally refers to "a noncopyrightable title of a book, film, or other literary or artistic work." 193 F.3d at 956-57. The *Callas* court thus concluded:

We find the Sixth Circuit's treatment of this policy language natural, reasonable, and unforced. Therefore, we also conclude that trademark infringement is not covered under the Policy herein at issue and that Travelers has no obligation to defend or indemnify Callas with regard to these claims.

*Id.* at 957.

The *Callas* and *Williamson* cases mean that different results may follow depending on whether the coverage claim is presented in state or federal court in Minnesota. *See Triple Crown Nutrition, Inc. v. Old Republic Ins. Co.*, 2001 WL 1690056 (D. Minn. Dec. 14, 2001) (court acknowledges that Minnesota state courts would find in favor of coverage under *Williamson*, but concludes that *Callas* requires a federal court applying Minnesota law to rule against coverage).

### **3. Infringement of Trade Dress.**

In 1996, ISO replaced the term “title” with “trade dress.” This change has been held to imply that coverage is not afforded under such forms for trademark infringement. In *Central Mutual Ins. Co. v. Stunfence, Inc.*, 292 F. Supp. 2d 1072, 1077-78 (N.D. Ill. 2003), the court observed that “While the historical evolution of the ‘advertising injury’ section of the Primary Policy is certainly not entitled to conclusive weight in interpreting the policy provision, it is clearly significant that the ISO made the change from ‘title’ to ‘trade dress’ and not ‘trademark’ after there was a clear trend in most courts to recognize that the term ‘title’ included trademark infringement claims.”

### **4. Misappropriation of Advertising Ideas or Style of Doing Business.**

Coverage for the “misappropriation of advertising ideas or style of doing business” was contained in the ISO policy form for twelve years, from 1986 until the provision was revised in 1998. The 1998 form revised the offense of “misappropriation of advertising ideas or style of doing business” to read “use of another’s advertising idea in your advertisement.” The phrase “misappropriation of advertising ideas” has been defined as the wrongful taking of another’s manner of advertising. *Fluoroware*, 545 N.W.2d at 682; *J.A. Brundage Plumbing & Roto-Rooter, Inc. v. Massachusetts Bay Ins. Co.*, 818 F. Supp. 553, 557 (W.D.N.Y. 1993).

The phrase “misappropriation . . . of . . . style of doing business” has been defined as the misappropriation of a company’s comprehensive manner of operating its business. *St. Paul Fire & Marine Ins. Co. v. Advanced Interventional Sys., Inc.*, 824 F. Supp. 583, 585 (E.D. Va. 1993). A company’s style of doing business involves the “total image” of a company or a product, a company’s particular sales techniques, and all aspects of a

company's products such as size, shape, color, graphics. These features are also commonly referred to as a company's "trade dress." *Id.*

The scope of the term "misappropriation" has been the subject of disagreement among the courts. Some courts reasoned that the term "misappropriation" could refer to any common law or statutory claim that involves the wrongful taking of someone else's property, including claims under the Lanhan Act. *See, e.g., Lebas Fashion Imports of U.S.A. Inc. v. ITT Hartford Ins. Group*, 59 Cal. Rptr.2d 36 (Cal. App. 1996); *State Auto Property and Casualty Ins. Co. v. Travelers Indemnity Co. of America*, 343 F.3d 249 (4<sup>th</sup> Cir. 2003). Other courts have concluded that the word signified only the common law tort of misappropriation and therefore did not permit coverage for claims based on statutory violations. *See, e.g., Winkevoss Consultants Inc. v. Fed. Ins. Co.*, 991 F. Supp. 1024 (N.D. Ill. 1998).

Again, one of the most often litigated issues is whether trademark and trade dress infringement claims are covered as the "misappropriation of advertising ideas or style of doing business." The majority of courts appear to favor coverage. The different reasoning employed by the courts is demonstrated by cases from the Sixth and Eleventh Circuits.

In *Advance Watch Co., Ltd. v. Kemper National Insurance Co.*, 99 F.3d 795, 802-05 (6<sup>th</sup> Cir. 1996), the Sixth Circuit concluded that claims for trademark infringement were not covered. The court began its analysis by considering the terms "advertising injury," "misappropriation," "advertising ideas," and "style of doing business." *Id.* at 802. Looking at the authorities on these definitions, the *Advance Watch* court concluded that "misappropriation of advertising ideas or style of doing business" is not ambiguous, and does not refer to trademark infringement but refers

instead “to the unauthorized taking or use of interests other than those which are eligible for protection under statutory or common-law trademark law.” *Id.*

The *Advance Watch* court found support in case law suggesting that “advertising injury” is “concerned mainly with harmful speech in various forms,” whereas “a claim for trademark or trade dress infringement need not depend on speech at all.” *Id.* at 803 (citing *Curtis-Universal, Inc. v. Sheboygan Emergency Medical Servs., Inc.*, 43 F.3d 1119, 1123 (7<sup>th</sup> Cir. 1994)). The court also was persuaded by the absence any express reference to trademark infringement in the policy definition of “advertising injury.” *Id.*

The court stated:

Recognition of trademark and trade dress infringement as a distinct category of actionable conduct is so common that the only reasonable assumption is that if Travelers had intended to provide coverage for such liability, the insurer would have referred to it by name in the policy, as it did in the case of “infringement of copyright, title or slogan.”

*Id.* (citations omitted).

Finally, the *Advance Watch* court concluded that reading the policy more broadly would expand the meaning of the definition section “to the extent of not having any distinctive meaning at all, and would lead to the absurd result of providing coverage for liability for trademark infringement without any mention of the word ‘trademark’ in the policy.” *Id.*

The Eighth Circuit in *Callas Enterprises, Inc.*, applying Minnesota law, adopted the reasoning of *Advance Watch* in finding that “misrepresentation of advertising ideas or style of doing business” cannot be stretched to encompass claims for trademark infringement. 193 F.3d at 956-57. The issue was not addressed by the Court of Appeals in *Williamson* – probably because, as discussed above, the court there found coverage

existed under a different clause. Thus, although *Callas* is the only pronouncement on the issue in Minnesota, it is possible that it is not the last word.

The *Advance Watch* decision has been rejected by a number of courts, including the Eleventh Circuit in *Hyman v. Nationwide Mutual Fire Insurance Co.*, 304 F.3d 1179, 1188-90 (11<sup>th</sup> Cir. 2002), a case in which the Eleventh Circuit took a different approach with regard to a trade dress infringement claim. *Hyman* began by looking at the term “advertising,” which it said means the “action of calling something to the attention of the public.” *Id.* at 1188. Next, the court considered the meaning of the term “style of doing business,” which “must include the manner in which a company promotes, presents and markets its products to the public.” *Id.* at 1188-89. The *Hyman* court thus reasoned:

We have no trouble finding that a product's trade dress may fall within the definitions of “advertising idea” or “style of doing business.” Trade dress is defined as “the total image of a product and may include features such as size, shape, color or color combinations, textures, graphics, or even particular sales techniques.” Thus, while “the classic trade dress infringement action involved the packaging or labeling of goods,” it may “extend to marketing techniques” and can include certain “sales technique[s] designed to make the product readily identifiable to consumers and unique in the marketplace,” Because trade dress may encompass marketing or packaging designed to draw attention to a product, it can constitute an “advertising idea” or “style of doing business” as those terms are defined above.

It is only a short step, then, to conclude that the “misappropriation” of an advertising idea or style of doing business may include trade dress infringement. To prove a claim for trade dress infringement, the plaintiff must establish that “the trade dress of the two products is confusingly similar.” Thus, the plaintiff must show that the infringing company's packaging, labeling, or marketing resembles closely those features of the original product. As it is commonly understood, the term “misappropriation” encompasses such an action.

*Id.* at 1189-90 (citations omitted).

Many other courts have found in favor of advertising injury coverage for trademark and trade dress infringement claims under the enumerated offense of “misappropriation of advertising ideas or style of doing business. *See, e.g., Pizza Magia International, LLC v. Assurance Company of America*, 2006 WL 224 1333 at \*4 (W.D. Ky Aug. 3, 2006) (citing cases). The Fourth Circuit also has concluded that a claim of trademark infringement is covered as an “advertising injury” because the trademark infringement claim constituted the misappropriation of an “advertising idea.” *State Auto Property and Casualty Ins. Co.*, 343 F.3d at 258.

Policyholders also have attempted to obtain coverage for patent infringement liabilities and defense costs by arguing that such liabilities are covered as the “misappropriation of advertising ideas or style of doing business.” Courts have generally rejected these arguments and held that patent infringement is not the misappropriation of an advertising idea or the style of doing business. *See, e.g., Cargill, Inc. v. National Union Fire Ins. Co. of Pittsburgh*, 2004 WL 51671, \*15-\*18 (Minn. App.); *Fluoroware*, 545 N.W.2d at 681-83; *Homedics, Inc. v. Valley Forge Ins. Co.*, 315 F.3d 1135, 1139-41 (9<sup>th</sup> Cir. 2003); *Heritage Mut. Ins. Co. v. Advanced Polymer Tech., Inc.*, 97 F. Supp. 2d 913, 920-35 (S.D. Ind. 2000).

The analysis by the court in *Fluoroware* illustrates the reasoning adopted by many courts in concluding that patent infringement is not covered as an advertising injury. In *Fluoroware*, the insured sought advertising injury coverage for the alleged infringement of a patent for plastic disk packaging, asserting that the patent infringement claim fell within the enumerated offense of “misappropriation of advertising ideas or style of doing business.” 545 N.W.2d at 682. First, the court expressed the view that if the parties had intended for a claim of patent infringement to be covered in the policy, then the policy would have explicitly

identified patent infringement as an enumerated offense, rather than leaving it “sub silentio, in a different provision.” *Id.*

Second, the court concluded that the meaning of the enumerated offenses could not be read to include a patent infringement claim. The court noted that “misappropriation of advertising ideas” has been defined as the wrongful taking or another’s manner of advertising, and that “style of doing business” is used to refer to a “company’s comprehensive manner of operating its business.” *Fluoroware*, 545 N.W.2d at 682. The court reasoned that there must be a pervasive similarity in the overall manner of doing business for there to be a misappropriation of the style of doing business, and patent infringement using another’s patent to manufacture a single device is not enough. *Id.*

Some courts have refused to find in favor of advertising injury coverage for patent infringement claims because advertising or public dissemination is not an element of a patent infringement claim. However, recent developments in federal patent law demonstrate the importance of carefully considering the allegations and legal authority asserted in an underlying complaint before reaching any conclusions about coverage. Effective in 1996, the federal Patent Act was amended to include “offers to sell” as conduct which could constitute a direct patent infringement. *See* 35 U.S.C. § 271(a) and accompanying Historical and Statutory Notes re 1994 Amendments. With the addition of “offers to sell” to the patent statute, it is no longer clear that advertising can never give rise to a direct patent infringement action. *See, e.g., HollyAnne Corp. v. TFT, Inc.*, 199 F.3d 1304, 1309 n.6 (Fed. Cir. 1999) (advertisements may be “offers to sell” and, thus, give rise to direct patent infringement claim); *Maxconn Inc. v. Truck Ins. Exch.*, 74 Cal. App. 4<sup>th</sup> 1267, 1274 (1999) (“[T]he amendment of the [patent] statute has nullified

the argument that patent infringement could not arise out of the insured's advertising injuries as a matter of law.")

**5. Oral or written publication of material that violates a person's right of privacy.**

Advertising injury coverage arising out of the violation of a person's right of privacy was first incorporated in the 1973 Endorsement and has been carried forward to the current ISO CGL form. This provision has been center stage in coverage disputes arising out of the growth of electronic communications via facsimile machines and the internet through emails and web sites, and the liabilities imposed by state and federal statutes for uninvited electronic messages.

The passage of the federal Telephone Consumer Protection Act of 1991 ("TCPA") imposed liabilities on the senders of unsolicited facsimiles for actual damages and statutory damages. See 47 U.S.C. § 227. A slight majority of state and federal trial courts have found that claims under the TCPA fall within the advertising injury coverage provision involving the invasion of privacy. These courts have rejected the insurers' arguments that advertising injury coverage is not available for TCPA claims because, *inter alia*, the delivery of the faxes was an intentional act and the recovery under the TCPA amounts to uninsurable penalties rather than damages. See, e.g., *Prime TV, LLC v. Travelers Ins. Co.*, 223 F. Supp. 2d 744, 750-53 (M.D.N.C. 2002); *Hooters of Augusta, Inc. v. American Global Ins. Co.*, 272 F. Supp. 2d 1365 (S.D. Ga. 2003); *Western Rim Investment Advisors, Inc. v. Gulf Insurance Co.*, 269 F. Supp. 836 (M.D. Tex. 2003). The Eighth and Tenth Circuits have affirmed similar rulings. See, e.g., *Universal Underwriters Ins. Co. v. Lou Fusz Auto. Network, Inc.*, 401 F.3d 876 (8<sup>th</sup> Cir.

2005); *Park Univ. Enters., Inc. v. American Cas. Co.*, 2006 U.S. 766750 (10<sup>th</sup> Cir. 2006).

However, the Fourth and Seventh Circuits disagree, ruling that the TCPA protects a particular type of privacy right—the right to seclusion—whereas the right of privacy enumerated in a CGL policy pertains to an individual’s interest in the nondisclosure of secrets or personal data. *See Resource Bancshares Corp. v. St. Paul Mercury Ins. Co.*, 407 F.3d 631, 637-39 (4<sup>th</sup> Cir. 2005); *American States Insurance Co. v. Capital Associates of Jackson County, Inc.*, 392 F.3d 939 (7<sup>th</sup> Cir. 2005); *St. Paul Fire & Marine Ins. Co. v. Brunswick Corp.*, 405 F. Supp. 2d 890 (N.D. Ill. 2005).

TCPA and similar claims arising out of the sending of unsolicited emails, as well as many other claims arising out of the use of facsimile machines and computers, are addressed by ISO’s 2005 exclusion relating to electronic communications.

## **B. What Constitutes Advertising?**

What constitutes advertising activity by a policyholder can be one of most litigated issues under advertising injury coverage, especially under the 1973 Endorsement and the 1986 ISO policy form, neither of which included a definition of advertisement. A substantial number of courts have adopted a broad interpretation that considers advertising activity to include any means of drawing attention to the company’s products. Under this view, advertising activity includes not only traditional widespread public advertisements, but also marketing activities directed at specific groups and even the direct solicitation of individual customers. However, the majority of courts, including most recently the California Supreme Court, have adopted a more narrow definition of advertising activity. The majority view requires the requisite advertising activity to consist of the widespread public distribution of promotion material. The Minnesota Court of Appeals has accepted both interpretations.

The decision in *John Deere Ins. Co. v. Shamrock Indus., Inc.*, 696 F. Supp 434, 439-40 (D. Minn. 1988) is one of the earliest and most frequently-cited examples of a broad interpretation of advertising activities. In *John Deere*, the policyholder sent three letters to a single potential customer, and conducted product demonstrations for the potential customer's sales staff. A competitor sued the policyholder for patent infringement, misappropriation of trade secrets and unfair competition based on the design of the product. The policyholder sought coverage under the advertising injury coverage in its general liability policy, which did not include a definition of advertising. The insurer denied coverage because the claims of patent infringement, misappropriation of trade secret and unfair competition were not based on any information disclosed in the letters or the product demonstrations.

The court relied on the definition of "advertisement" in Black's Law Dictionary to conclude that sending three letters to one customer came within the broad concept of advertising. "While activity directed at one customer seems to stretch the meaning of advertising, Black's Law Dictionary's definition of advertise encompasses any form of solicitation, presumably including solicitation of one person." *Id.* at 440. The court concluded that because there was more than one reasonable interpretation of the meaning of advertising activity, the policy was ambiguous and must therefore be construed in favor of coverage. *Id.*

Other courts also have adopted a broad interpretation based on dictionary definitions of advertising, or a finding that the undefined term "advertising activity" is ambiguous and must be construed in favor of the policyholder. In *Farmington Casualty Co. v. Cyberlogic Technologies, Inc.*, 996 F.Supp. 695, 701 (E.D. Mich. 1998), the court held that a catalog sent to potential purchasers constituted advertising activities. In *United States Fid. & Guar. Co.*

*v. Star Techs*, 935 F.Supp. 1110, 1115 (D. Or. 1996), the court held that advertising activity included sales meetings where a company's product was shown to potential customers. In *Charter Oak Fire and Insurance Co. v. Hedeem & Cos.*, 280 F.3d 730, 736-37 (7<sup>th</sup> Cir. 2002), the court held that advertising activity included the mailing of a limited number of business letters in which the letterhead was alleged to have infringed a competitor's trademark. Other decisions have focused on the insured's typical manner in reaching customers. *See Amway Distributors Benefits Ass'n v. Federal Ins. Co.*, 990 F. Supp. 936, 945 (W.D. Mich. 1997) (direct solicitation of small groups or individuals included in the term advertising activities); *Tri-State Insurance Co. v. B&L Products, Inc.*, 61 Ark. App. 78, 964 S.W.2d 402, 404-405 (1998) (same); *Sentex Systems, Inc. v. Hartford Accident and Indemnity Co.*, 882 F.Supp 930 (C.D. Cal. 1995) (relying on *John Deere* analysis).

The nature of the policyholder's business has been very instrumental in persuading some courts that the phrase "advertising activities" should be interpreted to include activities other than traditional widespread public promotions. In a recent case involving a homebuilder, the court found that a sign bearing only the name of the builder outside a house under construction was sufficient "advertising activity" to trigger coverage. In *Kirk King Const., Inc. v. Continental Western Ins. Co.*, 123 S.W.3d 259, 266 (Mo. App. 2003), the policyholder was sued for copyright infringement based on the allegation that the house was constructed using copyrighted building plans. The builder argued that the claim was covered as an "advertising injury" because the builder used the house under construction and a sign outside of the house to advertise the property. The builder offered evidence at trial that the home under construction, along with a sign identifying the builder, was the customary manner in which the builder advertised its products to the public. Based on this

evidence, the appellate court upheld the finding in favor of “advertising injury” coverage for the copyright infringement claim.

Likewise, in a recent Minnesota case, a policyholder that operated a wholesale business was entitled to advertising injury coverage for claims arising out of the mailing of catalogs to retailers. In *General Cas. Co. of Ill. v. Four Seasons Greetings LLC*, 2004 WL 2987796 (Minn. App. Dec. 28, 2004), the court held that a manufacturer of greeting cards engaged in advertising activity when it sent catalogs with product samples and pricing information directly to specific retail stores and direct mail companies. Because the policies did not define the term advertising, the court applied the dictionary definition of advertising—“the activity of attracting public attention to a product or business”—and found that the direct mailing of the catalogs constituted advertising. *Id.* at \*7. The court also reasoned that to require widespread public distribution in order to trigger advertising injury coverage for a wholesale business would effectively deprive the wholesale business of coverage it purchased in the policy.

At least one other recent Minnesota case has accepted the broad view of advertising activities. In *Cargill, Inc. v. Nat’l Union Fire Ins. Co. of Pitt.*, 2004 WL 51671 at \*16 (Minn. App. Jan. 13, 2004), the court concluded without analysis that the distribution of three memos prepared by an investment banker to provide information on Cargill’s seed business constituted “advertising activity.” The confidential memos were not distributed to the public and were only provided to two parties who had expressed an interest in purchasing Cargill’s seed business. However, the court relied on the absence of a definition of “advertising” and interpreted the term in favor of coverage. *Id.* at \*16.

Nevertheless, the majority of courts, including the California and Vermont supreme courts, have adopted the narrow view that the meaning of the term advertising activities

must be limited to the widespread public distribution of promotional material. Interestingly, some early decisions cited in support of a narrow interpretation were interpreting the meaning of “advertising” or “advertising activities” in the context of policy exclusions, where a narrow interpretation of the exclusion afforded coverage. In *Fox Chemical Co. v. Great American Ins. Co.*, 264 N.W.2d 385 (Minn. 1978), the insured distributed 74 pamphlets to distributors to aid sales persons in obtaining purchase orders for a new synthetic oil product. *Id.* at 386. The Minnesota Supreme Court held that the exclusion in Fox Chemical’s general liability policy for advertising activities conducted by or on behalf of the insured did not preclude coverage because the limited distribution of the pamphlets to the company’s distributors did not constitute a public distribution within the scope of the policy’s exclusion for advertising activities. *Id.* at 386. Relying on *Fox Chemical*, the Seventh Circuit Court of Appeals in 1985 adopted a similar view of an exclusion for advertising activities in *Playboy Enterprises v. St. Paul Fire & Marine Ins.*, 769 F.2d 425 (7<sup>th</sup> Cir. 1985), a case often cited as an early example of the narrow interpretation.

Courts adopting a narrow interpretation have relied on the rationale that it is necessary to limit the term advertising activities to widespread public distribution of promotional material, or the term would lose its meaning and coverage for “advertising injury” would be available where it was not intended. Some of these courts reason that “advertising activities” is not the same as “solicitation” or even “marketing,” for which no coverage was purchased by the insured. *See, e.g., Monumental Life Ins. Co. v. United States Fidelity & Guaranty Co.*, 617 A.2d 1163 (Md. App. 1993) (court draws a bright line between advertising and solicitation); *M.G.M. Inc. v. Liberty Mut. Ins. Co.*, 17 Kan. App. 2d 492, 495, 839 P.2d 537, 540 (1992) (advertising requires public or widely disseminated solicitation or promotion); *A.N.R. Production Co. v. American Guar. Liability Ins. Co.*, 981 S.W.2d 889,

891-92 (Tex. App. Houston 1<sup>st</sup> Dist. 1998) (rejecting policyholder argument that advertising included oral representations made to potential customer during contract negotiations); *USX Corp. v. Adriatic Ins. Co.*, 99 F.Supp. 2d, 593, 618 (W.D. Pa. 2000) (filing of rate tariffs was not a form of advertising).

In 2003, the California Supreme Court concluded in *Hameid v. National Fire Ins. Of Hartford*, 71 P.3d 761 (Cal. 2003), that coverage for advertising injury required the widespread distribution of promotional material to the public, and that the one-on-one solicitation of a few customers is not covered. The *Hameid* decision is significant because it rejected the reasoning adopted by a number of courts that advertising injury coverage should be available in the context of a limited distribution of material to a targeted group of customers based on the nature of the business, such as a startup business or a wholesaler communicating with retailers.

The Supreme Court of Vermont has issued a similar decision in *Select Designs Ltd. v. Union Mut. Fire Ins. Co.*, 674 A.2d 798 (1996), in which it ruled that advertising activity requires the distribution of promotional material to the public at large. In *Select Designs*, a competitor brought suit alleging that one of the policyholder's employees had misappropriated advertising ideas by soliciting customers using a stolen customer list and other proprietary information. The policyholder argued that, based on the definition of "advertise" in Black's Law Dictionary, any solicitation constituted advertising. The court rejected the argument that the act of contacting potential customers constitutes advertising activities on the grounds that such an interpretation would unreasonably expand coverage to include any dispute related to competition among businesses.

Some courts have addressed the issue of whether the product itself can be the advertising. In *Ekco Group, Inc. v. Travelers Indemnity Co. of Ill.*, 273 F.3d 409 (1<sup>st</sup> Cir.

2001), the court refused to accept the policyholder's argument that the dissemination of the product itself constituted advertising sufficient to trigger coverage for a competitor's misappropriation claim. Without deciding whether advertising includes one-on-one solicitation such a salesman oral pitch, the court concluded that the natural meaning of advertising was not broad enough to include any and all means of inviting public attention, such as product distribution. *Id.* at 414. Reaching a different conclusion, the court in *Adolfo House Dist. Corp. v. Travelers Property and Cas. Ins. Co.*, 165 F. Supp.2d 1332, 1339 (S.D. Fla. 2001) ruled that a product's label could constitute the requisite advertising for purposes of advertising injury coverage.

### **C. Is There a Causal Connection?**

A few courts have required a minimal causal connection between the advertising activity and the alleged offense. For example, the court in *Western American Ins. Co. v. Moonlight Design*, 95 F.Supp. 2d, 838, 844 (N.D. Ill. 2000) ruled that simply advertising products that were alleged to have infringed a competitor's copyright triggered advertising injury coverage. In addition, the court in *Kirk King Const.* upheld the finding of advertising injury coverage for copyright infringement where the home built with copyrighted plans was found to be a customary element of the insured's advertising. 123 S.W.3d at 266.

In *John Deere*, the policyholder sent three letters to a prospective customer and conducted in-person demonstrations of a product that allegedly incorporated technology that infringed on another's patents. The court rejected the insurer's argument that, because the claims of patent infringement, misappropriation of trade secrets and unfair competition were not based on the letters or the product demonstrations, there was no "advertising injury" coverage. *Id.* The court ruled in favor of coverage because "the claims of misappropriation of trade secrets and unfair competition do arise out of the advertising

activity because, but for that activity, there would not have been a disclosure of trade secret information.” 696 F.Supp. at 440.

However, most courts require a close causal connection between the advertising and the alleged offense, i.e., the advertising itself must cause the alleged offense. The *Polaris* decision put Minnesota squarely in this camp. *Polaris* requires that the alleged damage be a direct or proximate cause of the advertising activity to trigger advertising injury coverage. *Polaris Indus.*, 539 N.W.2d at 621-23. The direct causation requirement requires the injury to be the actual result of the advertising activity and not merely the result of some other activity that happens to be advertised. *Id.* at 622. According to the *Polaris* court, an insured has a reasonable expectation that advertising injury coverage will apply to injuries from advertising, rather than to injuries that arose out of activities that were coincidentally advertised. For example, misappropriated information that is later advertised does not, by itself, trigger coverage. *Id.*

Based on the *Polaris* decision, the Minnesota Court of Appeals in *Fluorowear*, rejected the approach to causation evidenced by the *John Deere* decision. *Fluorowear*, 545 N.W.2d at 681. The *Fluorowear* court concluded that the requirement of direct causation between advertising activities and the alleged injury precludes coverage for patent infringement claims.

Many other courts—and most recent decisions—require a strong causal link between the alleged injury and the insured’s advertising. See *Hyman*, 304 F.3d at 1191 (selling an infringing product is not sufficient to trigger advertising injury coverage because the infringement must be committed in the advertisement and the advertising itself must be the injury for which coverage is sought.); *Perdue Farms, Inc. v. National Union Fire Ins. Co. of Pittsburgh, P.A.*, 197 F.Supp 2d, 370, 379-80 (D. Md. 2002) (“Coverage for advertising

liability does not extend when an insured does nothing more than advertise a product developed from wrongfully acquired trade secrets.”); *Liggett Group, Inc. v. Ace Property & Cas. Ins. Co.*, 798 A.2d 1024, 1034 (Del. 2002) (“the advertising alone must be actionable.”); *Construction Management Systems, Inc. v. Assurance Co. of America*, 23 P.3d 142 (Idaho 2001) (no causal connection between advertising houses constructed with copyrighted plans and the underlying copyright infringement action because advertising must cause the injury, not merely expose it).

#### **D. Is there an Exclusion that Applies?**

The most common exclusions applicable to advertising injury coverage are discussed below.

##### **1. Breach of Contract**

When the injury occurs in advertising but is actually the result of a breach of contract, then advertising injury coverage will be excluded. *See, e.g., Ross*, 540 N.W.2d 843; *Fallon McElligott, Inc.*, 607 N.W.2d 801. For example, in *Fallon McElligott, Inc.*, an advertising agency (Fallon) prepared advertisements for a client that included images of Mattel’s Barbie and Disney’s Pinocchio without the copyright holders permission, and the copyright holders brought suit against the client alleging the copyrights were violated. 607 N.W.2d at 802. The client withdrew the advertisements and brought a claim against Fallon for breach of contract and professional negligence. *Id.* Fallon settled the claim and sought reimbursement and defense costs from its insurer under its advertising injury coverage. *Id.* The court held the insurer had no obligation to Fallon because the client sought damages for professional errors that produced unusable advertising, thus, Fallon did not fulfill its contract obligations for its client. *Id.* at 805. This case illustrates the importance of the condition that the injury must “arise from” from the advertising and not from a contract

obligation. Breach of contract, despite an advertising element, will normally not be covered by advertising injury.

## **2. Intentional Distribution of False Information**

Many policies will exclude coverage for injuries arising out of a publication if the insured knowingly published the falsity. An unpublished opinion, *Virtual Home Care, Inc. v. St. Paul Fire & Marine Insurance Co.*, 2001 WL 1002639 (Minn. App. Sept. 4, 2001), seems to address this point. In *Virtual Home Care, Inc.*, the insureds had distributed a letter stating that their competitor was going out of business. *Id.* The insureds sought advertising injury coverage, but coverage was not available because a going out of business letter did not fall within any of the enumerated offenses of the policy. *Id.* at \*4-5. Also, the court went on to state that the conduct of intentional distribution of false information would have also precluded coverage since the insured was making known false statements that the insured knew to be false when they were made. *Id.* Thus, this seems to indicate that any time an insured intentionally distributes false information advertising injury coverage will be excluded.

## **3. Intellectual Property**

As noted above, the 2001 ISO form expressly excludes intellectual property claims. The 2001 form also excludes injury that arises out of an electronic chatroom or bulletin board of which the insured owns, hosts, or exercises control.

## **4. Electronic Communications**

The 2005 exclusion applicable to electronic communications may apply to many different claims relating to the use of telephones, facsimiles and emails.