

Intellectual Property Counseling and Litigation

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Although there is some question about the meaning of the term "style of doing business," the remainder of the language is clear and unambiguous.⁴¹²

The court noted:

Generally speaking, the above-quoted language provides that an "advertising injury" exists, and defendant has a duty to defend plaintiff, when there is an injury arising solely out of one or more of the categorized offenses (i.e., slander, violation of privacy, misappropriation of advertising ideas or style of doing business, copyright infringement) committed by plaintiff in the course of promoting its goods, products or services. *See generally, Erie Ins. Group v. Sear Corp.*⁴¹³ ("The term "advertising," as used in insurance policies providing coverage for "advertising injuries," was unambiguous and meant "actual, affirmative self promotion of the actor's goods or services.")⁴¹⁴

The court concluded:

In analyzing whether Ross' complaint triggered a duty on the part of defendant to defend, we first examine whether Ross' complaint alleged a predicate offense, i.e., one of the offenses specifically listed in the definition of "advertising injury." We then examined whether there was any causal connection between Ross' alleged injuries and plaintiff's advertising activities.⁴¹⁵

The court noted:

In 1986, the Insurance Services Office, an entity that publishes standard forms widely used in the property and casualty insurance industry, revised the definition of "advertising injury" in its standard forms. In particular, it replaced the term "unfair competition" with the phrase "misappropriation of . . . style of doing business." . . . Since then, courts have construed the phrase "misappropriation of . . . style of doing business" in varying ways. Most seem to agree the phrase "style of doing business" unambiguously refers to "a company's comprehensive manner of operating its business." *St. Paul Fire & Marine Ins. Co. v. Advanced Interventional Systems, Inc.*⁴¹⁶ *See also, Applied Bolting GEC Products, Inc. v. United States Fidelity & Guar. Co.*;⁴¹⁷ *Poof Toy Products, Inc. v. United States Fidelity & Guar. Co.*;⁴¹⁸ *Fluoroware, Inc. v. Chubb Group*⁴¹⁹ (citing *St. Paul* with approval);

⁴¹² *Id.* at 986.

⁴¹³ 102 F.3d 889, 894 (7th Cir. 1996).

⁴¹⁴ 141 F.3d at 986.

⁴¹⁵ *Id.*

⁴¹⁶ 824 F. Supp. 583, 585 (E.D. Va. 1993), *aff'd*, 21 F.3d 424 (4th Cir. 1994).

⁴¹⁷ 942 F. Supp. 1029, 1034 (E.D. Pa. 1996), *aff'd*, 118 F.3d 1574 (3d Cir. 1997).

⁴¹⁸ 891 F. Supp. 1228, 1232 (E.D. Mich. 1995).

⁴¹⁹ 545 N.W.2d 678, 682 (Minn. App. 1996).

*Atlantic Mutual Ins. Co. v. Badger Medical Supply Co.*⁴²⁰ (citing *St. Paul*) (concluding that “style of doing business” can include “distinctive sale techniques”).

The court also referenced decisions suggesting that the offense might be limited to common law misappropriation or possibly include trade dress as well as passing off and trademark infringement. Notably, the court did not cite or reference the *Lebas* decision, which had been decided at that time. The court concluded:

We find it unnecessary to definitively construe the phrase “style of doing business” because none of the above described definitions provide relief to plaintiff. Clearly, there was no misappropriation of trade dress since Ross never alleged plaintiff attempted to mimic the outward appearance for Stampit when it created and sold ExpressDocs. Further, although Ross alleged plaintiff capitalized on his research, development and marketing efforts to Stampit when it created and sold its competing ExpressDocs program, there is no allegation that plaintiff misappropriated Ross’ comprehensive manner of operating its business.⁴²¹

The actual lawsuit asserted claims for fraud, negligent misrepresentation, breach of contract, breach of fiduciary duty, breach of confidence, unfair competition, intentional interference with prospective economic advantage, negligent interference with perspective economic advantage, and breach of the implied covenant of good faith and fair dealing.”

Having concluded that there was no predicate offense, the court could have ended its analysis. It, however, expressly addressed the issue of causal nexus; again improperly suggesting that under the policy language the nexus was between alleged injuries and advertising activities. While it defined those injuries as the particularized offenses, use of the word “injuries” is imprecise. Unfortunately, that imprecision led to improper analysis. The court noted that:

Although plaintiff refers to language in Ross’ complaint alleging Novell/Word Perfect misappropriated his “marking of Stampit” this simply does not demonstrate the necessary connection between the alleged offense and advertising its own products. A review of Ross’ entire complaint demonstrates Ross alleged he developed a market for the Stampit software, only to have Novell/Word Perfect create an identical product and effectively close him out of the market. These allegations do not fit within the CGL policy language entitling plaintiff to a defense.⁴²²

⁴²⁰ 191 Wis. 2d 229, 528, 4 F.2d 486, 490 (Wis. App. 1995).

⁴²¹ 141 F.3d at 987.

⁴²² *Id.*.

The court, while not expressly agreeing with *Sentex Systems, Inc. v. Hartford Accid. & Indem. Co.*,⁴²³ a case involving similar (but not identical) advertising injury policy language, urged it was distinguishable from the facts in *Novell*. The court noted:

In short, the alleged misappropriation of trade secrets took place directly (and solely) in the course of *Sentex* promoting its own products, and thus the alleged injuries flow directly from *Sentex*'s advertising activities.⁴²⁴

It further stated:

In fact, in affirming the District Court's opinion in *Sentex*, the court stated:

It is significant that *ESSI*'s claims for misappropriation of trade secrets related to marketing and sales and not to secrets relating to the manufacture and production of security systems.⁴²⁵

Here, *Ross* alleged *Novell/Word Perfect*, in direct violation of its own oral and written representations from *Ross*, misappropriated this product idea (*Stampit*) and developed and marketed a competing product (*Express Docs*). Even if *Novell/Word Perfect* advertised or otherwise marketed *Express Docs*, the violations alleged by *Ross* are not the direct result of *Novell/Word Perfect* doing so. Rather, *Ross* was injured when *Novell/Word Perfect* created and sold a competing product in direct contravention of oral and written statements to him. The fact that it may have advertised a competing product to consumers simply did not cause *Ross*' injuries.⁴²⁶

This analysis fails to focus on the character of the torts alleged, which included unfair competition and, necessarily as a sub-element thereof, trade secret misappropriation. The latter tort, as was in issue in *Sentex*, involves two bases for liability. The first is theft of a trade secret. The second is distribution and dissemination of trade secreted material. The latter is expressly at issue herein. Having failed to consider the character of the tort in the court's analysis about what injury was or was not based on within the complaint has no legal foundation, the court's ruling is based on rank and errant speculation.

The court relies more heavily on *Microtec Research, Inc. v. Nationwide Mutual Ins. Co.*⁴²⁷ and *Simply Fresh Fruit, Inc. v. Continental Ins. Co.*,⁴²⁸ and in turn on the California Supreme Court's decision in *Bank of the West v. Superior Court*.⁴²⁹ The court adopted the causal connection test but did not explain what

⁴²³ 882 F. Supp. 930 (C.D. Cal. 1995), *aff'd*, 93 F.3d 578 (9th Cir. 1996).

⁴²⁴ 141 F.3d at 988.

⁴²⁵ 93 F.3d at 580.

⁴²⁶ 141 F.3d at 988.

⁴²⁷ 40 F.3d 968 (9th Cir. 1994).

⁴²⁸ 94 F.3d 1219 (9th Cir. 1996).

⁴²⁹ 2 Cal. 4th 1254, 833 P.2d 545 (Cal. 1992).

level of causation was pertinent in this analysis. The court followed *Microtec's* myopic failure to understand that the trade secret claims in *Microtec*, as well as in *Novell*, involved separate liability for the acts of dissemination through marketing trade secrets apart from the initial theft. *Novell* therefore relied upon this improper analysis in concluding that "the harm was allegedly caused by misappropriation of the [computer code], not by the advertising itself,"⁴³⁰ citing *Microtec* for its proposition.

The court also relied on *Simply Fresh Fruit's* analysis. Therein, the court found that even though the insured's admittedly gave prospective insurance customers tours of their automated processing facilities to highlight the quality of the fruit products, that this did not meet the requisite causal nexus test because "under the policy, the advertising activities must cause the injury -not merely expose it."⁴³¹ Again not emphasizing what the elements of the tort were, the court was able to mischaracterize the basis for liability in that suit as to the trade secret claims and thus avoid a defense.

The court also cites *Advance Watch Company* for its rejection of a causal nexus. The court noted *Advance Watch's* rejection of the notion that a writing instrument's appearance is not a form of advertising. This is ludicrous since the character of a particular product's physical appearance, such as trade dress or a particular logo or trademark, it itself advertising as courts versed in intellectual property law have readily found. Indeed, the opinion is wholly inconsistent with the *Lebas* ruling, which is not referenced by the court's decision.

[m]—*Winklevoss Consultants, Inc. v. Federal Ins. Co.*⁴³² The court found that the second amended complaint and supplemental complaint (but not the first complaint) filed against Winklevoss by Lynchval made false statements about Lynchval's goods in an attempt to steer customers away from Lynchval's product. Winklevoss' product falsely advertised capabilities of its software in its promotional materials, drew adverse comparisons to Lynchval's software and made false comparative statements about the speed of its software relative to Lynchval. Such claims satisfied the layman's definition of "disparagement."

The District Court's dismissal of the underlying action's 12th Count for common law product disparagement under rule 12(b)6 did not rid the complaint of all allegations which may fit within the covered offense of "disparagement." This followed because disparagement fact allegations appeared in counts other than those dismissed. The court found, however, that factual allegations in the amended pleading did not relate back to the first pleading so as to provide a defense under it.

⁴³⁰ 40 F.3d at 971.

⁴³¹ 94 F.3d at 1223.

⁴³² 11 F. Supp. 2d 995 (N.D. Ill. 1998)

This rule would not apply in jurisdictions such as California, where coverage analysis depends upon all pertinent facts either available or known to the insurer, not only those in the four corners of the complaint.

[n]—*Monarch E&S Insurance Services, Inc. v. State Farm Fire & Casualty Company*⁴³³ The insurer denied a defense for trade secret misappropriation claims under 1986 ISO policy provision. The court, distinguishing *Lebas Fashion Imports of USA v. ITT Hartford Insurance Group*⁴³⁴ and *Sentex Systems, Inc. v. Hartford Accident & Indemnity Co.*,⁴³⁵ found *Lebas'* holding limited to the issue of trademark infringement with no application beyond that context. This, despite the directly contrary finding in the later decision of Judge Conti in *Everett Ass'n v. Transcontinental Insurance Company*.⁴³⁶

The court declined to uphold the district court's conclusion that "allegations of misappropriation of the customer list, because it comes within the common law concept of unfair competition, can alone trigger coverage under the language of these policies pertaining to 'misappropriation of advertising ideas'."⁴³⁷

The court did not address the distinction in *Sentex II* that found a defense for misappropriation of trade secrets related to marketing and sales, but not to manufacture and production of security systems. The court stated:

In the instant case, there is no evidence that Burns & Wilcox was alleging that Monarch, through Briskin, misappropriated secrets relating to marketing and sales. Furthermore, the marketing materials proffered by Monarch as evidence of advertising activity do not appear to disclose any trade secrets or display any special kind of marketing idea and/are, rather, merely announcements of Briskin's affiliation with Monarch. Moreover, there is no apparent causal connection between Monarch's advertising activity and Burns & Wilcox's assertion of injury.⁴³⁸

The court did not explain what advertising activities would cause an "advertising injury" for purposes of providing coverage in a trade secret context was not explained by the court so as to clarify how its analysis would fit within the logic of its reading of *Sentex II*.

[o]—*American States Ins. Co. v. Kenneth Vortherms*⁴³⁹ The court affirmed the state trial court's ruling in favor of the insurer, finding no defense

⁴³³ 38 F. Supp. 2d 841 (C.D. Cal. 1999).

⁴³⁴ 50 Cal. App. 4th 548, 59 Cal. Rptr. 2d 36 (Cal. App. 1996).

⁴³⁵ 882 F. Supp. 930 (C.D. Cal. 1995), *aff'd*, 93 F.3d 578, 579 (9th Cir. 1996) (applying California law).

⁴³⁶ 1999 U.S. Dist. LEXIS 11792 (N.D. Cal. June 28, 1999).

⁴³⁷ 38 F. Supp. at 845.

⁴³⁸ *Id.*

⁴³⁹ 5 S.W.3d 538 (E.D. Mo. 1999).

arose for claims asserted in connection with a trade secret misappropriation claim. Analyzing a 1986 ISO policy provision affirmed the trial court's ruling based on a series of stipulated facts found therein.

Adopting the narrow "widespread promotional activity" definition for advertising, citing *Smart Foods, Inc. v. Northbrook Property & Casualty*,⁴⁴⁰ and *GAF Sales and Service, Inc. v. Hastings Mutual Insurance*,⁴⁴¹ the court found that the underlying federal action did not allege any widespread promotional activity by defendants.

At issue were contentions including 10 distinct counts encompassing unfair competition, intentional interference with economic advantage, and misappropriation of trade secrets, as well as others. Plaintiff alleged that the defendant Henges directly competed with Prest in the manufacture of mezzanines, that the defendants engaged in the removal of Prest's information, documents, customer lists, business records, and used the Prest plan. The court did not detail the character of the use but it is clear that customer lists and Prest plan was used to contact potential prospects of the former employer.

The Court of Appeals did not address the two grounds for exclusion of coverage relied upon by the trial court, i.e., implication of the criminal act exclusion because of the intentional allegations and the breach of contract exclusion. It found that the style of doing business and misappropriation of advertising idea offenses had plain meanings, that style of doing business was limited to trade dress, citing *Novell, Inc.*,⁴⁴² and that advertising activity misappropriation involves the wrongful taking of another's manner of advertising, citing *Fluoroware, Inc. v. Chubb Group of Insurance Companies*.⁴⁴³

[p]—*Henges Manufacturing, LLC v. Amerisure Ins. Co.*⁴⁴⁴ In a companion decision to *American States Ins. Co. v. Kenneth Vorthers*,⁴⁴⁵ the court denied a defense was owed under the Amerisure policy, which also included 1986 ISO CGL form. The court addressed additional reasons in its Amerisure opinion to those adduced in the *American States Ins. Co.* analysis, stating:

The policy definition of advertising injury involves four items, all involve the activity of oral and written communications by the insured with others. . . . It may allege a use by Henges of the misappropriated

⁴⁴⁰ 618 N.E.2d 1365, 1368 (Mass. App. 1993).

⁴⁴¹ 568 N.W.2d 165, 167 (Mich. App. 1997).

⁴⁴² 141 F.3d at 987.

⁴⁴³ 545 N.W.2d 678, 682-83 (Minn. App. 1996).

⁴⁴⁴ 5 S.W.3d 544 (E.D. Mo. 1999).

⁴⁴⁵ 5 S.W.3d 538 (E.D. Mo. 1999).

computer program as a marketing tool, but advertising and marketing are not the same activity.⁴⁴⁶

The court found Henges' reliance on *Sentex Systems, Inc. v. Hartford Accident Indemnity Co.*,⁴⁴⁷ misplaced. It noted that Hartford and Sentex stipulated that the ESSI petition was based upon Sentex's pervasive advertising and promotional activities. And that "Prest did not allege in its federal complaint any advertising or promotional activities as a basis for its causes of action against Henges."⁴⁴⁸

The court again refused to reach the exclusion issues. Undoubtedly because they could not bar a defense as even the Court of Appeals in this conservative opinion recognized.

[q]—*The Frog, Switch & Mfg. Co. v. The Travelers Ins. Co.*⁴⁴⁹ The court affirmed the trial court ruling by Judge Caldwell of the Middle District of Pennsylvania in an opinion authored by Judge Becker, joined by Judges Roth and Rendell of the Third Circuit, finding no duty to defend for trade secret misappropriation claims under the 1986 ISO policy provision. The court stated, "The definition of 'advertising injury' in standard business insurance policies has troubled and in some cases confounded courts for years."⁴⁵⁰ The court stated, "Here, Frog seeks coverage based on allegations that it engaged in unfair competition by using misappropriated information and false advertising and reverse passing off under the Lanham Act."⁴⁵¹

The court concluded, "The allegation that Frog engaged in unfair competition by misappropriating trade secrets relating to manufacture of a product line does not allege misappropriation of advertising ideas or a style of doing business as such."⁴⁵²

The court's discussion of causation is quite interesting. It states in footnote 8:

We note, however, that there is much confusion in the caselaw concerning when an "advertising injury" is "caused" by advertising within the meaning of standard business insurance policies. As a reading of the briefs in this case reflects, many courts have conflated the requirement of "advertising injury" as defined in the standard policy with the requirement that the injury occur in the course of advertising,

⁴⁴⁶ 5 S.W.3d at 546.

⁴⁴⁷ 93 F.3d 578 (9th Cir. 1996).

⁴⁴⁸ 5 S.W. 3d at 546.

⁴⁴⁹ 193 F.3d 742 (3d Cir. 1999) (applying Pennsylvania law).

⁴⁵⁰ *Id.* at 744.

⁴⁵¹ *Id.* at 747.

⁴⁵² *Id.* at 748.

with the unfortunate result that they have distorted standard causation principles . . . Thus, the courts reach the correct result that an injury was not "advertising injury" and then reason, incorrectly (and unnecessarily), that the advertising did not cause the injury.

For example, suppose the underlying complaint alleges patent infringement, and alleges that the plaintiff lost sales because the insured aggressively advertised the infringing product. Standard tort principles (not to mention common sense) tell us that the advertising was a cause in fact of at least a portion of the plaintiff's damages. Courts that reason that the injury could have taken place without the advertising, *see Simply Fresh Fruit, Inc. v. Continental Ins. Co.*, 94 F.3d 1219, 1222 (9th Cir. 1996), are misstating the relevant tort liability principles, which ask whether the advertising did in fact contribute materially to the injury.⁴⁵³

The court found that bad faith claims could not arise where there was no duty to defend. The court also intriguingly suggests that invasion of privacy claims may, where advertising nexus arises, trigger a duty to defend.

[r]—*Zurich Ins. Co. v. Sunclipse, Inc.*⁴⁵⁴ The court, applying New York law, found that coverage arose for a trade secret misappropriation claim under a 1986 ISO policy provision. The court intimated that its result might have differed had Illinois law applied, but did not express a reference to what difference would have arisen. The underlying action included a suit filed on March 20, 1995, in the Northern District of Illinois charging Sunclipse by Century with misappropriation of trade secrets in breach of contract. Century is an Illinois corporation which manufactures graphite conducted surface coatings for application to a liner board or corrugated steel stock under the trade name "Centurion." The underlying action settled for \$1 million.

On March 27, 1998, following denial of a defense by Zurich, Zurich filed suit in Illinois federal court, seeking determination via declaratory relief that it had no duty to indemnify Sunclipse because Century did not allege any claim in the underlying action that falls within the coverage of the policies.

Century's misappropriation of trade secret claim alleged the following: "The selling of liner board for use in corrugated sheet stock having a conductive surface coating by Sunclipse constitutes misappropriation of plaintiff's proprietary and confidential information, including its trade secrets, causing plaintiff damage and irreparable harm."⁴⁵⁵

⁴⁵³ *Id.* at 751.

⁴⁵⁴ 85 F. Supp. 2d 842 (N.D. Ill. 2000), *aff'd on narrower grounds*, 241 F.3d 605 (7th Cir. 2001) (applying California law).

⁴⁵⁵ *Id.* at 847.

Despite precipitating a coverage dispute by filing in Illinois, the court ultimately found California law applicable under Illinois choice of law provisions.

The court found that notice was delayed for two years but that under California law the prejudice standard was not satisfied.

The court found "[g]iven that California appears to have adopted a minority view that defines broadly the activity that may constitute 'advertising,' the court concludes that Sunclipse engaged in 'advertising activities' when Century's alleged injury occurred."⁴⁵⁶

The court, however, rejected the notion that the misappropriation of advertising ideas prong of the advertising injury offense definitions encompassed the pertinent trade secret misappropriation claims.

The court noted:

Nowhere does Century allege that Sunclipse wrongfully took its customer leads; indeed, Century acknowledges that it was obligated to provide Sunclipse with West Coast leads. . . . Second, even if Century did allege the misappropriation of its customer list, the court is similarly not convinced that the misappropriation of a customer list amounts to the "misappropriation of an advertising idea."⁴⁵⁷

The court found that treating a product unfairly does not amount to disparaging a product. The term "disparagement" refers to "statements [about] a competitor's goods which [are] untrue or misleading and [are] made to influence or tend to influence the public not to buy. . . ."⁴⁵⁸

The court's conclusions re whether the admitted advertising activities fell within an enumerated offense or bear a causal connection misstates the causal connection standard and too narrowly interprets the offense requirement. There is nothing about the Ninth Circuit's decision in *Sentex* that necessarily limits the scope of misappropriation of an advertising idea to an idea for an advertisement or for a particular method of marketing a product if that is the analysis that this court finds pertinent.

[s]—*Northbrook Property & Casualty Ins. Co. v. Applied Systems, Inc.*⁴⁵⁹

The court excluded potential coverage for late notice under Illinois law. Harbor, the underlying plaintiff, filed a six-count complaint against Applied alleging claims for copyright infringement, violations of the Lanham Act, fraud, misappropriation of trade secrets, unfair competition and enrichment. Applied and Harbor

⁴⁵⁶ *Id.* at 853.

⁴⁵⁷ *Id.*

⁴⁵⁸ *Id.* at 856.

⁴⁵⁹ 313 Ill. App. 3d 457, 729 N.E.2d 915 (Ill. App. Ct. 2000), *app. denied*, No. 89669, 2000 Ill. LEXIS 1342 (Ill. Supreme Ct. Oct. 4, 2000).

were both businesses engaged in the area of developing and marketing computer software programs to the insurance industry.

At issue was a program called "Sales Manager" and "Agency Manager"; one disseminated by Applied, the other by Harbor. Harbor, after obtaining a demonstration of the Sales Manager and entering into agreements that would grant Applied the exclusive licensing right to Sales Manager integrated the benefits of Sales Manager into Agency Manager, ceased negotiations for licensing, and offered a new version of its product performing substantially the same automated marketing functions as Sales Manager as well as many other program features.

The complaint alleged that there was never an intention to enter into an exclusive licensing agreement but only to learn trade secrets, steal source code and fraudulently enlist the programmer's services in adapting the Sales Manager program for Agency Manager so as to permit unfair competition.

Four months after receipt of Harbor's third document request in late March 1994, Applied tendered its defense in the Harbor litigation by sending notice of the case to its insurance agent, the Lambrecht Agency. This was nearly 17 months after the initial suit was filed. The insured admitted that it did not understand its advertising injury coverage and so did not assess opportunities thereunder because in its words, it was "beyond our comprehension." It was not until December of 1993, when it received Harbor's request for the upgraded program's marketing materials, that it thought of looking at advertising injury coverage and then reviewed some legal materials discussing same.

The court also found that while the initial tender was only under the CGL policy and did not reference the excess and umbrella policy, "Notwithstanding, Applied's notice was applicable under both policies because notice by an insured to its insurance company is sufficient to charge the insurer and all policies running in the insured's favor . . ." ⁴⁶⁰

Under Illinois law, the "as soon as practicable" language in the notice provision is strictly enforced. "Whether an insured's notice was given in a reasonable time generally depends on the facts and circumstances of the case." ⁴⁶¹

The court faulted Applied for not reviewing the policies and Harbor's complaint together to analyze potential coverage. The fact that the general counsel did not understand the coverage it procured was not deemed a sufficient excuse.

[t]—*Associated Aviation Underwriters, Inc. v. Vegas Jet L.L.C.* ⁴⁶² The court interpreting a 1986 ISO CGL advertising injury provision found that no

⁴⁶⁰ *Id.* at 464.

⁴⁶¹ *Id.* at 465.

⁴⁶² 106 F. Supp. 2d 1051 (D. Nev. 2000).

duty to defend arose for trade secret misappropriation claims. It was expressly alleged that:

While employed by plaintiffs [Eagle Jet Charter and Eagle Canyon Airlines] Siggelkow has, since the inception of Vision Air, secretly disclosed to Acors and Vision Air, are used for Acor's and Vision Air's benefit, Plaintiffs' confidential trade secrets, including business strategy and pricing information, and client lists, which information Acors and Vision Air have used to take away Plaintiffs' customer base, both present and future.⁴⁶³

The court did not address whether these acts might constitute the offense of "misappropriation of advertising ideas or style of doing business" but rather focused on the absence of a causal nexus. For this purpose, they relied on the wrong causal nexus test requiring that it be between advertising and alleged injury. Though it is unclear whether alleged injury was an alleged offense constituting advertising injury or simply injury itself. If the latter, it is clearly improper.

The proper test is that there be three elements: an advertising offense; advertising by the insured; and a causal nexus between the advertising and one or more of the enumerated advertising injury offenses with injury bearing a temporal nexus to such offense.

In finding the causal nexus not met, the court stated:

Vegas Jet has stipulated that its activities are concentrated in the purchase, sale, refurbishment and lease of commercial aircraft . . . It has also stipulated that it has never been in the business of providing air tours of the Grand Canyon area . . . Thus, AAU correctly points out that none of the alleged acts of misuse or misappropriation of air tour-related property could have been committed in the course of advertising Vegas Jet's goods, products or services. Indeed, examination of both the First and Second Amended Complaints reveals a complete absence of such facts."⁴⁶⁴

The court also addressed the issue of what pleadings must be reviewed to ascertain a defense. It found that it was the last pertinent pleading that controlled. This analysis depends upon a four-corner jurisdiction approach to coverage. Where the court looks at facts only as asserted in a particular pleading but not back to facts as they existed in the predecessor pleading since they may no longer state the basis for recovery. Intriguingly, however, the court failed to note that the jurisdictions it followed derived from that rule of policy construction also noted that facts alleged in the first amended complaint might bring forth a basis

⁴⁶³ *Id.* at 1055.

⁴⁶⁴ *Id.* at 1056.

to defend. It was unclear if this was to establish whether there was a defense duty for a period of time it was extinguished or otherwise.

[u]—*Zurich Ins. Co. v. Amcor Sunclipse N. Am.*⁴⁶⁵ The court affirmed the trial court's finding that there was no coverage under the policy for customer solicitation within the meaning of the "advertising injury" offense of "infringement of title" under California law.

The essence of the court's analysis was its observation that [following citation of the 1986 ISO policy form], "This language shows why the district court granted summary judgment to Zurich. How could sale of an existing product, to established customers, cause 'advertising injury' just because the product has a different conductive coating? The circumstances that made Sunclipse's conduct objectionable to Century had nothing to do with 'advertising.'"⁴⁶⁶

The court relied on *Simply Fresh Fruit, Inc. v. Continental Ins. Co.*,⁴⁶⁷ as disapproving some of Sentex's reasoning expressly, failing to note that that decision by the Ninth Circuit was revised to eliminate the footnote 2 that earlier version of the case criticized. Should the insurers have cited this proposition as California law, they should be properly chastised for so doing. Categorizing *Sentex Systems, Inc. v. Hartford Accident & Indemnity Co.*,⁴⁶⁸ as providing weak authority, the court did not explain what aspects of its reasoning were deficient. The court ultimately notes, "No case decided by any state court in California supports Sunclipse's position."⁴⁶⁹ In so stating, the court ignored a series of Court of Appeals decisions which it admitted would have been precedentially important had it not ignored them.

Critically, the court does not even address whether "misappropriation of advertising ideas" was ambiguous or what possible meanings it might have in this context by admitting that Sunclipse argued its applicability.

[v]—*Solers, Inc. v. Hartford Casualty Ins. Co.*⁴⁷⁰ At issue were claims by SM&A against Solers for interference with contractual relations, breach of fiduciary duty, conspiracy, misappropriation of trade secrets, and conversion.

In essence, SM&A alleged that Solers misappropriated business opportunities by the misuse of SM&A's confidential materials and proprietary trade secrets. Solers started its business, after leaving SM&A's employ, by submitting

⁴⁶⁵ 241 F.3d 605 (7th Cir. 2001) (applying California law).

⁴⁶⁶ *Id.* at 607.

⁴⁶⁷ 84 F.3d 1105, 1108 n.2 (9th Cir. 1996) (applying California law).

⁴⁶⁸ 882 F. Supp. 930, 939-40 (C.D. Cal. 1995), *aff'd on other grounds*, 93 F.3d 578 (9th Cir. 1996) (applying California law).

⁴⁶⁹ 251 F.3d at 608.

⁴⁷⁰ 146 F. Supp. 2d 785 (E.D. Va. 2001).

proposals to two federal contractors to work on federal projects involving sophisticated computer hardware and software for a government agency. The principal mechanism used to solicit government contract business is the proposal submission process, which is governed by Federal Acquisition Regulations ("FAR") and Defense Federal Acquisition Regulations Supplement ("DFARS"). The new line of business of SM&A involves assisting government contractors in the preparation of proposals. Solers obtained business through the submission of formal written proposals and sometimes submitted proposals to federal agencies on an unsolicited basis.

The court resolved coverage issues on cross-motions for summary judgment, determining that no defense arose, principally because the submission of proposals on a one-on-one basis does not rise to the level of advertising activity.

The court did not reach issues as to whether an enumerated offense was implicated by the advertising conduct or whether injury arose from a defense of the three-part test from *R.L. Chaides Construction*,⁴⁷¹ which the court applied. This because the absence of advertising made that analysis unnecessary. The court further held that the term "advertising" is not ambiguous.

[w]—*McDonald's Corporation v. American Motorists Ins. Co.*⁴⁷² The plaintiff insured sued defendant insurers seeking declaratory judgment that insurers were required to indemnify the insured under an insurance policy. The Circuit Court of Du Page County (Illinois) granted summary judgment in favor of insurers. Insured appealed. The insured alleged that the policies issued by insurers required insurers to indemnify the insured in an underlying lawsuit. This was a duty to indemnify case, not a duty to defend case. The court stated:

The duty to indemnify is much narrower than the duty to defend. . . . Unlike the duty to defend, the duty to indemnify cannot be determined simply on the basis of whether the factual allegations of the underlying complaint potentially state a claim against the insurer. . . . The duty to indemnify arises only when the facts alleged actually fall within the coverage of the policy at issue. . . . In accordance with the above principles, we must analyze the underlying complaint in light of the applicable policy provisions to determine whether the complaint actually falls within the coverage of the policy at issue.⁴⁷³

The underlying suit alleged that the insured had misappropriated a trade secret in developing and promoting an oven, in violation of the Illinois Trade Secrets Act § 80. Insured argued that the underlying suit was a claim for a "cloud on the title" of the trade secret and thus a covered claim. The appellate court

⁴⁷¹ 847 F. Supp. at 1455.

⁴⁷² 748 N.E.2d 771 (Ill. App. 2001).

⁴⁷³ *Id.* at 777.

reviewed the policy and found that, to constitute a covered claim, the underlying suit had to fall within one of the offenses listed in the policy and must have been caused by insured's promotional activities.

Neither the complaint nor the pretrial order of the underlying suit alleged an offense which fell within the policy. The "cloud on title" theory was a damages theory, outside the coverage of the policy. Even if the allegations of misappropriation of trade secrets were a listed offense, the insured was unable to show that the misappropriation of trade secrets was caused by its promotional activities.

The question in this case was whether the suit that McDonald's settled still contained covered claims at the time of settlement. The court held that it did not because the suit against McDonald's had been narrowed solely to a claim for misappropriation of design trade secrets under the Illinois Trade Secrets Act.⁴⁷⁴ Other potentially covered claims, such as a count for unfair competition, had been in the case but had been dismissed with prejudice as preempted by ITSA, which broadly preempts all other common law remedies, including unfair competition, based on misappropriation of a trade secret.⁴⁷⁵

Because McDonald had been successful in dismissing the plaintiff's other claims in the underlying suit as preempted by ITSA, the court, relying on the doctrine of judicial estoppel, refused to allow McDonald's to shift its position in the declaratory and argue that such claims were still potentially in the underlying case at the time of settlement. Consequently, the court held that at the time of settlement the trade secret misappropriation claims were founded solely on the allegations that McDonald's had misappropriated design trade secrets and had built and sold a product incorporating those trade secrets. The case did not contain any claims alleging an advertising offense caused by McDonald's advertising.

[x]—*Hameid v. National Fire Ins. of Hartford*⁴⁷⁶ The court reversed the decision of the trial court. It found a defense arose under the "advertising injury" coverage of the policy, but found triable issues of fact respecting the claims for breach of the covenant of good faith and fair dealing. At issue were claims that the insured had misappropriated customer lists, price lists, and pricing policies to solicit KWP's customers and undercut its prices when it procured the services of two former salon day spa workers, Doreen Howard and Heather Billington, who previously worked for the plaintiff, Salon T'Shea.

The court properly and broadly defined "advertising," finding there was no ground for a narrow interpretation, as often urged by insurers. It stated:

⁴⁷⁴ Hereinafter ITSA.

⁴⁷⁵ *Id.* at 783.

⁴⁷⁶ 114 Cal. Rptr. 2d 843 (Cal. App. 2001).

Plaintiff and its employees solicited customers by advertising in the Pennysaver, sending mailers, and telephoning Howard and Billington's clients from Bellezza. Viewed in the context of a start-up, community beauty salon, these activities "fit[] neatly into the commonly understood meaning of advertising . . .," i.e., "the act of calling public attention to one's product through widespread promotional activities. [Citations.]" (*El-Com Hardware, Inc. v. Fireman's Fund Ins. Co.* (2001) 92 Cal. App. 4th 205, 217 [catalog distributed by manufacturer held to be "advertising"].) Here, plaintiff's alleged wrongful conduct constituted "advertising" under the policy.⁴⁷⁷

It reasoned, "[T]he claims for misappropriation of trade secrets in the underlying action involved marketing and sales, not manufacture of the product." *Id.* at 848. Quoting from *Sentex II*, it stated, "'In this day and age, advertising cannot be limited to written sales materials, and the concept of marketing includes a wide variety of direct and indirect advertising strategies.'" ⁴⁷⁸

Finding the "misappropriation" offense satisfied by the allegations, it emphasized that:

KWP complained plaintiff misappropriated its confidential customer lists to identify and solicit clients about whom it kept private information, including the frequency of visits, preferred services, who assisted with those services, money spent for a visit, and birthdays. These claims of misappropriation of trade secrets related to marketing, not performance of services or manufacturing of a product.⁴⁷⁹

[y]—*IDX Systems Corp. v. Epic Systems Corp.*⁴⁸⁰ Pursuant to a direct action statute applicable in Wisconsin, the court analyzed both the underlying action for trade secret misappropriation and coverage claims arising from those claims.

No duty to defend arose. The phrase "misappropriation of advertising ideas or style of doing business" had a plain meaning under Wisconsin law. An advertising idea was "'an idea for calling public attention to a product or business, especially by proclaiming desirable qualities so as to increase sales or patronage. Similarly, a style of doing business refers to a company's comprehensive manner of operating its business.'"⁴⁸¹

The court found there were no claims falling within this offense. Plaintiffs had not alleged that defendants misappropriated the image of its product or

⁴⁷⁷ *Id.* at 848.

⁴⁷⁸ *Id.* at 848-49.

⁴⁷⁹ *Id.* at 849.

⁴⁸⁰ 165 F. Supp. 2d 812 (W.D. Wis. 2001).

⁴⁸¹ *Id.* at 827-28 (citation omitted).

business, or any techniques by which it operates its business. A style of business could not include technical aspects of a product that creates functionality. The court's narrow construction of the offense-based coverage is out of step with the majority of courts who have analyzed similar policy language.

[5]—Trademark Infringement Cases

[a]—*Hartford Accident & Indemnity Co. v. Sherwood Brands, Inc.*⁴⁸² Judge Salmon, speaking for a panel including Justices Bloom and Fischer, affirmed a grant of partial summary judgment to the insured entered by Montgomery County Circuit Court Judge William P. Turner, in an advertising injury coverage case involving trade dress infringement and unfair trade practice claims.

Further allegations arose that Sherwood had “published and disseminated false and misleading statements concerning [Osem] and its “‘gourmet cuisine’ soup products” in a letter dated November 28, 1988. Hartford was first advised of the claim on July 2, 1991, following a substitution of counsel. Hartford denied on the ground that “all of the allegations occurred prior to the inception date of the Hartford policy.” On November 30, 1992, Sherwood settled the claims by payment of \$100,000 to Osem.

The coverage action filed June 25, 1993, sought indemnification of the \$100,000 payment to Osem and attorneys’ fees and expenses occurred in defending against Osem’s claim. The initial favorable duty of defense determination arose by Judge Ryan on August 31, 1992. Judge Turner ruled on December 15, 1994, that Hartford, having shown no prejudice by late notice was responsible for Sherwood’s pre-notice attorneys’ fees and for indemnifying Sherwood. A jury was charged with determining the amount of damages and found \$64,690 charged by Heftner, \$100,688.98 charged by Mr. Gibson, and \$61,074 by Mr. Spry, as well as an additional \$560,692.64, a defamation claim in addition to the referenced trademark claims. Further, the settlement was found fair and reasonable. Costs and fees incurred in the declaratory relief action were awarded.

[b]—*P.J. Noyes Co. v. American Motorists Ins. Co.*⁴⁸³ In this order by Senior District Judge Loughlin, applying New Hampshire law, the court found a duty to defend arose for claims of trademark infringement.

In an important part of the decision, the court found that there was no reason to seek to allocate defense fees incurred for potentially non-covered claims. It reasoned:

⁴⁸² 111 Md. App. 94, 680 A.2d 554 (1996), *vacated*, 347 Md. 32, 698 A.2d 1078 (1997).

⁴⁸³ 855 F. Supp. 492 (D. N.H. 1994), *order denying reconsideration or clarification* (July 12, 1994).