

2d Civ. No. B121209

STATE OF CALIFORNIA  
COURT OF APPEAL  
SECOND APPELLATE DISTRICT  
DIVISION THREE

MEZ INDUSTRIES, INC.

Petitioner-Appellant,

vs.

PACIFIC NATIONAL INSURANCE COMPANY,

Respondent-Appellee.

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Appeal from Superior Court Of Los Angeles County  
Los Angeles Superior Court Case No. BC 172220  
Honorable S. James Otero, Judge

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**AMICUS CURIAE BRIEF  
OF TRUCK INSURANCE EXCHANGE  
IN SUPPORT OF RESPONDENT PACIFIC NATIONAL  
INSURANCE COMPANY**

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## INTRODUCTION

In response to this Court's May 28, 1999 letter to counsel requesting amicus curiae briefing, we submit this brief on behalf of Truck Insurance Exchange in support of respondent Pacific National Insurance Company ("Pacific").<sup>1</sup> At the Court's request, this brief answers the following questions:

- 1. Is a liability insurer, whose policy provides "advertising injury" coverage, required to defend an insured who is alleged to have *induced* the infringement of a patent?**

*Answer:* "No," unless an insurer distinctly and unambiguously promises to defend such claims. Absent such a specific promise—and Pacific made no such promise here—no duty to defend exists because liability for inducing patent infringement requires wilful conduct within the scope of Insurance Code section 533 and therefore no potential indemnity coverage exists to trigger a duty to defend.

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<sup>1</sup> Amicus Curiae Truck Insurance Exchange is a commercial insurer headquartered in California. Over the years, Truck has written numerous "advertising injury" policies throughout California. Truck desires to help assure that the law interpreting this coverage be articulated correctly.

- 2. Can the infringement of a patent (and therefore the inducement thereof) under any circumstance constitute either the (1) “misappropriation of an advertising idea or style of doing business” or (2) “infringement of copyright, title or slogan”?**

*Answer:* An insured has no objectively reasonable expectation that patent infringement would constitute an “infringement of copyright, title or slogan” or the “misappropriation of . . . style of doing business.” As to coverage for the offense of “misappropriation of an advertising idea,” the only situation where an insured might conceivably expect coverage for patent infringement is the rare and narrow context where the insured’s manner of advertising infringes someone else’s patented advertising technique. But that issue is not presented and need not be decided here.

- 3. What is the coverage provided by the promise to indemnify and defend the advertising injury offense of “infringement of copyright, title or slogan”?**

*Answer:* The promise covers claims that the insured advertised in a manner which infringed: (a) someone else’s copyrighted work; (b) the title of

someone else's copyrighted work; or (c) someone else's advertising slogan, such as Nike's "Just Do It" slogan. As we explain below, it might also arguably cover advertisements that infringe the trade names or designations of someone else's business or product. But the promise does not include (and cannot reasonably be interpreted as including) either patent infringement or inducing patent infringement.

The explanations for these answers are set forth below. Realizing that this Court is seeking guidance in resolving the case before it, our discussion is tailored to the specific insurance policy and the specific factual context at issue. We have tried to avoid duplicating discussion in Pacific's brief, focusing instead on providing supplemental analysis, including citation to cases published after this matter was briefed.

## LEGAL DISCUSSION

### I.

**UNDER CALIFORNIA LAW, A LIABILITY INSURER WHOSE POLICY PROVIDES “ADVERTISING INJURY” COVERAGE IS GENERALLY NOT REQUIRED TO DEFEND AN INSURED AGAINST A CLAIM THAT IT INDUCED PATENT INFRINGEMENT.**

#### A. *Watercloud* And *Intex* Preclude Any Duty To Defend.

Appellant Mez Industries, Inc. (“Mez”) seeks to reverse settled California law regarding insurance coverage for inducing patent infringement. In California, “there is no potential coverage for (and no duty to defend) claims that an insured’s advertising *induced* patent infringement . . . .” (2 Croskey & Kaufman, Cal. Practice Guide: Insurance Litigation (Rutter 1998) § 7:1052, p. 7C-14.) “To be liable for inducing infringement, a party must have the *specific intent* to induce another to infringe . . . (which) by its very nature (is) an *intentional act* precluded from coverage under section 533 of the Insurance Code.” (*Ibid.*, quoting *Aetna Casualty & Surety Co v. Superior Court (Watercloud Bed Co. Inc.)*)

(1993) 19 Cal.App.4th 320, 330 (“*Watercloud*”); accord *Intex Plastics Sales v. United Nat’l Ins.* (9th Cir. 1994) 23 F.3d 254, 256-257 [applying California law] (“*Intex*”).)

In *Watercloud*, the insured claimed it might be liable for inducing patent infringement because its advertisements and instructional materials allegedly taught customers how to assemble a water mattress that infringed a patent. (19 Cal.App.4th at pp. 329-330.) The Court of Appeal found no duty to defend the inducement claims because inducement is a wilful act and Insurance Code section 533 precludes indemnification for wilful acts. (*Id.* at p. 331.)

*Intex* reaches the same conclusion. There, as here, the insured was not subject to liability for direct patent infringement because it made non-infringing components that third parties could combine with other materials to create the patented product. The insured premised its claims to coverage and defense on the assertion that its advertising materials induced purchasers of its products to infringe another’s patent by instructing them how to assemble the patented product. (23 F.3d at p. 256.) The Ninth Circuit followed *Watercloud*. (*Id.* at p. 256, fn. 1.)

*Watercloud* and *Intex* are correct. They should be followed here. No appellate court applying California law has ever embraced a contrary view.



**B. *Watercloud* And *Intex* Correctly Hold That  
Insurance Code Section 533 Bars Coverage For  
Claims Of Inducing Patent Infringement And  
Therefore No Duty To Defend Such Claims Exists.**

In asking this Court to depart from *Watercloud* and *Intex*, Mez argues that Insurance Code section 533 does not bar indemnifying claims of inducing patent infringement because, Mez asserts, patent law does not require a specific intent to induce patent infringement for inducement liability. Mez contends *Watercloud* misread *Manville Sales Corp. v. Paramount Systems Inc.* (Fed. Cir. 1990) 917 F.2d 544 (“*Manville*”) as requiring specific intent. (Mez’s Opening Brief, p. 27, fn. 41.)

Mez is wrong. As we demonstrate below, *Watercloud* and *Intex* correctly interpret *Manville* as holding that a specific intent to induce patent infringement is a prerequisite to inducement liability. (Section B.1, *post.*) But even if a specific intent were not required, there would still be no indemnity coverage or duty to defend because the only basis for imposing liability falls squarely within section 533’s bar for wilful acts. (Section B.2, *post.*)

1. ***Watercloud* and *Intex* correctly hold that a specific intent to induce patent infringement is a prerequisite to inducement liability.**

*Watercloud* and *Intex* correctly construe patent law in holding that liability for inducing patent infringement may not be imposed absent proof of a specific intent to induce infringement.

Contrary to Mez’s assertion, *Manville* does not merely “suggest” that specific intent is a prerequisite. (See Mez’s Opening Brief, p. 27, fn. 41.)

Rather, *Manville* unequivocally so states:

“It must be established that the defendant *possessed specific intent to encourage another’s infringement* and not merely that the defendant had knowledge of the acts alleged to constitute inducement.” (*Manville, supra*, 917 F.2d at p. 553, emphasis added.)<sup>2</sup>

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<sup>2</sup> *Manville* held that the district court’s findings—i.e., that two particular defendants were unaware of the patent until the lawsuit was filed and that they thereafter relied on a “good faith belief” based on advice of counsel” that the product was non-infringing—precluded section 271(b) liability. (917 F.2d at pp. 553-554.) The court recognized that there “was neither compelling evidence nor any findings that the [two defendants] had specific intent to cause another to infringe.” (*Id.* at p. 554.)

This is not merely some stray statement of the law. Rather, the *Manville* rule is consonant with the overwhelming majority of courts addressing the intent issue. Even before *Manville*, most courts held that specific intent to induce infringement was a prerequisite to liability under 35 U.S.C. section 271, subdivision (b), which is the statute governing inducement of patent infringement.<sup>3</sup> Similarly, after *Manville*, nearly all courts have applied a specific intent requirement.<sup>4</sup>

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<sup>3</sup> E.g., *Water Technologies Corp. v. Calco, Ltd.* (Fed. Cir. 1988) 850 F.2d 660, 668 (“proof of [specific, knowing] intent is necessary” under § 271(b)); *Sims v. Western Steel Co.* (10th Cir. 1977) 551 F.2d 811, 817 (§ 271(b) requires intent to induce infringement); *Honeywell, Inc. v. Metz Apparatewerke* (7th Cir. 1975) 509 F.2d 1137, 1142 (to be held liable under § 271(b), “one must purposefully cause, urge or encourage another to infringe”); *Oak Industries, Inc. v. Zenith Electronics Corp.* (N.D.Ill. 1989) 726 F.Supp. 1525, 1542 (“proof of intent to induce infringement is a requirement for liability under 35 U.S.C. § 271(b)”); *H.B. Fuller Co. v. National Starch and Chemical Corp.* (D.Minn. 1988) 689 F.Supp. 923, 943 (establishing inducement of patent infringement requires proving “an act by the defendant knowingly calculated to induce another to infringe”); *Proctor & Gamble Co. v. Nabisco Brands, Inc.* (D.Del. 1985) 604 F.Supp. 1485, 1488 (“most courts and commentators have concluded that liability can be imposed [under § 271(b)] only for knowing and intentional inducement of infringement”).

<sup>4</sup> E.g., *R2 Medical Systems, Inc. v. Katecho, Inc.* (N.D.Ill. 1996) 931 F.Supp. 1397, 1440 (liability for inducing infringement under § 271(b) requires proving the defendant knew that “the ‘combination for which his component was especially designed was both patented and infringed’” and that the defendant “specifically intended that its sale or other challenged acts induce its customers to engage in the conduct that allegedly directly infringes”); *Amgen, Inc. v. Elanex Pharmaceuticals, Inc.* (W.D.Wa. 1996) 1996 WL 84590 at p. \*6 (court rejected district court case suggesting specific intent to infringe patent inducement was not required and followed Federal Circuit precedent requiring specific intent to induce infringement);

(continued...)

Recently, the Federal Circuit confirmed that specific intent to induce patent infringement is required for inducement liability:

“The statutory liability for inducement of [patent] infringement derives from the common law, wherein acts that *the actor knows will lead to the commission of a wrong by another*, place shared liability for the wrong on the actor.”

(*National Presto Industries, Inc. v. West Bend Co.* (Fed. Cir. 1996) 76 F.3d 1185, 1194, emphasis added; see also *Sims v.*

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<sup>4</sup>(...continued)

*Young Dental Mfg. Co. v. Q3 Special Products, Inc.* (E.D.Mo. 1995) 891 F.Supp. 1345, 1348 (“the accused infringer must be shown to have had actual knowledge of the patent and the actual intent to induce the infringement”); *Beraha v. C.R. Bard, Inc.* (N.D.Ga. 1994) 870 F.Supp. 1085, 1090 (“Plaintiff bears the burden of proving that Defendants actively induced infringing acts and had the specific intent to encourage actual infringements”) affd. (Fed. Cir. 1995) 64 F.3d 678 (table); *L.A. Gear, Inc. v. E.S. Originals, Inc.* (C.D.Ca. 1994) 859 F.Supp. 1294, 1300 (§ 271(b) requires “a specific intent to encourage infringement of the patent”); *Shearing v. Optical Radiation Corp.* (D.Nev. 1994) 30 U.S.P.Q.2d 1878, 1880 (for liability under § 271(b) to arise, “it must be shown that the inducer knowingly and with specific intent encouraged that other’s infringement”); *Dynamis, Inc. v. Leepoxy Plastics, Inc.* (N.D.Ind. 1993) 831 F.Supp. 651, 657 (“it is clear that under § 271(b) an accused infringer must be shown to have actual knowledge of the patent and the infringement and have the actual intent to induce the infringement”); see also Harmon, *Patents And The Federal Circuit* (4th ed. 1998) § 6.4, p. 310 (“[p]roof of intent to induce infringement is necessary, but direct evidence is not required”); 6 Lipscomb, *Walker On Patents* (3d ed. 1987) § 22.6, p. 426 (“intent to infringe is an essential element for liability” under § 271(b)); 4 *California Insurance Law & Practice* (Matthew Bender 1999) § 41.41[3][m], p. 41-106.4 (“Coverage for *inducing* patent infringement, as opposed to patent infringement itself, is barred by Ins. Code § 533 [because] [i]n order to be liable for inducing infringement, a party must have the specific intent to induce another to infringe.”).

*Western Steel Co.*, *supra*, 551 F.2d at p. 817 [comparing inducer to *an accessory before the fact*].)

This rule makes perfect sense. The offense of inducing patent infringement is directly akin to “aiding or abetting” or “accessory before the fact” liability, both of which require an intent to cause the wrong in addition to knowledge of the wrong.<sup>5</sup> And just as with liability for inducing patent infringement, section 533 bars coverage for aiding, abetting and accessory liability. (See, e.g., *Interinsurance Exchange v. Flores* (1996) 45 Cal.App.4th 661, 673 [section 533 barred coverage where insured aided and abetted shooting]; *National Union Fire Ins. Co. v. Lynette C.* (1991) 228 Cal.App.3d 1073, 1086 [court noted section 533 would have applied had insured “aided, abetted or encouraged” the crime].)

In attempting to overcome the specific intent requirement clearly established by *Manville* and numerous other cases, Mez suggests that *Manville*’s statement that the defendant “knew or *should have known* his actions would induce actual infringement” is somehow inconsistent with

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<sup>5</sup> E.g., *People v. Mendoza* (1998) 18 Cal.4th 1114, 1118 (“The mental state necessary for conviction as an aider and abettor is *knowledge* of the perpetrator’s criminal purpose and the *intent or purpose* of committing, encouraging, or facilitating the commission of the target offense.”); *Kidron v. Movie Acquisition Corp.* (1995) 40 Cal.App.4th 1571, 1582 (conspiracy liability requires knowledge of an illegal purpose and an “intent to aid in its commission”).

*Manville*'s other statement that the plaintiff must establish "that the defendant possesses specific intent to encourage another's infringement." (See Mez's Opening Brief, p. 27, fn. 41; *Manville*, *supra*, 917 F.2d at p. 553.) Mez is wrong. The statements are consistent.

*Manville* relied on *Water Technologies Corp.*, *supra*, 850 F.2d 660. (See *Manville*, *supra*, 917 F.2d at p. 553.) That case held that circumstantial evidence may suffice to prove a specific, knowing intent to induce infringement. (See *Water Technologies Corp.*, *supra*, 850 F.2d at pp. 668-669.)<sup>6</sup> This makes sense, since specific intent is difficult and often impossible to prove by direct evidence. Properly construed, *Manville*'s "knew or should have known" language does not undermine its specific intent requirement, but merely reflects that a trier of fact may rely upon either direct or circumstantial evidence to find the requisite specific intent. Where there is no direct or circumstantial evidence that a defendant actually knew or even should have known its actions would result in patent

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<sup>6</sup> In *Water Technologies Corp.*, the Federal Circuit rejected the defendants' contention that "no proof of a specific, knowing intent to induce infringement exists." (850 F.2d at p. 668.) The defendant claimed he lacked the requisite intent because he believed his product was non-infringing, as evidenced by a letter he wrote and his filing of a patent application. (*Ibid.*) The court held there was "not such clear evidence of lack of intent that the district court could not make a contrary finding on the basis of other circumstantial evidence." (*Ibid.*) The court further held the defendant's activities provided "sufficient circumstantial evidence" to affirm the district court's findings that he *intentionally* induced direct infringement. (*Id.* at p. 669.)

infringement, the defendant must prevail because it could not possibly have the requisite specific intent; but where such evidence exists, the trier of fact should be allowed to decide whether the evidence supports the inference and requisite finding that the defendant *actually intended* to induce infringement.<sup>7</sup>

These authorities confirm that liability for inducing patent infringement requires a finding—based on direct evidence or an inference from circumstantial evidence—of a specific intent to induce patent infringement.

For these reasons, there is no negligence or quasi-negligence standard in an inducement case. Liability may only be imposed upon the defendant where substantial evidence—either direct or circumstantial—supports a finding that the defendant specifically intended

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<sup>7</sup> Compare *Apple Computer, Inc. v. Articulate Systems, Inc.* (N.D.Cal. 1997) 991 F.Supp. 1189, 1191-1193 (court noted “requisite [specific] intent to induce [under *Manville*] may be inferred from all of the circumstances, such as giving a direct infringer instructions on how to use a patented process or designing a product to infringe,” but it *granted* summary judgment for defendant because there was no evidence the defendants knew or should have known actual infringement would occur) with *Energy Absorption Systems, Inc. v. Roadway Safety Service, Inc.* (N.D.Ill. 1994) 30 U.S.P.Q.2d. 1325, 1327-1329 (court *denied* summary judgment to defendant, concluding evidence that defendant knew of the patent before he designed his product, “induced the allegedly infringing acts and . . . knew or should have known that his actions would induce the alleged infringement” could potentially support inference of specific intent, leaving the ultimate question of “whether or not he *actually and intentionally* induced the infringement of the [plaintiff’s] patent [as] an issue which remains to be proven at trial,” emphasis added).

to induce the infringement. This basis for liability—the only one permitted by law—necessarily triggers the coverage preclusion established by section 533, as both *Watercloud* and *Intex* correctly hold.

**2. Section 533 bars coverage even if this Court were to accept Mez’s assertion that specific intent is not required in order to impose liability for inducing patent infringement.**

Section 533 is not restricted to cases where the insured subjectively intended to injure. (*Downey Venture v. LMI Ins. Co.* (1998) 66 Cal.App.4th 478, 501; *Shell Oil Co. v. Winterthur Swiss Ins. Co.* (1993) 12 Cal.App.4th 715, 740.) Its reach is far broader than that:

- Section 533’s scope “includes ‘an intentional and wrongful act in which . . . the harm is inherent in the act itself.’” (*Downey Venture, supra*, 66 Cal.App.4th at p. 500, citation omitted; *B & E Convalescent Center v. State Compensation Ins. Fund* (1992) 8 Cal.App.4th 78, 101-102, fn. 22 [section 533 precludes coverage for employee terminations violating fundamental public policy since those terminations are inherently harmful and employers are charged with knowledge of fundamental public policies].)



● Section 533 also precludes coverage for an act “intentionally performed *with knowledge* that damage is *highly probable or substantially certain* to result.” (*Downey Venture, supra*, 66 Cal.App.4th at p. 500, quoting *Shell Oil Co., supra*, 12 Cal.App.4th at p. 742.) “Where the actor knows that the harmful consequences are substantially certain to result, and proceeds with the act anyway, the law treats the actor as if the result was desired.” (*Shell Oil Co., supra*, 12 Cal.App.4th at p. 742.) Thus, even “an act that is not inherently harmful in the abstract may nevertheless be so if the insured is aware of the *potential* harm.” (*Watercloud, supra*, 19 Cal.App.4th at p. 331, *emphasis added*.)

These authorities preclude coverage for liability for inducing patent infringement, regardless whether the claimant must prove specific intent. This is so because, even under Mez’s interpretation of patent law as devoid of any specific intent requirement, liability for inducing patent infringement may be imposed *only if* each of the following factual standards is met: (1) direct patent infringement must *actually occur* (*Carborundum Co. v. Molten Metal Equipment Innovations, Inc.* (Fed. Cir. 1995) 72 F.3d 872, 876, fn. 4); (2) the inducer must *actually know about the subject patent* and must either *actually know or should know that his acts will induce direct infringements* of the patent (*Manville, supra*, 917 F.2d at p. 553; *Water Technologies Corp. v. Calco, Ltd., supra*, 850 F.2d at p. 668); and (3) the

inducer must *actually intend* to induce the acts that constituted the direct infringement (*Manville, supra*, 917 F.2d at p. 553; *Hewlett-Packard Co. v. Bausch & Lomb Inc.* (Fed. Cir. 1990) 909 F.2d 1464, 1469).

When these substantive criteria are satisfied and liability is imposed, there is simply no way in which the inducer could ever be held liable without triggering the coverage preclusion set forth in section 533. Even under Mez's interpretation, the inducer must *know* about the patent and the possibility of infringement, the inducer must *actually intend* to induce the acts that result in infringement, and there must be *actual infringement*. Moreover, patents are *presumed valid* by law. (35 U.S.C. § 282.) Thus, to be liable for inducing patent infringement, a party must knowingly run a substantial risk of interfering with another's presumptively valid patent.

*Knowingly* tampering with another's *presumably valid* legal right is inherently dangerous and there will always be a high probability or substantial certainty that the patent holder will suffer damages when an infringement occurs. Such knowing and conscious disregard for another's presumptively valid legal rights therefore falls squarely within section 533's coverage prohibition for wilful acts. (See *Downey Venture, supra*, 66 Cal.App.4th at pp. 501-502 [collecting cases]; *Shell Oil Co., supra*, 12 Cal. App.4th at p. 742.)<sup>8</sup>

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<sup>8</sup> Engaging in conduct *knowing* it poses a substantial likelihood of  
(continued...)

Moreover, the applicability of section 533 cannot be undermined by the possibility that the defendant might assert various defenses that could result in exoneration from liability. Whether or not there is a duty to defend is measured by whether there is potential coverage for any *liability* that is imposed; it has nothing to do with the possibility that the defendant may have a defense (e.g., lack of intent, good faith) that exonerates it from liability. (*State Farm Fire & Casualty Co. v. Drasin* (1984) 152 Cal.App.3d 864, 867 [the duty to defend and provide coverage depends on whether section 533 would bar coverage if the insured were found liable for the offense; the fact that non-wilfulness may be a defense to liability creates

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<sup>8</sup>(...continued)

interfering with another's rights is quite distinct from mere reckless conduct. Someone who encourages or assists others to imitate another's product or process not caring (and not wanting to know) whether that product or process is patented acts recklessly. Such a person, however, is *not* liable for inducing patent infringement. To be liable for inducing patent infringement, the inducer must *know* of the existence of the statutorily presumed valid patent on the infringed product or process. Engaging in conduct designed to induce infringement in the face of others' *known* presumptive rights, is more than reckless, it is conscious disregard of those rights regardless whether one *subjectively intends* that those rights be interfered with. (See *Taylor v. Superior Court* (1979) 24 Cal.3d 890, 895-896 [malice—which is more than recklessness—is present where there is an awareness of dangerous consequences and a willful and deliberate failure to avoid them; drunk driving may constitute conscious disregard of rights where defendant's past history of drunk driving violations would show that he knows that others might be harmed]; *PPG Industries, Inc. v. Transamerica Ins. Co.* (1999) 20 Cal.4th 310, 316-318 [California public policy bars indemnification for any conduct which might suffice for punitive damages].)

no duty to defend]; *Maxon v. Security Ins. Co.* (1963) 214 Cal.App.2d 603, 616-617 [same].)

For these reasons, liability for inducing patent infringement will always fall within section 533's coverage preclusion.

**3. None of the authorities cited by Mez  
undermine the applicability of section 533 as  
a bar to coverage.**

In seeking to abrogate *Watercloud* and *Intex*, and the impact of section 533, Mez relies primarily on four cases: (a) *Union Insurance Co. v. Land & Sky, Inc.* (1995) 247 Neb. 696 [529 N.W.2d 773] ("*Land & Sky*"); (b) *Keystone Retaining Wall Systems Inc. v. Westrock, Inc.* (D.Or. 1991) 222 U.S.P.Q.2d 1001, revd. on other grounds (Fed. Cir. 1993) 997 F.2d 1444 (table) ("*Keystone*"); (c) *Marsh-McBirney, Inc. v. Jennings* (C.D.Cal. 1991) 22 U.S.P.Q.2d 1621 ("*Marsh-McBirney*"); and (d) *Symbol Technologies, Inc. v. Metrologic Instruments, Inc.* (D.N.J. 1991) 771 F.Supp. 1390 ("*Symbol Technologies*"). (See Mez's Opening Brief, pp. 27-28, fn. 43; Mez's Reply Brief, pp. 7-8, fn. 9.)<sup>9</sup>

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<sup>9</sup> Any conflict regarding the *legal issue* of the proper "intent" standard for inducing patent infringement does not create a duty to defend. (*Waller v. Truck Ins. Exchange, Inc.* (1995) 11 Cal.4th 1, 25-26 [citing *McLaughlin v.* (continued...))

None of these cases justifies departure from *Watercloud* and *Intex*.  
None undermines the applicability of section 533's coverage preclusion.  
Here's why.

a. *Union Insurance Co. v. Land & Sky, Inc.*

*Land & Sky*, a Nebraska case, is the only published decision which ever found coverage for inducing patent infringement. As one commentator observed: "Nebraska stands alone in requiring insurers to defend patent infringement claims. The trend continues to go against coverage."  
(Antognini, *Why Neither Side Has Won Yet: Recent Trends in Advertising Injury Coverage* (1999) 65 Def. Couns. J. 18, 29.)

But even if the trend were not against *Land & Sky*, its reasoning would not apply here for multiple reasons.

First, as the Nebraska Supreme Court expressly observed, California Insurance Code section 533 and the cases decided under it were "not germane to th[e] action" because Nebraska does not have a similar statute

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<sup>9</sup>(...continued)  
*National Union Fire Ins. Co.* (1994) 23 Cal.App.4th 1132, 1152 for the rule that "where the only potential for liability turns on resolution of a legal question, there is no duty to defend" if the insurer's view is ultimately exonerated]; accord *A-Mark Financial Corp. v. CIGNA Property & Casualty Companies* (1995) 34 Cal.App.4th 1179, 1191-1192.)

limiting insurance coverage. (*Land & Sky, supra*, 247 Neb. at p. 701 [529 N.W.2d at p. 777].) The case, therefore, is wholly irrelevant to the interpretation of California law.<sup>10</sup>

*Second*, the Nebraska Supreme Court's holding that the insured could reasonably expect coverage for inducing patent infringement rested on the policy's open-ended reference to coverage for "piracy." (*Id.* at pp. 701-702 [529 N.W.2d at p. 777].) The policy at issue here, however, does not contain any reference to "piracy."

*Third*, the court's holding that the term "piracy" was ambiguous and therefore should be construed against the insured to encompass patent infringement rested on a unique set of facts not presented here. The court found that the insurer had created an ambiguity and also had expressed its own belief that "piracy" encompassed patent infringement.<sup>11</sup>

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<sup>10</sup> As this Court correctly recognized in *Downey Venture v. LMI Ins. Co.*, *supra*, 66 Cal.App.4th 478, the public policy expressed by section 533 "is not one which is universally shared" and thus states (such as Nebraska) that make different policy choices than California may allow coverage for wilful wrongs that California law disallows. (*Id.* at p. 499, fn. 31.)

<sup>11</sup> The insurer did this by expressly excluding patent infringement coverage in an excess policy, but not excluding it in the primary policy, even though both policies covered "piracy." (*Land & Sky, supra*, 247 Neb. at p. 702 [529 N.W.2d at p. 777]; see *ABB Flakt, Inc. v. National Union Fire Insurance Company of Pittsburgh, P.A.* (Del.Super. 1998) 1998 WL 437137, p.\*6, fn. 7 [finding *Land & Sky* inapposite since it was based on the inconsistencies between the excess and primary policies]; *Heil Co. v. Hartford Accident and Indem. Co.* (E.D.Wis. 1996) 937 F.Supp. 1355, 1364, fn. 5 [finding *Land & Sky* "distinguishable" since the excess policy

(continued...)

In short, *Land & Sky* involved different laws, different policy language, and different facts than here. In no way does it justify any divergence from California law as announced in *Watercloud* and *Intex*, or from the reach of section 533's coverage preclusion.

b. *Keystone Retaining Wall Systems Inc. v. Westrock, Inc.*

Mez relies on a single statement in *Keystone* that “*Manville* appears to only require whether the infringing party either knew or *should have known* of the patent.” (*Keystone, supra*, 222 U.S.P.Q.2d at p. 1003; see Mez’s Opening Brief, p. 28, fn. 43.) As we just demonstrated, that is *not* what *Manville* held.<sup>12</sup>

Moreover, Mez takes *Keystone*’s comment out of context. The court never said a negligence standard applied to the element requiring knowledge of the patent. In fact, it said just the opposite: “In order for

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<sup>11</sup>(...continued)  
expressly excluded patent infringement].)

<sup>12</sup> The *Keystone* court made the statement quoted by Mez in *rejecting* the defendants’ claim to summary judgment premised on the fact that, although the plaintiffs had twice told them about the patent, they never received a copy of it and didn’t know its file history. (*Id* at p. 1003.) The court held that *Manville* requires knowledge of the patent, not necessarily detailed knowledge of the patent history. (*Ibid.*)

induced infringement to have taken place, the defendant *must have known of the patent* at the time the alleged infringement was induced.” (*Keystone, supra*, 222 U.S.P.Q.2d at pp. 1002-1003, emphasis added.)

That our reading of *Keystone* is correct is supported by *L.A. Gear, Inc., supra*, 859 F.Supp. 1294. There, the court properly recognized that *Keystone* did *not* hold that inducement liability “only requires ‘negligence’ as to the existence of the infringed patent”; rather, the court concluded that *Keystone* merely found a triable issue on whether the defendant actually knew of the plaintiff’s patent, which is an absolute prerequisite to inducement liability. (*L.A. Gear, Inc., supra*, 859 F.Supp. at p. 1300, fn. 5.)

c. *Marsh-McBirney, Inc. v. Jennings*

Mez cites the district court opinion in *Marsh-McBirney* for the proposition that liability for inducing patent infringement does not require a specific intent to induce infringement. (E.g., Mez’s Opening Brief, p. 28, fn. 43.) Once again, Mez’s reliance is misplaced.

In *Marsh-McBirney*, the district court granted summary judgment against a defendant who knew about plaintiff’s patent and specifically but unsuccessfully attempted to design around it. The court assumed for



summary judgment purposes that the defendant truly believed his actions did not infringe the patent, yet it nonetheless granted summary judgment for plaintiff after finding that the undisputed facts established the defendant “should have known that his actions would induce actual infringements.” (22 U.S.P.Q.2d at p. 1624.) The judgment in favor of the plaintiff is consistent with the rule, discussed above, that when a defendant knowingly tampers with another’s presumably valid patent and attempts to skirt its reach under circumstances where it knowingly tempts fate, his liability for the damage caused necessarily stems from his wilful conduct.<sup>13</sup>

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<sup>13</sup> Moreover, the district court’s reasoning is technically incorrect—while the court correctly noted that evidence of a defendant’s subjective belief of non-infringement “will not necessarily insulate him from liability” (22 U.S.P.Q.2d at p. 1624), the court then apparently leaped to the erroneous conclusion that a defendant’s “intent” is irrelevant. The court thus overlooked the difference between inferring specific intent to induce infringement from evidence that the defendant knew actual infringement might occur versus imposing liability merely because the defendant should have known better. But that error was likely inconsequential since the court concluded that the defendant’s purported non-infringement theory was “clearly wrong” and was a “crabbed semantics-driven interpretation . . . [that is] precisely the type which the substantial equivalence doctrine [of patent law] was designed to prevent.” (*Ibid.*)

d. *Symbol Technologies Inc. v. Metrologic  
Instruments, Inc.*

Mez cites *Symbol Technologies* for the proposition that “liability for inducement requires only ‘knowledge of an infringement controversy.’” (Mez’s Opening Brief, p. 28, fn. 43.)<sup>14</sup> For multiple reasons, the district court’s ruling does not justify diverging from the specific intent rule announced in *Manville* or from *Watercloud’s* and *Intex’s* application of Insurance Code section 533.

*First*, as the *Symbol Technologies* court itself recognized, its decision directly “conflict[s]” with the Federal Circuit’s decision in *Manville*. (*Symbol Technologies*, *supra*, 771 F.Supp. at p. 1405, fn. 14; see Pokotilow & Siegal, *Are Corporate Officers Immune From Patent Infringement Liability If Acting In Good Faith?* (March 1997) 3 No. 6 *Intell. Prop. Strategist* 8, 9 [“The 1991 district court decision in *Symbol*

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<sup>14</sup> In *Symbol Technologies*, the district court held, contrary to all the authority cited above, that the inducement statute (35 U.S.C. § 271, subd.(b)) does not require a specific intent to induce infringement and instead requires only that the defendant aided and abetted direct patent infringement having “knowledge of an infringement controversy.” (*Symbol Technologies*, *supra*, 771 F.Supp. at p. 1404.) Ruling that wilful inducement is not necessary, the district court concluded that the defendant could not avoid liability by claiming reliance on counsel’s advice that the conduct was not infringing. (*Id.* at p. 1405, fn. 14 [“Advice of counsel has no relevance here in determining whether (the defendant) induced infringement under § 271(b).”].)

*Technologies* represents a split from the 1990 Federal Circuit precedent in *Manville*. . . . In *Manville Sales*, the court reasoned that infringement inducement under section 271(b) was an intentional tort.”].)

*Second*, the *Symbol Technologies* decision is not authorized. District courts are simply not allowed to disregard Federal Circuit precedent in patent cases; on the contrary, they are bound by it.<sup>15</sup>

*Third*, *Symbol Technologies* erroneously read *A. Stucki Co. v. Schwam* (E.D.Pa. 1986) 634 F.Supp. 259, 265, mod. 638 F.Supp. 1257 (“*Schwam*”), as holding that “[w]illfully inducing infringement is certainly sufficient for finding infringement under § 271(b), but it is not necessary for such a finding.” (*Symbol Technologies, supra*, 771 F.Supp at p. 1405.) But *Schwam* did not involve a claim of inducing patent infringement.

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<sup>15</sup> See, e.g., *Amgen, Inc. v. Elanex Pharmaceuticals, Inc.*, *supra*, 1996 WL 84590 at p. \*6 (court refused to follow *Symbol Technologies*, noting it was “constrained to follow” *Manville* and other “controlling Federal Circuit authority” requiring a specific intent to induce infringement); *Biodex Corp. v. Loredan Biomedical, Inc.* (Fed. Cir. 1991) 946 F.2d 850, 856 (Federal Circuit precedent governs substantive law fields exclusively assigned to Federal Circuit, including disputes arising under patent law; the Federal Circuit’s “mandate is to eliminate conflicts and uncertainties in the area of patent law”); *Black & Decker (U.S.) v. Home Product Marketing* (N.D.Ill. 1996) 929 F.Supp. 1114, 1118, fn. 11 (“the law of the Federal Circuit and its predecessor courts controls substantive patent disputes pursuant to 28 U.S.C. § 1338”); 17 Wright, Miller & Cooper, Federal Practice and Procedure (Supp. 1999) § 4104, p. 417 (“The district courts look to Federal Circuit law in evaluating substantive issues unique to patent law, since those issues fall within the exclusive jurisdiction of the Federal Circuit.”).

Instead, it only involved claims for *direct patent infringement* (under 35 U.S.C. § 271, subd.(a)), an offense which does not require wilful conduct.

*Fourth, Schwam* actually undercuts *Symbol Technologies*. In a portion of *Schwam* that *Symbol Technologies* ignored, the *Schwam* court properly noted that “willful infringement *is relevant with respect to claims of infringement by inducement under 35 U.S.C. § 271(b)* and with respect to the availability of treble damages pursuant to 35 U.S.C. § 284.” (*Schwam, supra*, 634 F.Supp. at p. 264, emphasis added.)

*Fifth*, in holding that section 271(b) merely requires “knowledge of an infringement controversy,” *Symbol Technologies* relied solely on Justice White’s concurrence in *Aro Mfg. Co. v. Convertible Top Replacement Co., Inc.* (1964) 377 U.S. 476, 514 [84 S.Ct. 1526, 1546, 12 L.Ed.2d 457] (“*Aro*”). But this does not help Mez because the majority opinion in *Aro* is to the contrary. Specifically, *Symbol Technologies* ignores *Aro*’s holding that “a majority of the Court is of the view that § 271(c) does require a showing that the alleged contributory infringer knew that the combination for which his components were especially designed was *both patented and infringing*.” (*Id.* at p. 488, emphasis added; see also *Dawson Chemical Co. v. Rohm & Haas Co.* (1980) 448 U.S. 176, 189 [100 S.Ct. 2601, 2609, 65 L.Ed.2d 696] [the contributory infringement doctrine “exists to protect patent rights from subversion by those who without directly infringing the

patent themselves, engage in acts *designed to facilitate infringement* by others”; emphasis added]; *Dynamis Inc. v. Leepoxy Plastics, Inc.*, *supra*, 831 F.Supp. at p. 654 [“As *Aro* makes clear, the focus in a contributory infringement claim is on whether the accused infringer *knows* that the intended use of the product *will infringe* a known patent”; emphasis added].)

Moreover, *Aro* involved “contributory infringement” liability under 35 U.S.C. section 271, subdivision (c), not inducement liability under 35 U.S.C. section 271, subdivision (b).<sup>16</sup> These subdivisions entail different standards of proof.<sup>17</sup> Since *Aro* was not examining inducement liability under 35 U.S.C. section 271, subdivision (b), the concurrence in *Aro* sheds no light on the proper requirements for that section. In addition, it is not even clear that *Symbol Technologies* accurately conveys Justice White’s views as to what subdivision (c) requires. Justice White’s short

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<sup>16</sup> Subdivision (c) imposes “contributory infringement” liability upon the seller of a material component of a patented machine or process who knows “the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use.” (35 U.S.C. § 271, subd. (c).)

<sup>17</sup> For example, subdivision (c) only requires proving knowledge, not intent, because the intent to cause infringement is presumed from the fact the component has no substantial non-infringing use. (*Hewlett-Packard Co. v. Bausch & Lomb Inc.*, *supra*, 909 F.2d at p. 1469; *R2 Medical Systems, Inc. v. Katecho, Inc.*, *supra*, 931 F.Supp. at p. 1441 [“in addition to the knowledge of infringement required for contributory infringement, inducement also requires specific intent to cause the challenged conduct”].)

concurrence in *Aro* does not use the vague phrase “knowledge of an infringement controversy” and it is bereft of any detailed discussion. (See *Aro, supra*, 377 U.S. at p. 514.)

*Sixth*, even if *Symbol Technologies* “knowledge of an infringement controversy” were the law, liability under that standard would *still* trigger Insurance Code section 533’s coverage prohibition. A party that knowingly enters into an infringement controversy knows that there is a substantial probability that its actions will interfere with another’s rights, particularly since patents are presumed valid. As discussed above, such conscious, calculated conduct undertaken with knowledge of the probable risk to other’s rights is precisely the type of wilful conduct for which section 533 bars coverage.

In sum, the cases cited by Mez offer no reasoned or compelling basis to diverge from *Manville* or from *Watercloud’s* and *Intex’s* application of section 533. This Court should follow the overwhelming majority view that specific intent to induce patent infringement is a prerequisite to inducement liability. But even if Mez’s assertion of a lesser scienter standard were correct, there would still be no coverage as there is no circumstance in which liability for inducing patent infringement could ever be imposed free of section 533’s coverage prohibition. As *Watercloud* and *Intex* correctly

hold, section 533 bars indemnifying claims for inducing patent infringement and, thus, such claims cannot trigger a duty to defend.

**C. Although An Insurer May Specifically Contract To Defend Claims For Which Insurance Code Section 533 Bars Indemnity, There Is No Such Contract Here.**

Citing *Downey Venture v. LMI Ins. Co.*, *supra*, 66 Cal.App.4th 478, Mez argues that public policy does not preclude enforcing an insurer's promise to defend a claim for which Insurance Code section 533 bars indemnity coverage. If a policy specifically promises to defend a claim for which indemnity is precluded by section 533, then a duty to defend may exist in such circumstances.

But this principle does not apply here. Pacific's policy—which is based upon a 1988 Commercial General Liability Coverage Form prepared by the Insurance Services Office—makes no such promise. Rather, it provides that the insurer's duty to defend "advertising injury" claims turns on the potential for indemnity. Specifically, the provision defining coverage for "personal and advertising injury liability" states:

“We will pay those sums that the insured becomes legally obligated to pay as *damages* because of ‘personal injury’ or ‘advertising injury’ *to which this coverage part applies*. We will have the right and duty to *defend any ‘suit’ seeking those damages*.” (Coverage B, ¶1(a), emphasis added.)

Under the policy’s specific terms, the insurer’s duty to defend is expressly limited to suits seeking damages “to which this coverage part applies.” Since there is no potential coverage for inducing patent infringement, there is no duty to defend here.

*Downey Venture, supra*, 66 Cal.App.4th 478, is consistent with this analysis. There, the policy expressly and unambiguously promised—it made “a specific and distinct commitment”—to defend a specific claim (malicious prosecution) for which section 533 barred coverage. (*Id.* at pp. 507-508.) Here, in decisive contrast, Pacific agreed to defend only those claims for which potential indemnification existed. Thus, unlike *Downey Venture*, there was no promise to defend claims for which indemnification is barred by section 533. Indeed, the policy here precluded such defense, since “[s]ection 533 is an implied exclusionary clause in every insurance contract.” (*Shell Oil Co., supra*, 12 Cal.App.4th at p. 739.)



But even if this were not so, Mez's argument still would fail.

Assuming *arguendo* the policy's enumerated "advertising injury" offenses could somehow be stretched to cover direct patent infringement claims here (as we show below, they cannot be), that does not mean they could be stretched further to include inducement claims. The policy contains no language whatsoever regarding "inducing" or "aiding or abetting" any of the enumerated offenses. To read "patent infringement" into the list of enumerated offenses alone tortures the policy language beyond recognition. To take the next step—a gigantic one—by implying a further promise to defend claims that the insured "induced" or "aided and abetted" patent infringement would flout all notions of contractual interpretation. It would manufacture coverage out of whole cloth. It would create a fiction lacking even the remotest attachment to reality.

In short, Pacific did not contract to defend claims for inducing patent infringement. It didn't do so explicitly or implicitly. For this reason, too, the judgment for Pacific should be affirmed.

## II.

### POTENTIAL COVERAGE OF THE PATENT INFRINGEMENT DISPUTE AT ISSUE HERE DOES NOT AND CANNOT EXIST UNDER THE STANDARD CGL ENUMERATED “ADVERTISING INJURY” OFFENSES.

Even if section 533 did not apply, coverage would still be precluded because the claim at issue here does not fall within the enumerated “advertising injury” offenses.

In *Lebas Fashion Imports of USA, Inc. v. ITT Hartford Insurance Group* (1996) 50 Cal.App.4th 548 (“*Lebas*”), this Court found that an insured could reasonably expect the phrase “misappropriation of an advertising idea or style of doing business” to encompass trademark infringement. It did so by reading the policy “through the eyes of a layman rather than an attorney or insurance expert.” (*Id.* at p. 567, fn. 14.) But *Lebas* also teaches that a court ultimately must “determine whether coverage is consistent with the insured’s objectively reasonable expectations” and that this requires “interpret[ing] the language in context, with regard to its intended function in the policy.” (*Id.* at pp. 559-560, quoting *Bank of the West v. Superior Court* (1992) 2 Cal.4th 1254,

1264-1265.) This precludes using dictionary definitions or common parlance to create ambiguities in the abstract. (*Ibid.*)

While *Lebas*' "layman's approach" should not necessarily apply in all cases,<sup>18</sup> the application of its principles here precludes coverage.

**A. An Insured Has No Reasonable Expectation Of Coverage  
For Patent Infringement Or Inducing Patent Infringement  
Under The Standard CGL Enumerated Offenses Of  
"Infringement Of Copyright, Title Or Slogan."**

Mez asserts potential patent infringement coverage by stripping the phrase "infringement of copyright, title or slogan" down to just "infringement of title." As shown below, when read in context as the law requires, "title" cannot be reasonably construed to encompass patent infringement (or its inducement).

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<sup>18</sup> In many commercial cases, *Lebas*' "layman" approach might be inconsistent with reality. For example, purchasers of CGL policies providing advertising injury coverage often are sophisticated businesses with knowledge of intellectual property and advertising law or they are represented by experienced counsel to advise them concerning the insurance they purchase. In those cases, it would comport with both the insured's and insurer's actual expectations to construe an advertising injury provision the way attorneys or insurance experts would read it.

**1. Infringement of “title” does not reasonably mean infringement of a patent.**

The phrase “infringement of copyright, title or slogan” suggests two potential constructions consistent with the overriding “advertising injury” context in which the phrase must be interpreted:

a. The phrase could reasonably be read as a “copyright provision” encompassing not just the infringement of copyrighted works, but also related infringements such as infringement of their related titles or slogans. Such a contextual construction would flow from the principle that copyright protection extends only to the works of authorship specified in 17 U.S.C. section 102<sup>19</sup>; it does not extend to the titles of those works or to related slogans. (1 Nimmer on Copyright (1999) §2.16, pp. 2-185–2-188, §2.08[G][2], p. 2-137; *Industrial Indemnity Co. v. Apple Computer, Inc.* (1999) 71 Cal.App.4th 452, 478, fn. 10 [“Infringement of title is necessarily distinct from copyright infringement, since titles may not be copyrighted.”]; *Kitchens of Sara Lee, Inc. v. Nifty Foods Corp.* (2d Cir. 1959) 266 F.2d 541, 544 [slogans cannot be copyrighted].)

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<sup>19</sup> That section covers literary works; musical works; dramatic works; pantomimes and choreographic works; pictorial, graphic and sculptural works; motion picture and audiovisual works; sound recordings; and architectural works. (17 U.S.C. § 102, subd. (a).)

Since titles and slogans pertaining to copyrighted works receive protection only outside copyright law, the coverage phrase could be construed as affording coverage for the assortment of advertising offenses that involve improper use of copyrighted works and their related titles or slogans.

b. Alternatively, some might construe the terms “title” and “slogan” to include business/trade names and designations or advertising slogans (e.g., “Just Do It” or “Toys R Us”). This might make contextual sense when thinking of advertising because business and product names and slogans are invariably used for advertising purposes. As a result, a number of courts have construed “infringement of copyright, title or slogan” as including the improper advertising use of a competitor’s business or product name, designation or slogan.<sup>20</sup> Truck does not take a position on whether this is a legally correct construction.

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<sup>20</sup> E.g., *American Economy Ins. Co. v. Reboans, Inc.* (N.D.Cal. 1994) 900 F.Supp. 1246, 1253 (use of “DUNHILL” trademark and stylized “D” logo); *Union Ins. Co. v. The Knife Co., Inc.* (W.D.Ark. 1995) 897 F.Supp. 1213, 1217 (use of trademarked product name); *Poof Toy Products Inc. v. U.S. Fid. & Guar. Co.* (E.D.Mich. 1995) 891 F.Supp. 1228, 1234 (use of competitor’s product name and logo); *P.J. Noyes Co. v. American Motorists Ins. Co.* (D.N.H. 1994) 855 F.Supp. 492, 494-495 (use of term “Dustfree Precision Pellets”); *J.A. Brundage Plumbing v. Massachusetts Bay Ins.* (W.D.N.Y. 1993) 818 F.Supp. 553, 558-559 (use of “Roto-Rooter” trademark) vacated by reason of settlement (W.D.N.Y. 1994) 153 F.R.D. 36, 38.

We submit these interpretations represent the outer limit of the reach of the “copyright, title or slogan” phrase. Going beyond them to construe “title” to mean infringement of any ownership or property interest, including patent ownership, would exceed all objectively reasonable expectations. This is so for reasons which include the following:

*First*, such a construction would make the references to “copyright” and “slogan” redundant surplusage. A patent holder has no more (or less) ownership or property interest in a patent than a copyright holder or user of a protected slogan has in their protected materials. People own copyrights, just as they own patents. If ownership were the key, it would make no sense to expressly single out just one type of ownership—copyright—without mentioning other types of ownership to which coverage was intended to apply.

*Second*, “title” must be read in context of the neighboring terms “copyright” and “slogan.” (*Martin Marietta Corp. v. Insurance Co. of North America* (1995) 40 Cal.App.4th 1113, 1133 [under the rule of *eiusdem generis*, policy term “invasion of the right of private occupancy” must be read as similar to terms “eviction” and “trespass” appearing in same coverage phrase].)

*Third*, the coverage provision expressly refers to infringement of copyright. If the provision were supposed to have a broader application, it

need only have used the word “infringement,” without any modifying attachment. As many cases hold, it defies common sense to conclude that the parties meant to include, without saying so, the distinctly different legal category of patent infringement.<sup>21</sup>

*Fourth*, construing the term “title” to mean any ownership or property interest would make no sense. Such a reading would be so expansive as to imply coverage for all types of property or ownership violations that are far beyond any insured’s reasonable expectations for advertising injury coverage. For example, advertising the sale of stolen property could be labeled infringement of an ownership interest. (*Atlantic Mut. Ins. Co.*, *supra*, 857 F.Supp. at p. 429 [if “title” means property ownership, “the insurance companies could be liable under this provision for an insured’s theft, misappropriation or conversion of any personal

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<sup>21</sup> See, e.g., *Atlantic Mut. Ins. Co. v. Brotech Corp.* (E.D.Pa. 1994) 857 F.Supp. 423, 429 (“A plain reading of the term ‘infringement of copyright, title or slogan’ in the course of advertising activities also would exclude a claim of patent infringement.”) *affd.* (3d Cir. 1995) 60 F.3d 813; *Heil Co. v. Hartford Acc. & Indemn. Co.*, *supra*, 937 F.Supp. at p. 1363 (“if coverage for patent infringement was anticipated, patent infringement would be explicitly listed similar to “infringement of copyright”); *Gencor Industries v. Wasau Underwriters Ins. Co.* (M.D.Fla. 1994) 857 F.Supp. 1560, 1564 (“Basic common sense dictates that if these policies covered any form of patent infringement, the word ‘patent’ would appear in the quoted ‘infringement’ clauses.”); *Julian v. Liberty Mutual Ins. Co.* (1996) 43 Conn.App. 281, 287-289 [682 A.2d 611, 614-615] (same); *Owens-Brockway Glass v. International Ins. Co.* (E.D.Cal. 1995) 884 F.Supp. 363, 367-368 (same) (applying California law); *St. Paul Fire & Marine v. Advanced Interventional* (E.D.Va. 1993) 824 F.Supp. 583, 585 (same) (applying California law) *affd.* (4th Cir. 1994) 21 F.3d 424 (table).

property of another if such were then advertised for sale”].) Similarly, advertising a retail business could attract increased traffic to neighborhoods and result in parking problems which impair property values. Yet no reasonable insured would ever expect protection for such damages under their advertising liability coverage.<sup>22</sup>

*Fifth*, construing “title” to mean patent infringement would turn the “layman’s” interpretation rule on its head. Ironically, it would impart to a layman sophisticated technical legal expertise—an arcane ability to dissect

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<sup>22</sup> This does not necessarily mean that “infringement of copyright, title or slogan” could never encompass other legal categories, such as trademark and trade name infringement, just because these involve ownership interests that are not expressly mentioned.

For example, the phrase might include trade names because they are “titles” and trademarks that qualify as a title or slogan, such as Nike’s “Just Do It” theme or the “Keeps on Going” slogan of the pink Energizer bunny commercials. (See, e.g., *Eveready Battery Co. Inc. v. Adolph Coors Co.* (N.D.Ill. 1991) 765 F.Supp. 440, 448-450 [trademark law protects Energizer’s bunny slogan and theme]; *Nike, Inc. v. Just Did It Enterprises* (7th Cir. 1993) 6 F.3d 1225, 1227 [trademark law protects Nike’s “Just Do It” slogan].) But the phrase would not reasonably encompass patent infringement because a patent is neither a copyright, title or slogan, and “titles” and “slogans” cannot be patented.

Nor would the phrase encompass *all* trademarks. This is so because “[t]rademarks can consist of something “other than a title or slogan,” . . . [such as] the color of an item, e.g., pink sugar substitute packets, the location of a patch on a pair of jeans, e.g., on the back hip of one brand of jeans, the scent of an item, e.g., that of a household deodorizing spray, and the design of a package, e.g., the wrapper of a candy bar.” (*Industrial Indemnity Co. v. Apple Computer, Inc.*, *supra*, 71 Cal.App.4th at p. 477, quoting *A Touch of Class Imports v. Aetna Cas. & Sur. Co.* (S.D.N.Y. 1995) 901 F.Supp. 175, 176.) Any coverage for the latter types of trademarks would only exist, if at all, under the enumerated offenses of “misappropriation of an advertising idea or style of doing business.”



patent law and the legal concepts of ownership and property rights—that a layman would never possess. Moreover, implying such expertise to a lay reader might well *negate* coverage because legal and insurance experts would know the distinction between copyrights and patents and would not reasonably read one as including the other. (E.g., *Advance Watch Co., Ltd. v. Kemper Nat. Ins. Co.* (6th Cir. 1996) 99 F.3d 795, 800-801 [construing “copyright, title or slogan” in light of intellectual property common law and statutes]; *Herman Miller, Inc. v. Travelers Indem. Co.* (6th Cir. 1998) 162 F.3d 454, 455 [same].)

*Finally*, as a bottom-line, common sense also destroys any potential for coverage. A layman might naturally conclude that advertising, by its very nature, can infringe a copyright, title or slogan; however, a layman would never naturally perceive how it might infringe a patent. A layman’s construction suggests coverage for the first, but not for the second.

**2. The two trade secret cases upon which Mez relies should not be followed.**

In asking this Court to expansively interpret “title” to mean any property interest, Mez relies primarily on two trade-secret misappropriation cases, *Sentex Systems, Inc. v. Hartford Accident & Indemnity Co.* (C.D.

Cal. 1995) 882 F.Supp. 930, *affd.* on different grounds (9th Cir. 1996) 93 F.3d 578, and *Merchants Co. v. American Motorists Ins. Co.* (S.D.Miss. 1992) 794 F.Supp. 611. (See Appellant's Reply Brief, pp. 28-29.) These authorities found that the term "title" could conceivably include trade secrets.

These decisions are out of step with the majority view and are not consonant with recent developments, which reject their reasoning.<sup>23</sup> Indeed, although the Ninth Circuit upheld "advertising injury" coverage in *Sentex*, it did so on "narrower grounds than those relied on by the district court." (*Sentex, supra*, 93 F.3d at p. 579). Noting "[i]t is significant that [plaintiff's] claims for misappropriation of trade secrets *relate to marketing and sales* and not to secrets relating to the manufacture and production of security systems," the Ninth Circuit found that the trade secret claims fell within the scope of an "advertising injury" coverage only because the misappropriated secrets were advertising-related and thus their theft

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<sup>23</sup> See, e.g., *Monarch E & S Ins. v. State Farm Fire & Cas. Co.* (C.D.Cal. 1999) 38 F.Supp. 841, 846 (no duty to defend trade secret misappropriation claim under "advertising injury" provisions; court rejected insured's reliance on *district court's* analysis in *Sentex*, noting potential coverage exists only where the stolen trade secrets relate to marketing and sales); *Winklevoss Consultants, Inc. v. Federal Ins. Co.* (N.D.Ill. 1998) 991 F.Supp. 1024, 1038-1040 (following *Lebas*, court held "taking a trade secret is not equivalent to taking an advertising idea unless the secret has to do with how something is advertised" and is not an infringement of title since "title" refers to a distinctive appellation or designation).

reasonably constituted “misappropriation of an advertising idea.” (*Id.* at p. 580, emphasis added.)

Far from supporting Mez, the Ninth Circuit’s reasoning supports our analysis. As we have noted, advertising naturally involves risk of copyright infringement, but not patent infringement. Similarly, recent decisions have recognized that trade secret misappropriation may qualify as an offense under advertising injury coverage *only if* the stolen secrets pertain to an “advertising idea” and, thus, their theft could be reasonably considered the “misappropriation of an advertising idea.” (See cases discussed in fn. 23, *supra.*)

For these reasons, construing the term “title” as broadly encompassing all property ownership, including patents or trade secrets, is unreasonable and counterintuitive. It would exceed an insured’s reasonable expectations of what “infringement of copyright, title or slogan” covers. It would divorce such coverage from its core roots—that specific defined types of injury must result from advertising to be covered. It would expand such coverage beyond recognition. While coverage may exist for trade secret claims if they reasonably could be considered a “misappropriation of an advertising idea or style of doing business,” it does not exist under the “copyright, title or slogan” provision.

**B. An Insured Has No Reasonable Expectation Of Coverage For Patent Infringement Or Inducing Patent Infringement Under The Standard CGL Enumerated Offense Of “Misappropriation Of . . . Style Of Doing Business.”**

Most courts “seem to agree the phrase ‘style of business’ unambiguously refers to “‘a company’s comprehensive manner of operating its business.’”” (*Novell, Inc. v. Federal Ins. Co.* (10th Cir. 1998) 141 F.3d 983, 987, quoting *St. Paul Fire, supra*, 824 F.Supp. at p. 585.)<sup>24</sup> Moreover, the overwhelming majority of courts, including those applying California law, have concluded that “style of doing business” is synonymous with “trade dress.”<sup>25</sup>

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<sup>24</sup> See, e.g., *Applied Bolting Technology Product, Inc. v. U.S.F. & G* (E.D.Pa. 1996) 942 F.Supp. 1029, 1034; *Poof Toy Products Inc., supra*, 891 F.Supp. at p. 1232; *Fluoroware, Inc. v. Chubb Group of Ins. Cos.* (Minn.App.Ct. 1996) 545 N.W.2d 678, 682; *Atlantic Mut. Ins. Co. v. Badger Medical Supply Co.* (Wis.App.Ct. 1995) 191 Wis.2d 229, 239 [528 N.W.2d 486, 490].

<sup>25</sup> See, e.g., *Dogloo, Inc. v. Northern Ins. Co. of New York* (C.D.Cal. 1995) 907 F.Supp. 1383, 1389 (applying California law); *Owens-Brockway Glass, supra*, 884 F.Supp. at p. 369 (applying California law) (“‘style of business’ refers to the outward appearance or signature of a business, the sort of claim comprised under trade dress”) affd. (9th Cir. 1996) 94 F.3d 652; *St. Paul Fire, supra*, 824 F.Supp. at p. 585 (applying California law); see also *Applied Bolting, supra*, 942 F.Supp. at p. 1034; *Union Ins. Co. v. The Knife Co., Inc., supra*, 897 F.Supp. at pp. 1215-1216; *Poof Toy*

(continued...)

Patent infringement, or its inducement, simply does not fit within a reasonable construction of the terms “trade dress”<sup>26</sup> or “misappropriation of . . . style of business,” particularly when the term is construed in an advertising context as the law requires. (*Bank of the West, supra*, 2 Cal.4th at pp. 1264-1265; *Lebas, supra*, 50 Cal.App.4th at p. 559.) The reason is straightforward: A company cannot patent its “style of business,” or its “comprehensive manner of operating its business,” or the overall scheme or “outward appearance or signature” of its business, or its trade dress. As numerous cases have acknowledged, the term “patent” simply does not reasonably fit any of these concepts.<sup>27</sup>

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<sup>25</sup>(...continued)

*Products Inc., supra*, 891 F.Supp. at p. 1233; but see minority view construing “misappropriation of an advertising idea and style of doing business” as referring only to common-law misappropriation, not statutory trademark or trade dress infringement, e.g., *Advance Watch Co., Ltd., supra*, 99 F.3d at p. 802; *Herman Miller Inc., supra*, 162 F.3d at p. 455.

<sup>26</sup> “In contrast to a trademark, ‘trade dress’ refers to the ‘total image of a product’ and may include features such as size, shape, color, color combinations, texture or graphics.” (*International Jensen v. Metrosound U.S.A.* (9th Cir. 1993) 4 F.3d 819, 822, emphasis added, citations omitted.) If a seller adopts a trade dress that is confusingly similar to a competitor’s and the trade dress is nonfunctional and inherently distinctive, the trade dress may be actionable if it will likely confuse customers. (*Id.* at pp. 822–823.)

<sup>27</sup> E.g., *Owens-Brockway Glass, supra*, 884 F.Supp. at p. 369 (“Patent infringement is not remotely similar to advertising activities or outward appearance [of a business]”); *St. Paul Fire, supra*, 824 F.Supp. at p. 585 (applying California law) (“Patent infringement involving only the patents involved in the manufacture of a single device does not even approach the  
(continued...)”)

Mez also relies on a few district court cases regarding the “advertising injury” offense of “piracy.” Mez’s reliance is misplaced. Those cases are irrelevant here because Pacific’s policy doesn’t cover “piracy.” Equally without merit is Mez’s suggestion that “piracy” law is relevant because the drafters of the 1986 ISO general liability policy intended that the phrase “misappropriation of an advertising idea or style of doing business” provide the same coverage as the prior “piracy” offense. The drafter’s replacement of the open-ended term “piracy” demonstrates that they always intended for “piracy” to have a limited meaning—the misappropriation of ideas and styles inherently related to advertising—not the overly expansive meaning adopted by the few cases that Mez cites.<sup>28</sup>

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<sup>27</sup>(...continued)

showing of pervasive similarity in the overall manner of doing business that courts have previously recognized as necessary to successfully prove misappropriation of a ‘style of doing business’”); *Fluoroware, Inc., supra*, 545 N.W.2d at p. 682 (same).

<sup>28</sup> Even if we were to assume that the drafting history would ever be relevant to the “layman’s interpretation” approach used in *Lebas* (see *Lebas, supra*, 50 Cal.App.4th at p. 567, fn. 13), it still would not support Mez because the overwhelming majority of courts analyzing the “piracy” offense have held it does *not* include patent infringement. (*Iolab Corp. v. Seaboard Surety Co.* (9th Cir. 1994) 15 F.3d 1500, 1506; *Aqua Queen Mfg., Inc. v. Charter Oak Fire Ins.* (C.D.Cal. 1993) 830 F.Supp. 536, revd. (9th Cir. 1995) 46 F.3d 1138 (table) [Ninth Circuit reversed district court decision that found “piracy” included patent infringement]; *Frog, Switch & Manufacturing Co. v. Travelers Insurance Co.* (M.D.Pa. 1998) 20 F.Supp.2d 798, 802; *Heil Co., supra*, 937 F.Supp. at p. 1364; *Atlantic Mut. Ins. Co., supra*, 857 F.Supp. at p. 428; *ABB Flakt, Inc., supra*, 1998 WL 437137 at p. \*6; *Fluoroware, supra*, 545 N.W.2d at p. 683.) As these cases  
(continued...)

**C. The Only Conceivable Way In Which An Insured Might Reasonably Expect Coverage For Patent Infringement Under The Standard CGL Enumerated Offense Of “Misappropriation Of An Advertising Idea” Would Be In The Rare And Exceptionally Narrow Situation Where, Unlike Here, The Insured’s Advertisement Infringes Another’s Patented Advertising Technique.**

In *Lebas*, this Court observed that the phrase “misappropriation of an advertising idea” might reasonably apply to the “wrongful taking of the *manner or means* by which another advertises its goods or services.” (*Id.* at p. 562; see also *Frog, Switch & Manuf. Co. v. Travelers Insurance Co.*, *supra*, 20 F.Supp.2d at p. 802; *Applied Bolting Tech. Prods., Inc.*, *supra*, 942 F.Supp. at p. 1034; *Union Ins. Co. v. The Knife Co.*, *supra*, 897 F.Supp. at p. 1216; *J.A. Brundage Plumbing*, *supra*, 818 F.Supp. at p. 557;

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<sup>28</sup>(...continued)

recognize, when viewed in the advertising injury context, “‘piracy’ means misappropriation or plagiarism found in the elements *of the advertisement itself*—in its text form, logo, or pictures—rather than in the product being advertised.” (*Iolab*, *supra*, 15 F.3d at p. 1506.) That interpretation comports with the drafters’ decision to replace the open-ended references to “piracy” and “unfair competition” with the phrase “misappropriation of an advertising idea or style of doing business.”

*Fluoroware, supra*, 545 N.W.2d at p. 682 [“the wrongful taking of another’s manner of advertising”].)

This construction would appear to provide coverage if an insured’s advertisement improperly misappropriated another’s legally-protected advertising idea or technique. But, this has nothing whatsoever to do with patent infringement or its inducement, except perhaps in one narrow instance—where the insured’s advertisement misappropriates another’s protected *advertising technique*. In other words, the advertising itself would infringe a patented advertising technique, so as to constitute a covered “misappropriation of an advertising idea.”<sup>29</sup> However, this Court does not have to decide this issue (and Truck takes no position on it) because the facts of this case have nothing to do with patented advertising techniques.

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<sup>29</sup> Advertising techniques rarely can or will be patented, but one court has acknowledged that it is not impossible to have a patented advertising technique. (See *Iolab Corp., supra*, 15 F.3d at p. 1507, fn. 5 [noting that a proper causal connection might exist between patent infringement and advertising injury “where an entity uses an advertising technique that is itself patented”].)



## CONCLUSION

For all these reasons, Truck Insurance Exchange respectfully urges this Court (1) to reaffirm settled California law by following the analysis of *Watercloud* and *Intex* and holding that claims for inducing patent infringement are not covered because they are necessarily precluded by Insurance Code section 533, and also (2) to find that the advertising injury offenses of “misappropriation of an advertising idea or style of doing business” and “infringement of copyright, title or slogan” do not cover the patent infringement offenses at issue.

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Respectfully submitted,

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