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Can a Willfulness Allegation Destroy Insurance Coverage of a Lanham Act Claim?

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Can a willfulness allegation in a complaint alleging a violation of the Lanham Act destroy insurance coverage that would otherwise exist for that claim? That was the issue faced by the Eleventh Circuit in *Vector Products, Inc. v. Hartford Fire Ins. Co.*, 397 F.3d 1316 (11th Cir. 1995). Because the interpretation of a contract for insurance is a matter of state law and this was a question of first impression, the Eleventh certified the question to the highest court of the state whose law was at issue, which in *Vector Products* was Florida. There likewise is no Alabama authority on point, so the Florida Supreme Court's decision, as applied by the Eleventh Circuit, would likely be considered by any Alabama court faced with this same issue. And the likelihood that this issue will be raised by an Alabama litigant would seem rather high, given what the Eleventh Circuit characterized as the "recent explosion of advertising injury litigation." *Id.* at 1321. This article provides a brief survey of recent Eleventh Circuit cases addressing this issue and notes the implications of the question at issue in *Vector Products* under Alabama law.

The "recent explosion of advertising injury litigation" has led to several Eleventh Circuit decisions on the subject in recent years. Although the precise language of the coverage provision has evolved slightly over the last ten years or so, any standard CGL policy provides coverage for "advertising injury." "Advertising injury" is typically defined to include oral or written publication of material that slanders or libels a person or organization or disparages a person's or organization's goods, products or services; oral or written publication of material that violates a person's right of privacy; misappropriation of advertising ideas or style of doing business; or infringement of copyright, title or slogan. *See, e.g., State Farm Fire & Cas. Co. v. Steinburg*, 393 F.3d 1226, 1228 (11th Cir. 2004). It is under the last two categories that many insureds have sought and often obtained coverage for trademark, trade dress, false advertising, copyright, and even patent infringement claims in recent years.

For example, in *Elan Pharmaceutical Research Corp. v. Employers Ins. of Wasau*, 144 F.3d 1372 (11th Cir. 1998) (applying Georgia law), the Court held that a patent infringement claim was covered under the advertising injury provision of a CGL policy. The underlying claim in *Elan* involved the provisions of the Patent Act that permit a company to make and use another's patented pharmaceutical product if such use was reasonably directed solely at the development and submission of information to a federal agency to obtain agency approval of the drug (i.e., a generic version for release after expiration of the patent at issue) and not to develop a commercial market for the drug before the patent's expiration. *See* 35 U.S.C. § 271(e). The insured in *Elan* had disseminated clinical studies to various interested parties, thus going beyond the agency approval process, and this apparent effort to develop a commercial market was the basis for the infringement claim in the underlying litigation. *Elan*, 144 F.3d at 1366. Under these particular

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facts, and namely because the dissemination/advertising itself constituted the infringing act, the Eleventh Circuit found that the patent infringement claim fell within the "advertising injury" coverage of the policy. As to the more typical patent or copyright infringement claim, it should be noted that courts (including the Eleventh Circuit) almost universally find that the advertisement of the infringing product or work does not trigger "advertising injury" coverage.

In *Hyman v. Nationwide Mutual Ins. Co.*, 304 F.3d 1179 (11th Cir. 2002) (applying Florida law), the Court found that trade dress infringement, under certain circumstances, may constitute a "misappropriation of advertising ideas or style of doing business." *Id.* at 1188, 1191. (In reaching this conclusion, the *Hyman* court distinguished and rejected Sixth and Eighth Circuit authority to the contrary, and in the process, thoroughly reviewed case law on the subject from many jurisdictions.) Foreshadowing the issue in *Vector*, the insurer in *Hyman* argued that even if the trade dress claim constituted advertising injury, coverage was barred under the policy's exclusion for "knowledge of the falsity." *Id.* at 1194-95. The trade dress claim at issue was based upon the selling of similarly designed products with confusingly similar product numbers and confusingly similar advertising or artwork. There was no claim for false advertising or false designation of origin of the product. The Court therefore found that the infringing activities were not "false" as that term is commonly understood. *Id.* at 1195-97. *See also Steinburg*, 393 F.3d at 1234 (finding that trade secrets claim for misappropriation of customer list did not fall within coverage for "misappropriation of advertising ideas or style of doing business").

Against this backdrop the Eleventh Circuit in *Vector Products* addressed, but did not decide, the applicability of an exclusion for willful conduct to a false advertising claim brought under the Lanham Act, which otherwise constituted "advertising injury" under the CGL policy at issue. The claim related to statements in the insured's advertisements that its products were "superior to the 'leading brand.' " *Vector Products*, 397 F.3d at 1318. The coverage analysis is performed based upon the allegations of the complaint. *Id.* at 1318. In this case, the complaint alleged as part of each false-advertising count that the false advertising was done willfully and intentionally and with full knowledge of the falsity. *Id.* Although intentional misconduct must be shown to collect enhanced damages and attorneys' fees under the Lanham Act, a cause of action under § 43(a) is otherwise a strict-liability tort. *Id.* at 1319. The CGL policy at issue excluded coverage for intentional or knowing conduct. After reviewing the relevant case law, the Eleventh Circuit concluded, "None of the above cases, however, addressed the fact pattern here where a cause of action was pleaded so that policy exclusions for intent to injure and knowledge of falsity appear to apply, even though the law governing that cause of action makes it a strict liability offense." *Id.* at 1321. Because of the consequences of this decision on the increasing number of coverage cases, the Court certified the question to the Florida Supreme Court.

Practically speaking, almost every plaintiff alleges willful and intentional misconduct against the defendant in a Lanham Act case in order to avail itself of attorneys' fees and enhanced damages under the Act. Assuming that's the case, if the Florida Supreme Court were to deny coverage under the exclusion for intentional misconduct, then almost no Lanham Act claim would be covered under Florida insurance law. Further, it is likely that insurers in Alabama would follow the lead of the Florida Supreme Court (as applied by the Eleventh Circuit) and deny coverage that would otherwise exist for a Lanham Act violation alleged to have been done willfully. This is especially true because there is no Alabama law directly on point.

Like most states, it is against the public policy of the State of Alabama under venerable authority to permit insurance coverage for a wrongdoer's intentional misconduct, although the bounds of this rule have been blurred in recent years. *See Titan Indemnity Co. v. Riley*, 679 So.2d 701, 705-07 (Ala. 1996) (discussing this public policy). Alabama also has a strong public policy against construing insurance contracts such that the coverage provided is "illusory." *See, e.g., Shrader v. Employers Mut. Cas. Co.*, 2005 WL 435122 at *7 (Ala. Feb. 25, 2005). It remains to be seen whether an allegation of willfulness in a Lanham Act claim potentially covered by an Alabama insurance policy will trigger the public policy against application of coverage, or whether denial of coverage would result in the policy being declared illusory because of the common practice of alleging willful conduct for this strict-liability tort.◊

The View From Within - Analyzing Patent Value From the Company's Perspective

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I have worked as inside IP counsel for a high-technology start-up company. At that time, the country was swept up with what Alan Greenspan referred to as "irrational exuberance" that was a symptom of the high-tech boom of the late 90's-early 00's. Investors seemed to throw their money at technology companies. Stories abounded of the extravagances of newly minted "dot com millionaires." Many of these companies indulged in extravagant patent strategies as well. During this time, technology companies and quasi-technology companies attempted to claim patent protection as if it were land in the Oklahoma Land Rush. They hired top-tier intellectual property firms from Silicon Valley, New York, Washington, D.C., or Atlanta, and paid the top-tier rates that those markets command in order to help woo potential investors.

Patent counsel today likely see companies that are much more circumspect about obtaining a patent because the funding is not as abundant as before. Still, these companies often say, "we have never seen anything like this before" and march to the patent attorney's office without a good idea of what they will gain if they invest the money to obtain a patent.

During my tenure as inside counsel, the company retained many different firms and solo practitioners as outside patent counsel. I observed the varying ways our outside counsel dealt with the company on patent issues. I was particularly impressed with the way some lawyers took the time to question the company as to whether it was a good idea to try for a patent notwithstanding that era's apparently prevailing attitude of "patent now, question the value later." These lawyers often walked company decision-makers through an analytical process that may be familiar to the IP bar, but foreign to our clients. This may be especially true for companies that are newly entering the IP business.

In general, the bar does a good job of educating clients and prospective clients on the basic reasons for obtaining a patent, for example, obtaining a limited monopoly to make, practice, or sell an invention. More sophisticated factors in the patent decision have been published in various seminars and articles. Still, some clients, especially clients that are just entering the IP arena, should be taken through the patent decision process, to insure that their expectations are realistic and that they feel that once they have made the decision, they will believe that their money is invested wisely.

At the outset, the IP counsel should ask the client why the client wants to obtain a patent on this invention. A framework within which to answer this question is the well-known strategies of IP asset ownership: (1) defensive strategy; (2) offensive strategy; or (3) a combination of the two. In a basic review, a defensive strategy typically seeks to prevent competitors from making, using or selling the patented invention. It benefits the patent owner by potentially giving him or her an edge in market lead time and gives the patent owner freedom to design further innovations within the scope of the patent. The economic value to the company is mainly derived from revenues generated near term from product sales and service. Defensive positions attempt to avoid litigation unless necessary to maintain the competitive lead. This position is usually most appropriate in technology areas in which the market is tight, or when innovation may not be the best commercial or practical solution.

Offensive positions extract value from IP more directly through the owner's right to give others permission to practice in the invention through licensing, as well as indirectly through product sales. Another offensive capability is to obtain access to another's technology through cross-licensing. A further goal is to advance the image of the patent owner as a leading innovator in the technology area. The offensive strategy sometimes employs a more aggressive adversarial approach to help facilitate licensing and sales programs and deter prospective litigants. This strategy is often used in areas where there are few competitors and innovation is seen as the best, or one of the best, commercial and practical solution (i.e., a fairly open market). Finally, a company that develops or practices in a variety of technologies may

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Table 1
Patent Analysis

Factor	Defensive Strategy	Offensive Strategy
Advancement Over Current Art	Significant advancement can help to attain competitive lead.	Significant advancement could mean greater perceived value for potential licensees.
Ease of Commercialization	The sooner to market, the sooner revenues from sales are gained.	May not be as much of a factor for a licensor that does not plan on producing, although it can be a selling point to licensees. If not easily commercialized by owner, then may be held to prevent others from using the technology, or as a bargaining chip to gain access to another's technology.
Breadth of Application	May not apply much to the tight market in which defensive strategies are normally found. In that case, client should be aware of potential of licensing, i.e., adopting a mixed strategy.	The broader the applicability, the greater the likelihood of significant returns from a licensing program. If applicability spans a variety of markets or industries, owner could divide universe of applications and receive licensing revenue from a wide variety of streams.
Invention Intended for Market	If so, this is a hallmark of the defensive strategy.	May not be a factor for licensors.
Ease of Reverse-Engineering/Independent Development	Through the right to exclude, the patent can help increase revenues related to sales of products covered thereby.	Again, this may not be a factor. However, the ease of exploitation of the technology, if not patented, may indirectly be a selling point for potential licensees.
Ability to Detect Infringement	If infringement is difficult to detect, a defensive position may be compromised, sometimes significantly because the cost of obtaining and enforcing the patent may exceed the benefit.	Potential licensees, seeking to extract value from their use of the technology, may find the license less appealing if competitors might be able to infringe.

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adopt a mixed strategy, using a defensive posture for one technology area and an offensive posture for another.

Next, the company should evaluate the expected value of the invention. The question need not be answered in monetary results, but at least in an abstract sense, it should determine the prospects that the company will derive economic benefit from the patent, depending upon the strategy the company adopts. The test has been expressed in a list of factors, variations of which can be found throughout legal writings on the subject. The following is a well-known, but non-exhaustive list of some of the decision factors I have seen used by companies of varying IP sophistication.

First, the invention owner should assess the extent to which the invention is an advancement over the current art. The attorney may have an idea about this based upon his knowledge of the art, but the inventors are usually the experts. Another source is the patentability search. The technical or economic advantages of the invention over the current art should be explored. The more advantages the invention will provide, the greater the likelihood of the owner reaping commercial benefit from the invention.

Then, the owner should try to predict the difficulty in bringing the invention to market. Does the invention require special materials or manufacturing techniques that are not feasible to use? If so, this argues against attempting to obtain a patent depending upon the strategy the patent owner wishes to pursue.

The owner should assess to some comfortable confidence level the breadth of application he or she believes the invention or inventive process will have. This is another way of asking "how many markets, industries, products could use the invention?" For example, inventions relating to new radio wave propagation and processing techniques can have wide application because of the ubiquity of devices that use radio waves, e.g., wireless telephones, wireless computer networks, radars, etc. Intuitively, the wider the possible application, the greater the likely demand for the invention will be, and, therefore, the greater the possibility of deriving significant revenues from the patent, either through product sales or licensing.

A further question is whether the invention will be incorporated into a product sold by the company or whether the inventive process will be used in manufacturing. If so, follow-up inquiry is the ease or difficulty with which a competitor could reverse engineer the invention or process, or independently develop the invention or process. Obviously, obtaining a patent allows the owner to prevent the exploitation of reverse engineered or independently developed technology.

Another factor is the degree to which the owner will be able to detect infringement. Patents may have a deterrent effect to some in the industry. However, potential intentional infringers may conclude that the benefits gained from exploiting the technology outweigh the risk of being caught if it is difficult to detect infringement.

There may be many other considerations that attorneys use to help their clients decide whether to seek patent protection. Whatever the decision criteria used, the client ideally should be walked through the analysis as part of the attorney's overall responsibility to advise the client with the client's best interests in mind. Moreover, the factors should be assessed with an eye toward the extent to which the conclusions drawn for each factor meet the company's overall IP strategy.

Table 1 on the inserted sheet is a simple attempt to apply the above-listed factors to company IP strategy options. The comments generally evaluate to some degree how that factor plays toward the strategy. Again, other factors may be included. This structure is provided just as an example of the analysis that one might engage in with a client.

While attempting to guide clients into areas foreign to them, attorneys seek to make clients aware of the possibilities to advance their interests, and at the same time, educate clients as to the risks. Many clients fail to work through a cost-benefit analysis when deciding to obtain patent protection for their IP, often because they are only abstractly aware of what they want from their IP and what their IP can do for them. Ultimately, of course, the decision is the client's. However, their attorneys should help them make the most informed decision possible.◊

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