

THE INSURANCE COVERAGE/IP COUNSELOR

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The Insurance Coverage/IP Counselor is a quarterly newsletter which addresses the interests of intellectual property practitioners, corporate counsel, chief financial officers, risk managers, insurance brokers and business owners who seek insurance coverage for a full range of intellectual property and business tort claims.

We hope you find *The Insurance Coverage/IP Counselor* informative and useful. If you have a topic you would like to see addressed in future issues, please feel free to call me with your suggestions.

Sincerely,

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Gauntlett & Associates
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coverage and litigation re patent,
trademark, copyright, trade secret,
business, labor, environmental, and
antitrust disputes



“ADVERTISING INJURY” CASE LAW SUMMARY

Homedics, Inc. v. Valley Forge Insurance Company, SA CV-99-928 DOC (ANx), 1999 U.S. Dist. LEXIS 17317 (C.D. Cal. Oct. 29, 1999)

The court found that defendant CIGNA Casualty and Surety Co. had a duty to defend it for claims of patent infringement under a 1986 Insurance Services Office (“ISO”) policy provision. The lawsuit was for advertising based “offer for sale” and “inducement” patent infringement claims. The court relied on *Everett Associates, Inc. v. Transcontinental Ins. Co.*, 57 F. Supp. 2d 874, 882 (N.D. Cal. 1999) in finding that the amendment of the Patent Act to include “offer to sell” encompassed advertisements as a basis for patent liability and also created a damage remedy for same. *Id.* at 881 and 883. To wit: damages arising out of the cost of corrective advertising.

Although the court did not cite *Maxconn, Inc. v. Truck Ins. Exchange*, 88 Cal. Rptr. 2d 750, (Cal. Ct. App. 1999), modified, reh’g denied, 75 Cal. App. 4th 1037A (Cal. Ct. App. 1999), petition for review denied, 1999 Cal. LEXIS 8841 (Cal. Dec. 15, 1999), the arguments presented to the court addressed why the lay offense of “infringement of . . . title” was ambiguous. Indeed, the court in *Maxconn* failed to address the ambiguity of this generic phrase even

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though its own articulation of the proper construction for that phrase encompassed two distinct meanings, to wit: “any infringement of a legally-protected name, appellation or designation;” “a name of a literary or artistic work,” *id.* at 751 & 755.

Mez Industries, Inc. v. Pacific National Insurance Company, 90 Cal. Rptr. 2d 721 (Cal. Ct. App. 1999), petition for review filed Dec. 31, 1999

Justices Croskey, Klein and Kitching affirmed the trial court’s ruling that there was no duty to defend an inducement of patent infringement lawsuit under 1986 ISO policy provisions. The court conceded, however, that:

Unlike direct infringement, it is possible for inducement to infringe to occur during the course of advertising activities; indeed, advertising has been found to be a sufficient basis for a claim of inducement (*U.S. Fidelity & Guaranty Co. v. Star Technologies* 935 F. Supp. 1110, 1116 (D. Ore. 1996); *New Hampshire Insurance Co. v. R.L. Chaides*, 847 F. Supp. 1452, 1458 (N.D. Cal. 1994). *Id.* at 729.

The court concluded in footnote 9:

As it seems clear, at least from Mez’s complaint, that the alleged acts of inducement were committed in the course of Mez’s advertising and marketing of its products, we assume, for purposes of our decision, that Mez has satisfied the “in the course of advertising” element required under Pacific’s policy. *Id.* at 729.

The court negatively answered the two other questions posed, finding that claims for an inducement of patent infringement did not fall within the ambit of several “advertising injury” offenses within the 1986 ISO policy

form because claims for potential coverage were barred by [California] Insurance Code §533. Defining willful within the meaning of Section 533 based on *Shell Oil Co. v. Winterther Swiss Ins. Co.*, 12 Cal. App. 4th 715, 742, 15 Cal. Rptr. 2d 815 (Cal. Ct. App. 1993), as “an act deliberately done for the express purpose of causing damage or intentionally performed with knowledge that damage is highly probable or substantially certain to result,” the court seeks to apply an objective standard to inducement claims. *Id.* at 735

Contrary to this analysis, inducement claims can fully lie where the inducer did not believe that the party induced could ever infringe a patent because the patent was invalid and the conduct of the inducer noninfringing under its own analysis of the patent claims at issue. Where that analysis proves not to be legally persuasive to a court even though it was understood to be so at the time the opinion was adopted and relied upon, liability for inducement still can arise. Thus, the knowledge that the court addresses is not knowledge of inevitable liability, but knowledge of controversy. Such knowledge is insufficient to bar indemnity or a defense under Section 533.

Palmer v. Truck Insurance Exchange, 21 Cal. 4th 1109, 90 Cal. Rptr. 2d 647 (1999)

The only policy at issue was an umbrella policy issued by Truck to Palmer doing business as Estan Investments, which provided coverage for “advertising liability” which included “infringement of copyright or of title or of slogan,” but excluded coverage “with respect to advertising activities” or “infringement of registered trademark, service mark, or trade name.” The exclusion, however,

did “not relate to titles or slogans.” *Id.* at 1113.

The court concluded:

After reviewing the relevant policy language in context, we find that this language only provides coverage for infringement of a name of a literary or artistic work or a name that is also a slogan. Because our interpretation of the policy language disposes of the entire appeal, we do not reach the second issue. *Id.* at 1114.

The court emphasized that its interpretation was driven by its contextual focus. It stated, “We must also interpret these terms “in context” (*Bank of the West*, 2 Cal. 4th 1254, 1265, 10 Cal. Rptr. 2d 538 (1992)), and give effect to ‘every part’ of the policy with ‘each clause helping to interpret the other.’” *Id.* at 1115. The court reasoned:

In this case, the only applicable cause provides coverage for “advertising liability” resulting from infringement “of title or of slogan” (coverage clause). Construing this language in light of the rules governing contractual interpretation reveals the coverage clause – when read in conjunction with the clause excluding coverage or trademark infringement (trademark exclusion clause) - does not cover the Newhall judgment because the mark “Valencia” is neither the name of a literary or artistic work nor a slogan. *Id.* at 1116.

The court concedes that the word “title” has multiple meanings reasoning: “By construing the word ‘title’ in context, we conclude ‘title,’ as understood in the policy, can only mean the name of a literary or artistic work.” *Id.* at 1116. The court’s focus on context evidences that in another context without the express exclusion referenced the term title might indeed have a broader meaning which could

embrace that urged by the Palmer Defendants, a descriptive name or epithet.

Notably, the reason the court rejected infringement of title is because in the context of a policy where the specific exclusion at issue was present “broadly interpreting ‘title’ to encompass any legal right to property is even more problematic.” *Id.* at 1118.

On infringement of slogan, the court admitted that a far closer analysis is required. Focusing on the duty of indemnity, not the duty of defense, the court noted that “in this case, the jury found the Palmer defendants’ use of the mark VALENCIA’ was ‘likely to cause confusion,’ ‘infringing,’ and ‘a false representation or a false designation of origin.’ The jury did not find that the Palmer defendants used Newhall’s slogans. Moreover, the jury based its award of damages solely on the profits realized from the infringing use of the VALENCIA mark and not from any alleged use of Newhall’s slogans. Finally, the district court entered judgment on Counts 1 and 2 of Newhall’s complaint based solely on the jury’s findings.” *Id.* at 1120.

U.S. Test, Inc. v. NDE Environmental Corp. and United Coastal Insurance Co., No. 99-1087, 1999 U.S. App. LEXIS 30118, ___ F.3d ___ (Fed. Cir. Nov. 19, 1999), petition for rehearing denied (Dec. 17, 1999) (applying Louisiana law)

Analyzing a standard form 1986 ISO policy, the court found no duty to defend for claims of direct or inducement of patent infringement under Louisiana law.

U.S. Test argued that the patent infringement allegations were either an “infringement of . . . title” as an advertising injury offense under the

policy because that phrase was ambiguous and could encompass patent infringement claims in light of the court’s reasoning in *Rymal v. Woodcock*, 896 F. Supp. 637 (W.D. La. 1995).

The court stated:

We also reject U.S. Test’s attempt to inject ambiguity into this provision by claiming that “infringement of . . . title” is tantamount to patent infringement We concur with the reasoning of several other courts that have construed the term “title,” when grouped with the terms “slogan and copyright,” to mean “name, e.g., the name of a literary artistic work,” as opposed to the ownership of an invention. *See Owens-Brockway*, 884 F. Supp. at 363, 368 (E.D. Cal. 1995); *Atlantic Mutual Insurance Co. v. Brotech Corp.*, 857 F. Supp. 423, 429 (E.D. Pa. 1994); *Maxconn, Inc. v. Truck Insurance Exchange*, 74 Cal. App. 4th 1267, 88 Cal. Rptr. 2d 750, 756 (Cal. Ct. App. 1999). *Id.* at *15-16.

The court distinguished *Rymal v. Woodcock*, stating:

As indicated by the district court’s own emphasis, the court concluded that coverage should be based on what it determined was the ambiguous nature of the words “piracy” and “unfair competition,” *see id.*, not on the word “title.” Indeed, patent infringement is often referred to as piracy in that the infringer is considered to have pirated the patented invention. *Id.* at *17.

Hugo Boss Fashions, Inc. v. Federal Ins. Co., No. 98 Civ 6454 HB, 1999 WL 993689 (S.D.N.Y. Nov. 2, 1999)

The court readily found potential coverage for trademark infringement claims arising from the use of the word “boss” on gloves, mittens and boots by defendant Boss Mfg. Co., a clothing

manufacturer unrelated to Huge Boss, AG. The Federal policy provided coverage for “infringement of copyrighted advertising materials or infringement of trademark or service mark titles or slogans. Advertising was defined as “any advertisement, publicity, article broadcast or telecast.”

Addressing the intellectual property exclusion, the court found that “Boss” could qualify as a slogan within the meaning of its earlier opinion in *A Touch of Class Imports v. Aetna Casualty & Surety*, 901 F. Supp. 175, 177 (S.D.N.Y. 1995). The court reasoned:

English dictionaries generally define “slogan” as a word or combination of words that acts as an attention-getting device. The word “Boss” appears to do just that, given that BMC’s complaint alleges that the word “Boss” is used to “identify and promote its products and to distinguish its products from those offered by others.” . . . Unlike other trade names such as Nike, MacDonald’s or Ford, the word “Boss” itself conveys a meaning that the emblazoned products are of first-rate quality and that the wearer is “above the rest” or “in control.” Thus, although the BMC uses the word “boss” to identify its products in the marketplace, it also attempts to distinguish these products by conveying – and successfully so in my opinion – a sense of power, style and quality. *Id.* at *4.

Addressing the causal nexus, the court said:

While BMC’s complaint may not explicitly state that its injuries from the plaintiff’s infringement were caused by the plaintiff’s advertising activities, the federal courts have held that the use of a trademark on goods implies or constitutes “advertising in the ordinary meaning of the term” and

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that "it is not possible to allege a claim for trademark, service mark or trade name infringement without the infringing mark being used to identify the goods or services to the public. This use qualifies as advertising under the definition of the policy." See *J.A. Brundage Plumbing & Roto Rooter, Inc. v. Massachusetts Bay Insurance Co.*, 818 F. Supp. 553, 558 (W.D.N.Y. 1993), *vacated by reason of settlement*, 153 F.R.D. 36 (W.D.N.Y. 1994). *Id.* at *4.

The court also found that pre-tender expenses may be recoverable, citing *Smart Style Industries v. Pennsylvania General Ins. Co.*, 930 F. Supp. 159, 163 (S.D.N.Y. 1996), *id.* at *5.

RECENT AND UPCOMING PUBLICATIONS ON INSURANCE COVERAGE AND INTELLECTUAL PROPERTY

David Gauntlett's recent publications include:

An update for his existing Chapter 29 entitled "Insurance Coverage for Intellectual Property Lawsuits," has been published by Matthew Bender in its *Intellectual Property Counseling and Litigation* volumes.

Mr. Gauntlett has recently completed a book entitled, "*Insurance Coverage for Intellectual Property, Antitrust, and e-Commerce Exposures*," which will be published by CCH, Inc. in February 2000.

The March 2000 issue of the Journal of Insurance Coverage will feature an article written by Mr. Gauntlett entitled "*Analyzing Insurance for Antitrust Lawsuits*."

David Gauntlett is the author of "*Insurance Coverage for Intellectual Property Assets*," which was recently published by Aspen Law & Business. The first supplement for the book is scheduled for release in April 2000. Both the book and the supplement are available from the Publisher on a thirty (30) day free approval. The book is \$160.00 plus 8.5% shipping and handling when full payment is enclosed with the order. Call 1-800-638-8437

Mr. Gauntlett is Editor of the ABA Tort and Insurance Practice Section Intellectual Property Committee Newsletter.

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