

# THE POLICYHOLDER ADVOCATE/IP COUNSELOR

## NEWSLETTER

Volume 7, Issue 1: Fall 2002

### SUMMARY OF RECENT COVERAGE VICTORIES BY GAUNTLETT & ASSOCIATES

#### I. COURT DEFINES SLOGANS AS A PHRASE USED TO PROMOTE OR ADVERTISE A HOUSE MARK OR PRODUCT

*Zen Design Group, Ltd., et al. adv. Cincinnati Ins. Co., No. 01-72823 (E.D. Mich. July 9, 2002)*

Judge Roberts concluded that the underlying action alleged a potentially covered “advertising injury” offense of “infringement of . . . slogan,” even though there was no express cause of action for an infringement of slogan.

The court defined slogans as “phrases used to promote or advertise a house mark or product mark.” *Id.* at p. 14. It found it plausible that WEARABLE LIGHT could be more of a slogan used to promote the product mark SAPPHIRE than a product mark.



#### II. EXPRESS CAUSE OF ACTION FOR AN INFRINGEMENT OF SLOGAN IS NOT NECESSARY

*Ultra Coachbuilders, Inc. v. General Security Ins. Co., No. 02 CV 675(LLS), 2002 U.S. Dist. LEXIS 13027 (S.D.N.Y. July 15, 2002)*

Judge Stanton granted Ultracoach’s motion for summary judgment re the duty to defend and denied that of General Security under a 1986 ISO with restrictive exclusions reminiscent of those in place under earlier policy forms. The policy provides:

The policy excludes coverage for any advertising injury arising out of:

.....  
e. Infringement of trademark, service mark, or trade name, other than titles or slogans, by use thereof on or in connection with goods, products or services sold, offered for sale or advertised;

f. unfair, deceptive practices and misrepresentations of your [Ultra’s] goods, services or

products.  
*Id.* at \*4.

One clear implication of this policy form is it concedes that the “misappropriation of advertising ideas or style of doing business/title or slogan” infringement coverage must

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*If you have a topic you would like to see addressed in future issues, please feel free to contact us with your suggestions.*

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apply to forms of trademark, service mark, or trade name.

Critically, the court found there was no material conflict between the law of New York and California regarding an insurer's duty to defend or regarding relevant principles of insurance contract interpretation.

Judge Stanton also concluded that the underlying action alleged a potentially covered "advertising injury" offense of "infringement of . . . slogan," even though there was no express cause of action for an infringement of slogan because there was a reasonable possibility that the descriptive phrase "**Quality Vehicle Modifier**" is a slogan. "While the phrase 'Quality Vehicle Modifier' is the descriptive name of a service program, Ford also claims it uses the phrase to promote both the program itself and use of its other products, Ford vehicles, to limousine converters." *Id.* at \*7.

### III. DUTY TO DEFEND TRADE MARK INFRINGEMENT CLAIM RELATES BACK TO THE FIRST FILED COMPLAINT

*Finger Furniture Co. v. Travelers Indem. Co.*, No. H-01-2797, 2002 U.S. Dist. LEXIS 15351 (S.D. Tex. Aug. 19, 2002)

Magistrate Judge Mary Milloy found a duty to defend arose for Finger Furniture for claims of trademark infringement relating back to the first filed complaint. Travelers, after having denied a defense under the first amended complaint, agreed to defend under the second amended complaint. That second amended complaint, filed on September 5, 2000, was provided to Travelers on January 24, 2001, precipitating its agreement to defend on

January 31, 2001.

The underlying action was resolved on January 11, 2001, when all claims and cross-claims of the TruServ litigation were dismissed with prejudice and the case closed in conjunction with a settlement of same. Only defense fees were at issue, as the underlying action did not require any payment by Finger Furniture in connection with that settlement.

The court reaffirmed the applicability of the eight corners rule in Texas and refused to look beyond the complaint or policy in resolving the issue before it. *Id.* at \*17.

TruServ Corporation had alleged that Finger used its trade and service mark, "TRUE VALUE," without authorization, in connection with its marketing, retail sale and rental of furniture. TruServ alleged that it created and ran extensive national and regional advertising programs in print and on radio and television to promote the TRUE VALUE name and, thereby, help its members sell products in their stores. "TruServ claimed that its 'advertising idea,' 'TRUE VALUE' was used 'extensively' to 'sell products.'" **As a result, the court concluded that, "TRUE VALUE' could certainly be considered a 'title or slogan,'** and an infringement of that mark potentially fits within the Policy, under the fourth definition of "advertising injury." *Id.* at \*32.

### IV. NINTH CIRCUIT FINDS DEFENSE FOR ALLEGED MANUFACTURING DEFECTS CAUSED BY A SUBCONTRACTOR'S NEGLIGENCE UNDER THE "LOSS OF USE" PRONG OF PROPERTY DAMAGE COVERAGE

*Anthem Electronics, Inc. v. Pacific Employers Ins. Co.*, No. 01-16402, \_\_\_ F.3d \_\_\_, 2002 U.S. App. LEXIS 18282 (9th Cir. Sept. 5, 2002)

Judge Nelson, speaking for a united panel, reversed District Court Judge Ware and found that a **defense arose for alleged manufacturing defects caused by a subcontractor's negligence under the "loss of use" prong of property damage coverage.**

Following abandonment by its insurers, Anthem defended itself and settled with KLA, the underlying plaintiff. The district court's decision was based on the facts that: (1) the failures of the SMT assemblies were not "occurrences" under the policies; and (2) even if the failures were "occurrences," the policy's "impaired property" exclusion barred coverage. On *de novo* review, the trial court's rulings were reversed. The court noted:

Both the circuit boards supplied by Anthem and KLA's final scanner products were quality tested before they were shipped to customers. Despite this, the circuit boards had latent defects that caused some of the scanners to fail once in use. The circuit boards supplied by Anthem, it turns out, were physically defective such that heat, physical vibration or electrical current over time could cause the electrical connections on the circuit boards to crack or lift apart, causing electrical "opens" that prevented the scanners from working. Anthem admits that these defects were due to manufacturing flaws (though it blames its own subcontractor for these flaws).

Because some of the scanners in use by KLA's customers failed, KLA was forced to replace them and to

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incur other unexpected costs due to the loss of use of the scanners into which Anthem's circuit boards had been installed. To recoup these costs, KLA sued Anthem in state court. The complaint, filed in November 1994, states causes of action against Anthem for breach of contract, negligence, breach of express warranty, breach of implied warranty of fitness, breach of implied warranty of merchantability, negligent misrepresentation, indebitatus assumpsit, and constructive trust. It alleges that the circuit boards supplied by Anthem were defective; that KLA installed these boards into KLA products; that the boards intermittently failed; and that, as a result of the defective boards, KLA suffered damages exceeding \$4.5 million.

*Id.* at \*2-3.

Rejecting insurer arguments that an "occurrence" definition should be narrowly interpreted to bar a defense where any form of product defect later becomes evident, the court noted:

[A]t bottom, an occurrence is simply an unexpected consequence of an insured's act, even if due to negligence or faulty work. The breakage and failures of the circuit boards were unintended consequences of Anthem's production and sale of the boards.

*Id.* at \*12.

Critically, the court found the complaint informed the insurers of the potentiality of nonintentional conduct:

The insurers knew from the complaint that Anthem's products had defects, that these products were installed into KLA systems, and that the products failed. **Though the complaint said nothing affirmative about the defects**

**being accidental, neither did it provide a reason to think that they were expected.** The possibility that the defects were unexpected is enough to trigger the insurers' duty to defend even though the complaint failed to allege an accident.

*Id.* at \*14.

The court noted that the insurers' argument that a supplier simply breaching a contract and supplying defective goods cannot trigger a defense echoes the wooden distinction rejected by the California Supreme Court in *Vandenberg v. Superior Court*, 21 Cal. 4th 815, 840, 982 P.2d 229 (1999). *Id.* at \*15.

Rejecting the "economic loss rule" case law, the court found that, "Here tangible property, in the form of the KLA scanners, was damaged within the meaning of the policies through loss of use." *Id.* at \*16-17.

Addressing a critical issue as to the character of the property damage in issue, the court noted:

Anthem's defective boards clearly caused "property damage" to other property, as that term is defined in the policies. KLA's customers lost the use of tangible property (their scanners), and as a result KLA suffered losses due to loaner scanners and diminished receivables. KLA itself lost the use of unshippable scanners sitting in inventory, and as a result incurred unexpected inventory costs. Though Anthem's boards were damaged, other parts of the scanners were not. This property damage meets the definition of "loss of use of tangible property that is not physically injured."

*Id.* at \*17-18.

The court significantly states:

It is the risk of a loss worth more than the price of the component itself, i.e. to other property, against which these CGL policies mitigate.

... Ours is just such a case: the defect to the circuit boards caused the lost use of tangible property, namely, the KLA scanners.

*Id.* at \*20-21.

Finding the California Court of Appeal's decision in *Hendrickson v. Zurich Am. Ins. Co.*, 72 Cal. App. 4th 1084 (1999) on point, the court stated:

Here, as in *Hendrickson*, the KLA complaint was sufficient to raise the possibility that KLA suffered a loss of use of the systems into which Anthem's circuit boards had been installed. The insurers knew from the complaint that Anthem's products had defects, that these products were installed into KLA systems, and that the products failed. **The complaint raises an obvious inference that KLA lost the use of its systems because of Anthem's defective products.** It is far from true that the KLA complaint "can by no conceivable theory raise a single issue which could bring it within the policy coverage." *Montrose*, 6 Cal. 4th at 300. The complaint therefore sufficed to raise the possibility that Anthem would be subject to damages for a covered occurrence and covered property damage.

*Id.* at \*22-23.

Finding the "impaired property" exclusion inapplicable, it characterized it as excluding coverage for property damage arising out of a defect in Anthem's work or a failure by Anthem to perform a contract as required. The

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issue was whether an exception saved coverage for some claims. The court noted:

The nature of the physical damage described, separation only upon thermal stressing, strongly suggests that the damage may have occurred suddenly.

*Id.* at \*26.

## SEMINARS ON INSURANCE COVERAGE AND INTELLECTUAL PROPERTY

**2002 Midwest IP Institute**, Minneapolis, MN – Sept. 19 - 20, 2002  
David A. Gauntlett presented two distinct programs. The first program addressed *Tips for IP Litigators in Addressing Insurance Coverage Issues: Pitfalls and Opportunities*; the second program addressed *New Vehicles for Insurance Coverage to Protect IP Assets*. Slides are available for either of these two topics. Please contact our Marketing Coordinator at [marketing@gauntlettlaw.com](mailto:marketing@gauntlettlaw.com) to request your copy.

**Intellectual Property Owners Association 2002 Annual Meeting**, Los Angeles, CA – Nov. 3 - 5, 2002 – David A. Gauntlett, Vice Chair of the IPO Insurance Committee, will be conducting a one-hour CLE program on *Tips for Corporate IP Counsel in Assessing Benefits Available from Insurance Coverage Responsive to Intellectual Property/Antitrust Exposures*.

**CPCU All-Industry Day** – Los Angeles, CA, Nov. 5, 2002 – David A. Gauntlett will be hosting a two-hour CLE program on *Insurance Coverage for IP Claims*.

**ALI-ABA Course of Study – Litigating Trademark, Domain Name and Unfair Competition Cases**, Washington, D.C., Dec. 5 - 6, 2002 – David A. Gauntlett will serve as a guest speaker addressing *Strategies for Funding IP Litigation: Insurance and Other Avenues*.

Mr. Gauntlett's Paper presented at the San Antonio 5th Annual Insurance Law Institute on August 24, 2000, entitled *Policy Strategies for Maximizing Insurance Coverage*, will be reprinted and presented with permission by Norton Colvin of Rodriguez, Colvin & Chaney at the **Cameron County Bar Association's Bench and Bar Conference** in South Padre Island, Texas on November 8, 2002.

## PUBLICATIONS BY DAVID A. GAUNTLETT

David A. Gauntlett is the author of *Insurance Coverage of Intellectual Property Assets*, which is published by Aspen Law & Business. Both the book and the supplements are available for \$160.00 plus 8.5% tax; shipping and handling are free when full payment is enclosed with the order. Call 1-800-638-8437.

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