

THE POLICYHOLDER ADVOCATE/IP COUNSELOR

NEWSLETTER

Volume 9, Issue 1: Fall 2004

RECENT VICTORIES BY GAUNTLETT & ASSOCIATES

Estate of Gary W. Parker v. AIG Life Ins.
317 F. Supp. 2d 1167, 1171 (C.D. Cal. 2004)

Judge Fischer held that a life insurance policy did not clearly preclude a death benefit following an automobile incident in Cuba, where recovery was limited to death on a freeway but the evidence AIG relied upon was fully consistent with that possibility. AIG, therefore, failed to comply with its duty to investigate. The court reasoned:

“... If [an insurer] seeks to discover only the evidence that defeats the claim it holds its own interest above that of its insured.” [Such an insurer] may be found to have acted “unreasonably” in breach of its fiduciary duty to its insured.

Gauntlett & Associates represented the Estate of Parker.

Santa’s Best Craft, et al. v. St. Paul Fire & Marine Ins. Co.
2004 U.S. Dist. LEXIS 14760, at *26 (N.D. Ill. July 28, 2004)

Judge Gettleman analyzed whether a defense arose in an unfair competition lawsuit that triggered liability for the “advertising injury” offense of “infringement of any . . . trademarked slogan.” The court found four distinct slogans alleged in the underlying complaint, including “New Technology” and “worry-free lighting.” He found that such claims did not fall within the ambit of St. Paul’s intellectual property exclusion, but even if they did the exception for “infringement of any . . . trademarked slogan” was implicated. It reasoned:

[T]he court is reluctant to conclude that the slogans at issue could never be characterized as “trademarked.” Although defendant argues at great length that the slogans at issue are not worthy of trademark protection, it is not appropriate for this court to resolve that issue, which is clearly a matter to be decided by the court adjudicating the underlying . . . action.

Gauntlett & Associates represented Santa’s Best Craft.



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INTELLECTUAL PROPERTY EXCLUSIONS AND WHY THEY MAY NOT LIMIT COVERAGE FOR MANY INTELLECTUAL PROPERTY LAWSUITS

I. NEW INTELLECTUAL PROPERTY EXCLUSIONS HAVE BEEN ADDED BY ISO, AS WELL AS A VARIETY OF INSURERS, TO LIMIT THE SCOPE OF INSURANCE COVERAGE FOR INTELLECTUAL PROPERTY RISKS

A number of insurers who provide coverage to technology companies or other entities subject to a higher incidence of intellectual property claims limit coverage by including express intellectual property exclusions. These exclusions often predate the ISO 2001 CGL intellectual property exclusion which excepts “infringement of copyright, trade dress or slogan in your ‘advertisement.’ ” These policies vary greatly in scope and must be carefully reviewed to ascertain whether coverage is merely prohibited for certain referenced intellectual property torts or for any claim that arises in a lawsuit where an intellectual property tort is asserted.

II. EXCLUSIONARY LANGUAGE FOR WHICH THE INSURED DOES NOT RECEIVE ADEQUATE AND PRIOR NOTICE MAY BE BARRED IN VARIOUS JURISDICTIONS

A. If an Insured Does Not Know That an Exclusion Limits Coverage Because the Insurer Does Not Forcefully Call Attention to This Fact, the Prior Policy Provisions Will Remain in Force

Under California law, notice of a specific reduction in coverage must be brought to the insured’s attention by the insurer when a change in coverage occurs. Thus, in *Davis v. United States Auto Assn.*, 273 Cal. Rptr. 224, 230 (1990), the inclusion of a notice entitled “Important Notice” stating that three new exclusions were added to the policy was held to be insufficient notice to the insured of a change in coverage where the exclusions were placed in a section labeled “Clarification of Coverage” rather than in the “Reduction” section. The court found that: “A general admonition to read the policy for changes is insufficient.”

Other jurisdictions follow this rule. A sample list includes: **Kansas** – *American Casualty Co. v. Beranek*, 862 F. Supp. 322, 327 (D. Kan. 1994); **Maryland** – *Benner v. Nationwide Mut. Ins. Co.*, 93 F.3d 1228, 1233 (4th Cir. (Md.) 1996); **Michigan** – *Amway Distribs. Benefits Ass’n v. Northfield Ins. Co.*, 323 F.3d 386, 393 (6th Cir. (Mich.) 2003); **Minnesota** – *Duane Wolff Agency, Inc. v. Northshore Marine, Inc.*, 463 N.W.2d 562, 564 (Minn. Ct. App. 1990); **Missouri** – *National Fire & Marine Ins. Co. v. Hoene Springs Improvement Ass’n*, 889 F. Supp. 362 (ED. Mo. 1995); **New Jersey** – *Millbrook Tax Fund, Inc. v. P.L. Henry & Associates, Inc.*, 779 A.2d 1120, 1123 (N.J. Super. Ct. App. Div. 2001); and **New York** – *Ralph A. Janes v. New York Central Mutual Insurance*, 722 N.Y.S. 2d 669, 670 (2001).

B. Exclusionary Provisions Are Narrowly Construed Against the Insurer

A trio of recent California Supreme Court cases clarifies that policy exclusions must be “conspicuous, plain and clear.” Insurer intellectual property exclusions have not been scrutinized to determine if they pass muster under recent case law that places the burden on insurers to tailor their policies so that they have a clear meaning that a policyholder would reasonably anticipate.

In *MacKinnon v. Truck Ins. Exch.*, 31 Cal. 4th 635, 648, 655 (2003), the court found that:

“ [T]he burden rests upon the insurer to phrase exceptions and exclusions in clear and unmistakable language. . . . The exclusionary clause ‘must be *conspicuous, plain and clear.*’ ” . . . “[The court need not] select one ‘correct’ interpretation from the variety of suggested readings.”

The *E.M.M.I., Inc. v. Zurich American Ins. Co.*, 32 Cal. 4th 465, 471 (2004) court reasoned that:

“[T]he burden rests upon the insurer to phrase exceptions and exclusions in clear and unmistakable language.” . . .
The exclusionary clause “must be *conspicuous, plain and clear.*”

Finally, in *Haynes v. Farmers Ins. Exch.*, 32 Cal. 4th 1198, 1204 (2004), the court found an exclusion unenforceable because it did not meet this test. The court explained that to be “plain and clear,” “[s]uch a provision . . . must be stated precisely and understandably, in words that are part of the working vocabulary of the average layperson.”

C. Illinois Statutory Scheme

The Illinois Supreme Court recently held in *Guillen v. Potomac Ins. Co.*, 203 Ill. 2d 141 (2003) that the insurer had failed to prove proper notification of the change in coverage in the manner explicitly required by 215 Ill. Comp. Stat. Ann. 5/143.17a (West 1992). Section 14317a required 60 days’ advance notice of any changes in policy coverage and proof of mailing regarding same. The insurer, having breached its duty to defend, was estopped to argue the claim was excluded and a policy exclusion for lead poisoning would not take effect.

III. CASE LAW ANALYZING INTELLECTUAL PROPERTY EXCLUSIONS AND EXCEPTIONS THERETO

A. Cases Finding That Exclusionary Language Does Not Apply

In *KLA-Tencor Corp. v. Travelers Indem. Co.*, 2003 U.S. Dist. LEXIS 10456, at *6 (N.D. Cal. April 11, 2003), the court analyzed Travelers’ intellectual property exclusion. It provides in relevant part:

This insurance does not apply to . . . “advertising injury” arising out of or directly or indirectly related to the actual or alleged publication or utterances of oral or written statements, whether made in advertising or otherwise, which is claimed as an infringement, violation or defense of any of the following rights or laws: . . . 2. Patent

The court found this exclusion did not bar a defense because the third party had alleged that the insured made untrue statements regarding its financial condition, future viability, and its having lost large orders. Those allegations made no mention of the insured’s patents.

B. Cases Finding That an Exception to the Exclusion Is Implicated

In *Ultra Coachbuilders, Inc. v. General Security Ins. Co.*, 2002 U.S. Dist. LEXIS 13027 (S.D.N.Y. July 15, 2002), Judge Stanton granted Ultra Coachbuilders’ motion for summary judgment re the duty to defend and denied that of General Security under a 1986 ISO CGL policy with restrictive exclusions reminiscent of those in place under earlier policy forms. General Security’s policy provided that:

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.

The Judge 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 *8.

The intellectual property exclusion in *Santa’s Best Craft, LLC v. St. Paul Fire & Marine Ins. Co.*, 2004 U.S. Dist. LEXIS 14760, at *6 (N.D. Ill. July 28, 2004) stated that the insurer would not cover “injury or damage . . . result[ing] from any actual or alleged infringement or violation of . . . Copyright, Patent, Trade dress, Trade name, Trade secret, Trademark [or] Other intellectual property rights or laws.” It contained an exception to the exclusion stating that the exclusion does not apply to advertising injury that results from the unauthorized use of any: copyrighted advertising material, trademarked slogan; or trademarked title of others in your advertising.

Resolving any ambiguity in the exclusion against the insurer, the court found in light of the reasoning in *Central Mutual Ins. Co. v. StunFence, Inc.*, 292 F. Supp. 2d 1072, 1081 (N.D. Ill. 2003), the intellectual property exclusion did not apply. That case stated: “[I]t must . . . be remembered that exclusions are subject to the same interpretive rule that all ambiguities are resolved in favor of the insured.”

The court noted that the exception for “trademarked slogans” was potentially applicable herein. The court took issue with St. Paul’s argument that the slogans must be trademarked slogans to be within the scope of the exception to the IP exclusion.

C. Cases Finding an Exclusion Applicable

In *Western Int’l Syndication Corp. v. Gulf Ins. Co.*, 2004 U.S. Dist. LEXIS 17867, at *11 (C.D. Cal. Sept. 1, 2004), Gulf Insurance Company’s exclusion provided:

Advertising Injury arising out of the “Field of Entertainment Business” of the insured with respect to the following offenses: . . . Infringement of copyright or trademark whether under common law or statutory law

The court found that since the basis of [the claimant’s] claims were trademark dilution, dependent upon Western’s alleged infringement of [the claimant’s] registered marks, for purposes of entertainment limitation the trademark infringement and trademark dilution claims were inextricably intertwined and barred by the trademark infringement exclusion, which was a part of the field of entertainment business “advertising injury” exclusion.

In *Superformance Int’l, Inc. v. Hartford Cas. Ins. Co.*, 332 F.3d 215, 223 (4th Cir. (Va.) 2003), Hartford’s exclusion was for injury arising out of trademark infringement, trade name, service mark or other designation of origin or authenticity, even though trademark dilution claims have different elements to prove liability than do claims for trademark infringement. The insured, a manufacturer of replicas of classic cars, was sued for trademark infringement and dilution and for unfair competition by a trademark licensee. The court ruled that, “All of the claims made in the complaints against Superformance – trademark infringement, trade dress infringement, and trademark dilution, as well as unfair competition based on those violations – are varieties of trademark claims protected by the Lanham Act and State analogues.” The court did not consider the fact that trademark dilution claims have distinct elements from those for trademark infringement and that the exclusion did not include all Lanham Act claims. To be in accord with proper rules of construction, the exclusion should have expressly referenced trademark dilution claims, as the other exclusionary provisions clearly and separately articulated distinct intellectual property torts such that the absence of trademark dilution from that list was conspicuous.

IV. PROCURING BROADER FORMS OF INSURANCE THROUGH MULTIMEDIA/CYBERNET LIABILITY POLICIES

Multimedia policies cover two areas of third-party liability that may arise on the Internet:

- libel, slander, and defamation claims; and
- infringement of IP rights.

They generally do not provide violence and hacker coverage or E&O (errors and omissions) coverage. They do, however, fill the gap created by CGL policy exclusions for publishing and broadcasting and media services.

Cyberspace/Multimedia policies cover losses arising out of the insured's Internet or website activities. For example, Chubb's SafetyNet Internet Liability Policy states:

The Company shall pay on behalf of each insured all Loss . . . arising out of the **Insured's Internet Activities** . . .

....

(f) Internet Activities means:

- display or other use of Matter on an Internet Site;
- transmission of Matter via an Internet Site; or
- dissemination of Matter by any other means of publication or communication

....

(i) Matter means printed, verbal, numerical, audio or visual expression, or any other expression regardless of the medium upon which such expression is fixed.

St. Paul's Technology Internet Liability Protection states:

Your Internet and website activities are specifically covered when the qualifying wrongful acts listed below are alleged:

....

- Infringement of copyright, title, slogan, . . . in your materials or through the internet

Although one can expect pertinent exclusions and other endorsements to exclude coverage available in a given factual scenario – typically for patent, trade secret, and antitrust claims – you will find the scope of the insuring grant in these policies a good place to start negotiating desired coverage.

V. CONCLUSION

Policyholders are not helpless in the face of intellectual property exclusions. Nevertheless, the expertise required to address these exclusions is not easily obtained. Many of the exclusions contain legal nuances unfamiliar to lay persons. Furthermore, these disputes require knowledge of specialized areas of law: intellectual property and insurance coverage. Policyholders should attempt to retain counsel familiar with both areas of law. Any other approach may not ensure that policyholders receive the most comprehensive coverage possible.

PUBLICATIONS BY DAVID A. GAUNTLETT

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

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UPCOMING SEMINARS ON INSURANCE COVERAGE AND INTELLECTUAL PROPERTY WHERE DAVID A. GAUNTLETT IS SPEAKING OR ATTENDING

- Defense Research Institute 2004 Intellectual Property Litigation and Insurance Seminar – October 28-29, 2004 - San Diego, CA - David A. Gauntlett is a featured speaker at this event.
- 29th Annual Intellectual Property Institute – November 5-6, 2004 - Anaheim, CA
- TIPS Insurance Coverage Litigation 2005 Midyear Meeting – February 17-19, 2004 - Phoenix, AZ. David A. Gauntlett is scheduled to host a luncheon toolbox discussion on insurance coverage.

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NEWSLETTER FACTS

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GAUNTLETT & ASSOCIATES – THE POLICYHOLDER ADVOCATE

Gauntlett & Associates specializes in policyholder insurance coverage and litigation re copyright, antitrust, patent, trademark, trade secret, business and general coverage disputes.

Specific services offered include:

1. *Insurance coverage litigation focusing on IP and Antitrust Claims*
2. *IP litigation*
3. *Expert witness on insurance coverage issues, including fee disputes*
4. *Counsel to IP case-in-chief counsel for insurance coverage, including:*
 - *Choice of forum, and*
 - *Negotiation*
5. *Consultant to corporations regarding what type of policies to purchase to protect against IP litigation*
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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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