

THE POLICYHOLDER ADVOCATE/IP COUNSELOR

NEWSLETTER

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ASKING THE RIGHT QUESTION IN INSURANCE COVERAGE ANALYSIS: WHY IS THERE NO POTENTIAL COVERAGE?

I. INTRODUCTION

At first blush, asking the question “Why is there no potential coverage?” appears counter-intuitive for a policyholder. Exactly the reverse is true. When a policyholder asks the opposite question – “Is there a potential for coverage?” – this reverses the burden of proof that insurers must meet in order to avoid providing a defense. The majority of cases require insurers to defend suits unless they can establish that there is



no potential for coverage. In assessing that potential, focus is on the pertinent facts that evidence how liability will attach in the underlying action. The quantum of evidence required depends upon what law applies. The range of options covers the spectrum from: (1) the facts set forth in the pleadings alone (Texas and Virginia), to (2) facts known to the insurer (New York), (3) facts knowable to the insurer (Massachusetts), and (4) facts available to the insurer (California). The greater the insurer’s duty to investigate, the easier it is to establish a defense.

II. ANALYZING COVERAGE UNDER “OFFENSE” BASED POLICIES: THE THREE-PART TEST

In asking the question why no potential coverage arises, the first issue is: How do you understand the policy so as to formulate a test that you can apply to the facts before you

in analyzing that issue? Although there are still disagreements among courts, the emerging consensus is that a three-part test applies for advertising injury coverage under commercial general liability/umbrella policy provisions. To wit: (1) Is there

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 - *Choice of forum, and*
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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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advertising activity? (2) Does the advertising establish a basis for liability under one of the enumerated “advertising injury” offenses? and (3) Is there an “advertising injury” offense? These tests in turn give rise to a series of questions.

First: What constitutes advertising? Again, courts are in disagreement. Nevertheless, virtually all courts agree that widespread public dissemination of information satisfies this standard and that promotion of goods on a website meets this standard. Some courts have found “advertising” occurs upon one-on-one solicitation, as might occur in bids for projects or even customized presentations to customers. Almost all courts agree that catalogue distribution, direct mail, trade show as well as store displays, and product packaging are advertising.

Second: Is an “advertising injury” offense triggered where a clearly defined tort, recognized at common law or by statute as libel or slander, is the pertinent offense? There, one need only analyze whether the *prima facie* elements of that offense are potentially articulated by the claim. Note, most jurisdictions agree that not every element need be pled with specificity so long as the potential for amendment to plead the missing elements exists and there are no inconsistent allegations such that pleading the remaining elements would require the plaintiff to reconfigure its allegations.

Third: Is there a causal nexus between the insured’s advertising and an enumerated offense? This test is readily satisfied in trademark/trade dress and false advertising claims, as

well as in claims for liability premised on “offer for sale” patent infringement. Copyright claims based on public performance or display meet this test. Courts focusing on theft in a trade secret case, rather than on the alternative claim for “disclosure” or “use,” have failed to find a defense owed.

Courts that characterize subsequent advertising conduct as merely exposing an injury caused by other earlier acts typically find no defense owed. This misdirects attention from the “offense” to the ultimate “injury” or “damages,” which is contrary to how “offense” based policy language works.

III. ISSUES IN ANALYZING COVERAGE FOR BUSINESS TORTS UNDER GENERIC “ADVERTISING INJURY” “OFFENSES”

More problematic are cases where the offense is not limited to any particular tort. What if the offense encompasses a number of torts within its ambit or is a generic reference to a “category of wrongdoing.”

Illustrative is the 1986 ISO Commercial General Liability “advertising injury” offense of “infringement of title or slogan.” Most courts recognize that a “title” or “slogan” may encompass a number of trademark infringement claims absent an express exclusion in the policy for same. Even where such exclusions are included for trademark infringement, typically, many policies except “title” or “slogan” infringement from the exclusion’s scope.

One court found the name “Tru Value,” as used by a hardware store to exclude others from similar promotional activity, constitutes a covered claim for “infringement of title.” Other courts have found that “title” can only mean a “literary or artistic title” and thereby limit the scope of such claims.

Another illustration is the coverage in the 1986 ISO policy form for the offense of “misappropriation of advertising ideas or style of doing business.” On its face, this offense is not limited to any singular tort as a number of courts have noted. Moreover, its language encompasses meaning for trademark claims, trade dress, trade secret, unfair competition, or even patent infringement. This is because it is facts, not labels, that drive insurance coverage analysis. Facts may well coalesce under a variety of tort theories that could come within this offense. Nevertheless, insurers have observed that the word “trademark” is not used in the policy containing that offense.

No matter. This analysis is too simplistic. The same objection may be leveled at the language covering “title or slogan,” yet courts have readily found that trademark claims may fall within their ambit.

Where an insurer does not choose to define its offenses by recognized torts, an interpretive principle that demands that all offenses be treated as if they can only include torts is nonsensical. To support such a narrow construction, courts would have to add policy language – albeit language limiting the scope of coverage – without any

express exclusion requiring them to do so.

Nonetheless, courts analyzing patent infringement cases of late have found the absence of the word “patent” meaningful. Should all the other torts have been defined in terms of other statutory causes of action such as copyright, trademark, etc., such a construction under the doctrine of *ejusdem generis* might have some applicability. However, that is simply not the case with the actual facts analyzed by those courts. Thus, these courts substitute a new meaning for the policy language not supplied by the insurer. Moreover, at the time these policies were drafted, insurers were well aware that they could exclude patent coverage, as many have done.

Thus, the absence of the word “patent” is not helpful in interpreting “offense” based programs, and it does not prove there is no potential for coverage. Indeed, the key decision making that observation in dicta, *Maxconn Inc. v. Truck Ins. Exch.*, 74 Cal. App. 4th 1267 (1999), did so only in analyzing the argument that “infringement of title” covers patent claims where it was conceded that the advertising that existed created liability under the asserted patent infringement offense. The court did not analyze the “misappropriation” offense. Had it done so, it might have observed that it could not readily discern why that offense could not under any circumstances encompass patent claims. Although some later courts observed that to be the case, they did not explain why nor give a fair, plain meaning definition for the offense, as numerous other courts have done, that would preclude finding patent coverage under that

phrase.

What if all that is at issue are attorneys’ fees? A number of courts analyzing the issue of whether attorneys’ fees are a form of damages or merely a cost item have adopted broad definitions of that term that would encompass attorneys’ fees, i.e., as a form of money ordered by a court. See *Certain Underwriters at Lloyd’s, London v. Superior Court (Powerine Oil Co.)*, 24 Cal. 4th 945 (2001).

The above discussion is also relevant where a “personal injury” offense, such as libel or slander, is implicated. This coverage does not require proof of either advertising or a relationship between advertising and an “advertising injury” offense. So long as the conduct arises out of the business of the insured or the oral or written publication of its products by another in a way that benefits the insured, “personal injury” coverage may arise.

IV. WHY POLICYHOLDERS SHOULD NOT ASK THE QUESTION “WHY IS THERE COVERAGE,” BUT RATHER, THE REVERSE

Policyholders who ask themselves the question of why there is no potential coverage must first evaluate what the insurer thinks about the issue. This encourages notice to all insurers on risk. If the insurer’s response is not thorough and complete, policyholders are encouraged to look more deeply into coverage.

The first task is to determine how the policy language must be understood, what plain English

equivalents for the various “advertising injury” or “personal injury” offenses may be implicated, and how those in turn, under the applicable laws of the jurisdiction, apply to the facts that are pertinent. This exercise may require distinctions that are not evident to a policyholder, in which case he may need the assistance of coverage counsel who also understands the nature of intellectual property lawsuits, how liability attaches therein, as well as what courts have said in analyzing the meaning of various policy terms.

The critical date is when the first allegedly “wrongful” act occurred. Liability may be triggered under policies other than the one in place at the time the lawsuit was filed. This is especially true where occurrence-based CGL umbrella policies are implicated. Discovery in the underlying action or further fact investigation may be required to learn the first date of the “wrongful acts” alleged.

V. CONCLUSION

To thoroughly answer the questions raised by the policy, the policyholder must ask the right questions under the right policies. The facts needed to perform this exercise may not be immediately available to a policyholder because the policy asks questions often not answered by the fact allegations in the underlying action.

Policyholders must engage in ongoing and vigilant oversight of the case to see if facts come to light which may trigger coverage and assure that proper notice is given to the carriers once this occurs.

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Indeed, there is little reason why, initially, the whole exercise cannot be shifted to outside brokers and carriers by giving notice to all carriers who even remotely have potential exposure based on the facts pled. This is especially true where the pleadings do not disclose when the first bad act occurred, how long it has continued, and what damages might be sought during what particular periods of time.

RECENT COVERAGE VICTORY BY GAUNTLETT & ASSOCIATES

Hewlett Packard Co. v. ACE Prop. & Cas. Co., No. C-99-20207 JW, 2003 U.S. Dist. LEXIS 3586 (N.D. Cal. (San Jose Div.) March 4, 2003)

The court affirmed an earlier ruling by Judge Williams on August 24, 1999 finding that HP was entitled to a defense from ACE for various claims associated with federal antitrust violations. These included false advertising and disparagement which fell under the "advertising injury" offense of "unfair competition."

The court also affirmed the ruling that HP's international policy contained a "territory" definition that was broad enough to encompass claims asserted in a U.S. lawsuit.

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 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.

UPCOMING SEMINARS ON INSURANCE COVERAGE AND INTELLECTUAL PROPERTY

April 7, 2003 - Intellectual Property Owners ("IPO") Leadership Meeting - Washington, D.C. - David A. Gauntlett is the Vice-Chair of the IPO Insurance Committee

May 29 - 30, 2003 - 16th Annual Computer and Technology Law Institute - University of Texas School of Law - Austin, Texas

David A. Gauntlett to speak on Friday, May 30, 2003. Topic - *Conflicts, Counsel and Insurance in the Tech Sector*

David A. Gauntlett was one of two attorneys interviewed by LAWCAST to look back at 2002 and forecast changes for 2003. Mr. Gauntlett's analysis will be heard on all editions of LAWCAST as part of their Special 2002 Year In Review Discussion under "A Year in Sound Legal News" and also appeared in the Jan. 13, 2003 edition of **Intellectual Property LAWCAST**, of which Mr. Gauntlett is a member of the Board of Editors.

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