

# THE INSURANCE COVERAGE AND IP COUNSELOR

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Dear Reader:

We are pleased to launch the premier issue of *The Insurance Coverage and IP Counselor*. This publication will address interests of intellectual property practitioners, corporate counsel, chief financial officers, risk managers, insurance brokers and business owners involved in dispute issues that converge intellectual property and insurance coverage.

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

Sincerely,

David A. Gauntlett  
Editor  
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## Gauntlett & Associates

*Specializes in the areas of policholder insurance coverage; patent, trademark, copyright, and trade secret litigation; business litigation; labor disputes; environmental litigation; and antitrust litigation*



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### ***HAVE POTENTIAL FOR COVERAGE***

Counsel representing clients in intellectual property lawsuits who are defending patent infringement claims asserted either through complaint or counterclaim should promptly tender these claims to insurers who are "at risk" from and after the date when any claim for damages is asserted based on such patent claims. It can be anticipated that insurers will readily deny a defense based on pertinent case law. Nevertheless, such denials may be ill-considered and not specifically address the factual elements necessary for proof of the pertinent patent claims in suit.

Careful analysis of such claims in light of applicable law and articulation of proper arguments in light of the character of the proof required in the underlying patent infringement lawsuit may support finding a defense. The rewards available to a persistent policy holder in pursuit of such claims can be significant.

### ***Watch for these scenarios.***

There are three kinds of instances in which patent cases have potential for coverage:

- (1) A manufacturer who has advertised a component and

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thus causes a third party to combine the advertised component with other elements and complete, sell and use a product allegedly falling within the patent's claims.

- (2) A product manufactured by a protected process that is advertised in such a way that others are induced to use the infringing process to create the product.
- (3) Advertising that demonstrates the viability of a particular process such that the act of the demonstration is itself a form of infringement.

While this list of factual scenarios triggering potential coverage liability is not exhaustive, these categories suggest that careful attention to the elements of proof in a patent case married to an equally thorough analysis of applicable coverage law can support finding a duty of defense in a given case.

## **LEGAL NEWS YOU CAN USE**

### ● ***Never, Ever Throw Away Your Old Insurance Policies***

Insurance policies often provide coverage for damage that took place years ago, but that was only recently discovered. Cases involving exposure to hazardous substances are an obvious example. Thus, in *Astropak Corp. v. Fireman's Fund Ins. Co.*, a New Jersey appellate court recently ruled that insurance companies that sold Astropak liability policies in the 1970s must indemnify Astropak for

damages associated with waste transported to a landfill from 1973 to 1977. Astropak was sued in 1990. Since insurance companies often contend that they cannot find the policies that they sold to you, you will save a great deal of time and aggravation by making sure that your document retention procedures do not involve the destruction of old insurance policies.

### ● ***Insurance Archeologists***

Gauntlett & Associates works closely in tandem with the Insurance Archeology Group to reconstruct old policies if, in fact, they have been lost or destroyed through the years. Having these records intact is extremely beneficial from both an accounting and legal standpoint. Please contact us for further information.

### ● ***Technology Escrow***

Technology escrow is the practice of securing access to source code and other proprietary materials for the benefit of all parties to a technology transfer agreement. Although it is a relatively new concept, Gauntlett & Associates coordinates with DSI, who is a world leader in the technology escrow industry. Participants in an OEM, VAR, licensing, or lending transaction involving technology benefit from technology escrow in these ways:

- ▶ Protection of licensed technology
- ▶ Technical verification
- ▶ POST (protection of ownership)
- ▶ Collateral preservation
- ▶ Joint venture security

### ● ***New Handbook***

A new resource for professionals involved in their company's insurance coverage will be published by Aspen Law & Business Panel Publishers by year's-end. *The Intellectual Property and Insurance Handbook*, written by David A. Gauntlett, provides, in particular, valuable information to those concerned about selecting the best insurance policies for their company.

## **COMPREHENSIVE GENERAL LIABILITY ("CGL") INSURANCE COVERAGE SCOPE EXPANDED**

### ● ***Trademark, Trade Dress, Copyright, and Trade Secret***

In a score of recent decisions, courts on both the federal and state level across the nation have issued rulings which expand policyholder opportunities to obtain a defense in intellectual property coverage disputes for trade dress, copyright, trademark and trade secret coverage.

### ● ***Piracy and Unfair Competition***

Some insurers still offer coverage identical to that of the 1976 Broad Form Endorsement to the Comprehensive General Liability Policy which includes as enumerated advertising injury offenses "piracy" and "unfair competition." However, in 1986 ISO eliminated piracy and unfair competition and replaced those offenses with the term "misappropriation of advertising ideas

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or style of doing business” in its new Commercial General Liability Policy.

However, ISO provided in a fact sheet provided to brokers and insureds clarified that there was “no change in scope” between the coverage and the earlier offenses and that afforded in the new language it issued. Few courts have yet considered the ramifications of this admission by ISO as aid to the interpretation of insurance coverage under these policies.

## ***UPCOMING SPEECHES AND SEMINARS ON INSURANCE COVERAGE AND INTELLECTUAL PROPERTY***

The American Bar Association’s Annual Meeting in Toronto, Canada, on July 30th to August 5th will include many programs addressing intellectual property and insurance coverage issues.

One of the meeting’s programs features a presentation by David Gauntlett titled, “*The Case for ‘Advertising Injury’ Coverage of Intellectual Property Litigation,*” which will be held during the Torts and Insurance Practice Section of the Annual Meeting on Sunday, August 2, at 1:30 p.m., in the Sheraton Centre, Toronto.

On Tuesday, August 4, at 8:00 a.m., David Gauntlett will address the Business Law Section of the ABA with a speech titled, “*New Horizons in Establishing ‘Advertising Injury’ Coverage for Intellectual Property Lawsuits and When to Seek the Assistance of Insurance Coverage counsel in Intellectual Property Disputes.*” The presentation will be

held at the Westin Harbor Castle in Toronto.

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The Texas Institute of Continuing Legal Education and Houston Law Center are co-hosting the 12th Annual Computer and Information Law Institute from September 23 to 26, 1998 at the Adolphus Hotel in Dallas, Texas. On Thursday, September 24, at 3:45 p.m., David Gauntlett will address what forms of insurance companies can procure to best insulate them from Y2K risks and how traditional forms of insurance respond to a variety of anticipated claims.

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Mr. Gauntlett also will address insurance coverage issues related to the Y2K problem at the Insurance Law Institute sponsored by the University of Texas on Friday, September 25, from 10:45 to 11:45 a.m. The conference will be held at the Renaissance Hotel in Austin.

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David Gauntlett is one of the program faculty for the upcoming Insight conference, “*Intellectual Property Insurance and Claims: Maximizing Coverage for IP Disputes,*” held at Park Lane Hotel in New York City from December 7 to 8. Mr. Gauntlett will address advertising injury claims and intellectual property coverage at the conference on December 7, at 10:30 a.m.

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For more information on these events, contact Vera Loskutoff at (949) 553-1010 ext. 255.

## ***ADVANCE WATCH DECISION DECLARED A ‘SOMEWHAT BIZARRE AND TORTURED APPLICATION OF MICHIGAN LAW’***

In a ruling entered March 7, 1998, Honorable William A. Crane, Judge of the Circuit Court for the County of Saginaw, Michigan, found that “advertising injury” coverage for the offense of “misappropriation of advertising ideas or style of doing business” encompasses claims of trademark and/or trade dress infringement in the case of *American States Ins. Co. v. Hayes Specialties, Inc.*, File No. 97-020037 CK4.

Pursuant to the amended complaint filed in the underlying action brought by Kransco Manufacturing in the Eastern District of Michigan, Northern Division, Kransco alleged that Hayes willfully infringed upon a patent entitled “Game Foot Bag” by selling, distributing and importing a game foot bag commonly known as a “Hacky Sack.” Kransco also alleged that Hayes infringed upon a trademark Kransco allegedly owned for the “sinuous seam in a game foot bag” by selling a similar product likely to cause confusion as to the source of sponsorship of the product.

Though consistent with numerous rulings from around the country, the result in *Hayes Specialties* is most notable in that Judge Crane expressly refused to follow the “unpersuasive and flawed” reasoning of the Sixth Circuit Court of Appeals in *Advance Watch Co., Ltd. v. Kemper Nat’l Ins.*

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*Co.*, 99 F.3d 795 (6th Cir. 1996), a case purportedly applying Michigan law which had found that the offense of “misappropriation of advertising ideas or style of doing business” does not encompass trademark or trade dress infringement claims. The *Hayes Specialties* court stated:

*Advance Watch* stands literally alone in a sea of case law which holds that the policy term “misappropriation of advertising ideas or style of doing business” encompasses claims of trademark and trade dress infringement. There is no need here to engage in any great dissertation on the law. Suffice it to say, the Court has reviewed these cases and in particular those decided since *Advance Watch* and agrees with defendant that the analysis and reasoning of the Sixth Circuit is not only unpersuasive and flawed, but demonstrates a lamentable lack of understanding and grasp of the law of trademark/trade dress, and ultimately led to an unduly narrow holding and somewhat bizarre and tortured application of Michigan insurance law. The case has been roundly criticized and at present appears to be only cited as an example of what the law is clearly not. . . . For reasons which will be quite apparent, this court is convinced that no panel of the Michigan Court of Appeals or the Michigan Supreme Court would follow [the lead of *Advance Watch*] and, accordingly, will also decline to do so. *Id.* at 5-6.

Applying its analysis of the pertinent “advertising injury” offense to the facts before it, the *Hayes Specialties* court reasoned:

If a product’s shape, appearance or ornamental features are specifically designed so that its exhibition or display acts as advertising, any unauthorized copying of such unique and identifying features which causes or may cause confusion as to the source of the product, is a dilution of the injured party’s distinctive trade dress and constitutes either the offense of misappropriation of “advertising ideas” or “style of doing business” triggering advertising injury coverage. Put differently, while there is generally no advertising injury coverage for the mere exhibition or display of a product whose features carry no communicative intent (functional trade dress) such coverage exists when the product’s features are intended to communicate a secondary meaning (non-functional trade dress). *Id.* at 6.

Addressing the factual parsimony of pleadings in federal court which often fail to address facts pertinent to the coverage issues raised by the policy language, the court said:

. . . it is understandable why insurers are probably often required to look “behind the allegations” of the complaint to determine if coverage is possible or “arguable.” That, however, was not, or at least should not have been, the case here. While the *Kransco* complaint is not a stellar example of factual pleading, there is nothing mysterious or confusing about the substance of the allegations made which, as noted above, at least arguably set forth a claim of non-functional trade dress infringement. *Id.* at 8.

As such, the *Hayes Specialties* court refused to follow *Advance Watch* and

instead found that under Michigan law the “advertising injury” offense of “misappropriation of advertising ideas or style of doing business” covered trade dress infringement claims.

Authors David A. Gauntlett and M. Danton Richardson, of Gauntlett & Associates in Irvine, Calif., represented *Hayes Specialties* in this matter. *Hayes Specialties* was represented also by Robert A. Dunn of Dinnin & Dunn, P.C., in Troy, Mich. *American States* was represented by Douglas S. Washburn of Chaklos, Jungerheld & Hahn, P.C., also in Troy, Mich.

Gauntlett & Associates’ **The Insurance and IP Insurance Counselor** is published quarterly to inform clients, friends and other professionals of developments in insurance coverage and IP law. This newsletter is available free of charge to interested parties. The articles appearing in **The Insurance Coverage and IP Counselor** do not constitute legal advice or opinions. Such advice and opinion are provided by the firm only upon engagement with respect to specific factual situations.

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