

THE INSURANCE COVERAGE/IP COUNSELOR

Volume 4, Issue 1: Winter 1999

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,

David A. Gauntlett
Editor
(949) 553-1010
E-mail: dag@gauntlettlaw.com

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



In This Issue

Page 1:

Courts Expand The Range of Business Torts Which May Fall Within Commercial General Liability (“CGL”) Insurance Coverage

Page 2:

Legal News You Can Use: Three Instances in Which Patent Cases Have Potential Coverage

Page 3:

Advance Watch Decision Declared a “Somewhat Bizarre and Tortured Application of Michigan Law”

Page 4:

Upcoming Speeches and Seminars on Insurance Coverage and Intellectual Property

COURTS EXPAND THE RANGE OF BUSINESS TORTS WHICH MAY FALL WITHIN COMMERCIAL GENERAL LIABILITY (“CGL”) INSURANCE COVERAGE

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

However, in a fact sheet provided to brokers and insureds, ISO clarified that there was “no change in scope”

THE INSURANCE COVERAGE/IP COUNSELOR

between the coverage and the earlier offenses and that afforded in the new language it issued. Those few courts which have considered the ramifications of this admission by ISO as beneficial to the interpretation of insurance policies, have found that it supported finding a defense in several unfair competition lawsuits based on claims for “false advertising.”

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 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 selling 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 (“G&A”) works closely with insurance archeologists 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 perspective.

● *ISO Redefines Advertising Injury Coverage in 1998 CGL Policy Form*

Most Department of Insurances throughout the United States have approved ISO's new advertising injury coverage policy form. CG00010798 made the following pertinent changes to advertising injury coverage.

First, it deletes the following offenses: (1) infringement of title; and (2) misappropriation of advertising ideas or style of doing business.

Second, it adds two new offenses: “(1) Infringement upon another's copyright, trade dress, or slogan in your advertisement; and (2) the use of another's advertising idea in your advertisement.” It also includes a specific definition of “advertisement.” Advertisement means “A notice that is broadcast or published to the general public or specific market segments about your goods, products or services for the purpose of attracting customers or supporters.”

ISO also released a contemporaneous explanatory memorandum which noted the inclusion of one new exclusion: “A personal injury and advertising injury (1) caused by or at the direction of the insured with the knowledge that the act would violate the rights of another and would inflict ‘personal and advertising injury.’” In addition to eliminating a separate advertising injury definition and incorporating it in the personal injury definition, ISO included the following comments: “An exclusion has been added to Paragraph A to preclude coverage under circumstances in which the ‘personal advertising injury’ is caused by the insured with the knowledge that the act would violate another's rights and inflict ‘personal advertising injury.’ Although

Coverage B is essentially an ‘intentional acts’ coverage, this exclusion serves the purposes of excluding the intention to commit an offense under ‘personal advertising injury.’ This is similar to the current Exclusion pertaining to the commitment of libel or slander against another intentionally with knowledge of its falsity.”

THREE INSTANCES IN WHICH PATENT CASES 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, articulation of proper arguments, and 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:

THE INSURANCE COVERAGE/IP COUNSELOR

- (1) A manufacturer who has advertised a component and 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 coupled with an equally thorough analysis of applicable coverage law can support finding a duty of defense in a given case. Also, be aware that as of January 1, 1996, claims based on an "offer for sale" may trigger a duty of defense due to the advertising nexus between such claims and the policyholder's advertising activities.

ADVANCE WATCH DECISION DECLARED A 'SOMEWHAT BIZARRE AND TORTURED APPLICATION OF MICHIGAN LAW'

In a ruling entered March 7, 1998, in which G&A represented the policyholder, 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" encompassed 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. v. Kemper Nat'l Ins. 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

THE INSURANCE COVERAGE/IP COUNSELOR

secondary meaning (non-functional trade dress). *Id.* at 6.

UPCOMING SPEECHES AND PUBLICATIONS ON INSURANCE COVERAGE AND INTELLECTUAL PROPERTY

David Gauntlett will speak at the following forums:

- ABA, Intellectual Property Section Spring CLE program held in Washington, D.C. on April 12 - 13, 1999. Mr. Gauntlett will be speaking on the topic of "Offer for Sale Impact on Case Strategy -- The Insurance Perspective."
- Mealey's New Liabilities Confronting the World Insurance Market Conference held in London, England on June 23-24, 1999.
- ABA, Tort and Insurance Practice Section at their annual meeting in Atlanta, Georgia on August 5 - 11, 1999.
- Intellectual Property Law Institute held September, 1999 in Kauai, Hawaii. Mr. Gauntlett will be speaking on "Procuring Insurance Coverage to Minimize the Costs of Intellectual Property Litigation."

M. Danton Richardson will speak at the ACI, Intellectual Property Insurance Conference held May 20-21, 1999 in New York City.

New Handbook

A new resource for professionals involved with their company's insurance coverage will be published by Aspen Law & Business Panel

Publishers by August, 1999. *The Intellectual Property Insurance Coverage Handbook*, written by David A. Gauntlett, provides valuable information to those concerned about selecting the best insurance policies for their company.

David Gauntlett is the author of numerous works including "Exposing the Duplicity of Insurer Analysis of 'Advertising Injury' Offenses" published in Mealey's Emerging Insurance Disputes, Vol. 3, #18, September 17, 1998 and Mealey's Litigation Report Intellectual Property, Vol. 7, #1, October 5, 1998.

Mr. Gauntlett is currently working on a contribution for the L.M. Brownlee publication entitled "Intellectual Property Due Diligence in Corporate Transactions."

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

We invite you to visit our web site at www.gauntlettlaw.com

FIRM ASSOCIATES

Principal

David A. Gauntlett

Associates

M. Danton Richardson
Eileen Spadoni
James A. Lowe
Leo E. Lundberg, Jr.
Stanley H. Shure
Richard Wm. Zevnik

Daniel C. Carmichael, III
Eric R. Little
Dean H. McVay
Raymond J. Liddy
Michelle D. Danley
Richard E. Masson

Gauntlett & Associates' **The Insurance Coverage/IP 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/ IP Counselor** do not constitute legal advice or opinions. Such advice and opinion are provided by the firm only upon situations.

G&A places in high regard its relationship with referring entities and will not take any actions inconsistent with the entity's wishes respecting a client.

For more information, contact Michelle D. Danley at Gauntlett & Associates.

Phone: (949) 553-1010 x255

E-mail: marketing@gauntlettlaw.com

©1999 Gauntlett & Associates

All rights reserved.

G GAUNTLETT & ASSOCIATES
ATTORNEYS AT LAW

18400 Von Karman, Suite 300,
Irvine, California 92612
(949) 553-1010
fax (949) 553-2050

www.gauntlettlaw.com
info@gauntlettlaw.com