

THE INSURANCE COVERAGE/IP COUNSELOR

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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,

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



“REVIEW OF OPPORTUNITIES FOR COVERAGE IN PATENT INFRINGEMENT LAWSUITS”

A recent February/March 2000 newsletter titled “Ideas on Intellectual Property Law” from Laff, Whitesel & Saret, Ltd. carried an article entitled, “Read Between the Lines.” That article suggests that in the Sixth Circuit decision of *United National Ins. Co. v. SST Fitness Corp.*, 184 F.3d 447 (6th Cir. 1999):

- (1) the court properly read the meaning of “advertising injury” coverage law in light of applicable rules of policy construction;
- (2) the decision is well reasoned and should be heeded by policyholders;
- (3) the decision foreclosed opportunities for coverage under offer-for-sale patent infringement claims.

Contrary to the article’s conclusion, the *SST* analysis is anomalous in that it follows prior Sixth Circuit authority which has not been found persuasive in jurisdictions outside the Sixth Circuit. The logic of the Court’s opinion would preclude

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coverage under any form of intellectual property claim, including trademark. This analysis stems from the Sixth Circuit's earlier ruling in *Advance Watch Co., Ltd. v. Kemper Nat'l Ins. Co.*, 99 F.3d 795 (6th Cir. 1996). That case has been roundly criticized by virtually every decision in the country to review its logic.

Illustrative is a recent published opinion by a court applying Texas law.¹

I have been regularly advising my clients who are incorporated in or have their principal places of business within the Sixth Circuit to

¹*Bay Electric Supply, Inc. v. The Travelers Lloyd's Ins. Co.*, 61 F. Supp. 2d 611, 615-617 (S.D. Tex. 1999) ("Numerous courts throughout the country have agreed with Plaintiffs that coverage for trademark and trade dress infringement claims is provided under the 'advertising injury' offense of 'misappropriation of style of or style of doing business' This court respectfully disagrees with the Sixth Circuit [in *Advance Watch*] and concludes, as did the court in *Industrial Molding*, that the insurance policy at issue '[does] not limit [Travelers] liability to suits arising under the common-law tort of misappropriation. 'If the drafters of this insurance policy wanted to limit their exposure to "suits arising under the common-law tort of misappropriation" . . . it would have been a simple matter to do so.' . . . The court agrees with Plaintiffs that misappropriation of advertising ideas or style of doing business encompasses claims for trademark and trade dress infringement."').

pursue coverage claims in other jurisdictions, i.e., where the underlying action is pending or where the insurer issued its policy to the insured. Those jurisdictions may often apply the law other than that within the Sixth Circuit in such cases.

Also illustrative is the case of *Homedics, Inc. v. Valley Forge Ins. Co.*, No. SA CV 99-928 DOC (ANx), 1999 U.S. Dist. LEXIS 17317 (C.D. Cal. Oct. 29, 1999) (unpublished order). Therein, the court found that defendant CIGNA Casualty & Surety Co. had a duty to defend Michigan-based Homedics for claims of patent infringement under a 1986 Insurance Services Office ("ISO") policy provision. The lawsuit was for advertising-based "offer for sale" and "inducement" patent infringement claims. The court relied on *Everett Assoc. Inc. v. Transcontinental Ins. Co.*, 57 F. Supp. 2d 874, 881-883 (N.D. Cal. 1999), in finding that the amendment of the Patent Act to include "offers to sell" encompassed advertisements as a basis for patent liability and also created a damage remedy for same. To wit: damages arising out of the cost of corrective advertising.

The court in *United National Insurance Co. v. SST Fitness Corp.*, 182 F.3d 447 (6th Cir. 1999), found no duty to defend for claims of patent inducement under a 1986 ISO policy provision. It relied on the unpublished Court of Appeal decision in *Synergystex Int'l, Inc. v. Motorists Mutual Ins. Co.*, No. 2290-M, 1994 Ohio App. LEXIS 3354, 1994 WL 395626 (Ohio Ct.

App. July 27, 1994), and *Advance Watch Co. Ltd. v. Kemper National Insurance Co.*, 99 F.3d 795, 802 (6th Cir. 1996), which narrowly defined the advertising injury coverage for "misappropriation of advertising ideas or style of doing business" to be limited to common law misappropriation. Following its notation of the pertinent advertising injury and personal injury coverage provisions, the court stated, "The policy does not refer to trademark, trade dress or patent infringement in defining coverage or in setting forth the exclusions from coverage." *Id.* at 449.

The key to the court's reasoning is its statement that:

In *Advance Watch*, we reasoned that the phrases "advertising injury," "misappropriation," advertising ideas, and "style of doing business" were not ambiguous terms because "each of these terms have either an established dictionary meaning or a meaning derived from case law." *Advance Watch*, 99 F.3d at 802.

Id. at 450.

The court noted that the rules for policy construction in Ohio were the same as those in Michigan, as well as Tennessee; thus the *Advance Watch* case, applying Michigan law, the *Sholodge, Inc. v. Travelers Indemnity Co.*, 168 F. 3d 256 (6th Cir. 1999) case, applying Tennessee law, and this case, applying Ohio law, should all follow the same interpretive principles.

The court, in contrast to the rulings of a majority of jurisdictions, found that since there was no express cause of action for disparagement, libel or slander, the injury allegations to the precise name, business reputation and goodwill could not create a duty to defend.²

The *SST* court did not analyze whether “offer-for-sale” patent infringement claims may bear a causal nexus to the insured’s advertising activities or whether in that context claims for such infringement might potentially fall within one or more of the enumerated “advertising injury” offenses. Indeed, the only court in any published order to address that precise question found for the insured. See *Everett Associates, Inc. v. Transcontinental Insurance Co.*, 57 F. Supp. 2d 874 (N.D. Cal. 1999).

²This is directly contrary to the ruling of the Supreme Court of Maine in *Foundation for Blood Research v. St. Paul Fire & Marine Insurance Co.*, 730 A.2d 175 (Me. 1999). Therein the court stated:

We have often said that “insurance policies are liberally construed by the court in favor of the insured and any ambiguity in the contract is resolved against the insurer. Citing *Peerless Ins. Co. v. Wood*, 685 A.2d 1173, 1174 (Me. 1996). Therefore, we interpret the term ‘belittle’ in its ordinary meaning, and we do not confine its meaning to the tort of belittlement.”

Id. at 180.

Patent coverage cases are difficult because they often require careful analysis of the elements in the underlying case that could establish both causal nexus and evidence of an enumerated “advertising injury” offense. The simplistic analysis of the *SST* court, while providing a bright line which is easy for courts to apply, does not properly interpret the policy language in light of applicable rules of policy construction. To dissuade policyholders from at minimum providing notice to their insurers in such cases and in an appropriate case under the most advantageous potentially applicable coverage law, may be a disservice to them.

RECENT AND UPCOMING PUBLICATIONS ON INSURANCE COVERAGE AND INTELLECTUAL PROPERTY

David Gauntlett’s recent publications include:

An update to his existing Chapter 29 entitled “Insurance Coverage for Intellectual Property Lawsuits,” which is published by Matthew Bender in its *Intellectual Property Counseling and Litigation* volumes.

University of Baltimore School of Law will be publishing an article written by Mr. Gauntlett entitled, *Survey of 1999 Case Law Analyzing Coverage for Intellectual Property Lawsuits*.

The John Marshall Law School will be publishing an article written by Mr. Gauntlett entitled, *Insurance*

Coverage for Intellectual Property Claims and its Implications for E-commerce.

The March 2000 issue of the Journal of Insurance Coverage will feature an article written by Mr. Gauntlett entitled, *Analyzing Insurance for Antitrust Lawsuits*.

David Gauntlett is the author of *Insurance Coverage for Intellectual Property Assets*, which was recently published by Aspen Law & Business. The first supplement for the book is scheduled for release in April 2000. Both the book and the supplement are available from the Publisher on a thirty (30) day free approval. The book is \$160.00 plus 8.5% shipping and handling when full payment is enclosed with the order. Call 1-800-638-8437.

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

SPECIAL PROJECTS

Mr. Gauntlett will be the host of a new Radio Show entitled, “Gauntlett Law: It Is What It Is.” It will address a number of issues such as:

- ▶ Insurance Coverage for Cyberspace Lawsuits
- ▶ Protecting IP Rights through Insurance Coverage

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- ▶ Understanding IP Rights and their impact on stockholder value in the Information Age
- ▶ The role of insurance coverage in addressing the risks of antitrust litigation.

This show will air on **June 6, 2000** and continue each Tuesday on KFNX 1100 AM out of Phoenix, AZ from 8:00 a.m.–9:00 a.m. PDT and on WALE 990 AM out of Providence, RI from 11:00 a.m.–12:00 noon EDT. Both stations, with their 50,000 watt signals, will reach an area of four million people in Arizona and over three million people in Rhode Island, Massachusetts and Connecticut.

Mr. Gauntlett will also be a Guest Lecturer at the University of California, Berkeley (Boalt Hall School of Law) this fall semester teaching a course entitled “Insurance Coverage for Intellectual Property, Antitrust and e-Commerce Exposures” from September to December, 2000.

We invite you to visit our web site at
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