

THE POLICYHOLDER ADVOCATE/IP COUNSELOR

NEWSLETTER

Volume 6, Issue 3: Winter 2002

NEWS OF NOTE

Lockwood International, B.V. v. Volm Bag Co., Inc., 273 F.3d 741 (7th Cir. (Wis.) 2001) was National Law Journal's Case of the Week for the week of Dec. 24-31, 2001.

David A. Gauntlett, a member of LAWCAST, Intellectual Property Board of Editors', views on *Advice to IP Lawyers hit by September 11 Terrorist Attacks* was the tip of the week in Oct. 2002.

The court in **Walter L. Maddox, III v. St. Paul Fire and Marine Ins. Co., ___ F. Supp. 2d ___, 2001 U.S. Dist. LEXIS 21892 (W.D. Pa. Dec. 27, 2001)** cited the Gauntlett treatise, *Insurance Coverage of Intellectual Property Assets*, § 3.03 (Aspen



Publishers, Inc. 2000), explaining that the prior publication exception should not apply to intellectual property torts.

SUMMARY OF RECENT IP COVERAGE CASES

I. Lockwood Int'l, B.V. v. Volm Bag Co., Inc., 273 F.3d 741 (7th Cir. (Wis.) 2001)

Seventh Circuit Rejects Insurer Collusion with Plaintiff to Deprive Insured of Defense

Justice Posner issued an opinion, joined by Justices Flaum and Manion, reversing and remanding the decision of Judge Randa. The panel, in an opinion authored by Justice Posner, found that a liability insurer with an obligation to defend a third-party action against its policyholder was precluded from avoiding its defense obligation by paying the plaintiff in the third-party

action to replead covered and potentially covered claims as non-covered claims. The Court of Appeal condemned the insurers' tactics in unequivocal terms:

We have difficulty imagining a more conspicuous betrayal of

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We Specialize in policyholder insurance coverage and litigation re patent, trademark, copyright, trade secret, business, labor, environmental, and antitrust disputes

Specific services offered include:

1. IP insurance coverage litigation
2. IP litigation
3. Expert witness on ins. coverage issues, including fee disputes
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 - Choice of forum, and
 - Negotiation
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7. Legal malpractice defense - as expert and percipient witnesses
8. Ins. IP issues appellate practice

If you have a topic you would like to see addressed in future issues, please feel free to contact us with your suggestions.

DAVID A. GAUNTLETT Editor
NAJWA TARZI Asst. Editor
TELEPHONE (949) 553-1010
E-MAIL marketing@gauntlettlaw.com

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the insurer's fiduciary duty to its insured than for its lawyers to plot with the insured's adversary a repleading that will enable the adversary to maximize his recovery of uninsured damages from the insured while stripping the insured of its right to a defense by the insurance company.

Id. at 744.

The Court of Appeal's decision represents the vindication of a critical right of policyholders to be defended by their insurer without the risk that their insurer will make a substantial payment to the policyholder's adversary in order to give that adversary an upper hand in litigation by funding the further prosecution of the litigation while at the same time depriving the policyholder of its **right** to a defense.

The Court of Appeal reaffirmed the well-established principle that duty to defend is determined by facts, not theories alleged. The Court of Appeal noted that North River had paid the third-party plaintiff to delete certain legal theories that triggered North River's defense obligation pursuant to North River's "advertising injury" and "personal injury" claims that were potentially covered.

The Court of Appeal concluded that the legal theories of tortious interference and unfair competition that rely in any way upon factual allegations within any of the "advertising injury" or "personal injury" offenses trigger a defense obligation. In fact, the Court of Appeal concluded that legal theories

such as "breach of fiduciary duty" could trigger a defense obligation if the third-party plaintiff relied on facts at trial that were "excluded" by the agreement between North River and the third-party plaintiff:

Suppose that in an effort to prove its remaining theories of liability, such as **breach of fiduciary duty**, which disparagement and other excluded charges would bolster (especially since [the third-party plaintiff] is seeking punitive damages), [the third-party plaintiff] presents evidence of these charges at trial. ... [T]he introduction of such evidence will trigger North River's duty of indemnity and defense.

Id. at 746.

II. Hameid v. National Fire Ins. of Hartford, 114 Cal. Rptr. 2d 843 (Cal. App. 2001)

Former Employee's Solicitation Using Customer Lists and Other Marketing Data Triggers Coverage in Trade Secret Case

The court reversed the decision of the trial court. It found a defense arose under the "advertising injury" coverage of the policy, but found triable issues of fact respecting the claims for breach of the covenant of good faith and fair dealing. At issue were claims that the insured had misappropriated customer lists, price lists, and pricing policies to solicit KWP's customers and undercut its prices when it procured the services of two former salon day spa workers,

Doreen Howard and Heather Billington, who previously worked for the plaintiff, Salon T'Shea.

The court properly and broadly defined "advertising," finding there was no ground for a narrow interpretation, as often urged by insurers. It stated:

Plaintiff and its employees solicited customers by advertising in the Pennysaver, sending mailers, and telephoning Howard and Billington's clients from Bellezza. Viewed in the context of a start-up, community beauty salon, these activities "fit[] neatly into the commonly understood meaning of advertising . . .," i.e., "the act of calling public attention to one's product through widespread promotional activities. [Citations.]" (*El-Com Hardware, Inc. v. Fireman's Fund Ins. Co.* (2001) 92 Cal.App.4th 205, 217 [catalog distributed by manufacturer held to be "advertising"].) Here, plaintiff's alleged wrongful conduct constituted "advertising" under the policy.

Id. at 848.

It reasoned, "[T]he claims for misappropriation of trade secrets in the underlying action involved marketing and sales, not manufacture of the product." *Id.* at 848. Quoting from *Sentex II*, it stated, "In this day and age, advertising cannot be limited to written sales materials, and the concept of marketing includes a wide variety of direct and indirect advertising strategies." *Id.* at 848-

49.

Finding the “misappropriation” offense satisfied by the allegations, it emphasized that:

KWP complained plaintiff misappropriated its confidential customer lists to identify and solicit clients about whom it kept private information, including the frequency of visits, preferred services, who assisted with those services, money spent for a visit, and birthdays. These claims of misappropriation of trade secrets related to marketing, not performance of services or manufacturing of a product.

Id. at 849.

III. **Walter L. Maddox, III v. St. Paul Fire and Marine Ins. Co., ___ F. Supp. 2d ___, 2001 U.S. Dist. LEXIS 21892 (W.D. Pa. Dec. 27, 2001)**

First Publication Exclusion Does Not Bar Claims for Trademark Infringement Despite Use of Mark Before Inception of Policy

Chief Judge D. Brooks Smith found a duty of defense arose for claims of trademark infringement under a 1986 ISO policy. At issue was whether the “first publication” exclusion applied to bar claims for Lanham Act, Pennsylvania Trademark Act violations and unfair competition claims. It states:

“This insurance does not apply to ‘personal injury’ or ‘advertising injury’ . . . arising

out of oral or written publication of material whose first publication took place before the beginning of the policy period.”

Id. at *3.

The plaintiff in the underlying action, Cvetnic, alleged that Walter L. Maddox, III, a musician who performs in a group named “The Marcells,” was infringing a trademark obtained by Cvetnic, a former member of the Marcells, on June 25, 1996. Although Cvetnic noted in his complaint that The Marcells trademark was first used on February 9, 1961, he did not state the date of the first infringement.

Defendants argued that the plain meaning of this language is that any “advertising injury” caused by publication of material that has been published by the insured prior to the beginning of the policy period is not covered, even if the prior publication did not cause an injury. By contrast, the defendants urged that the prior publication exclusion did not apply to any claims falling within the “misappropriation of advertising ideas or style of doing business” offense, such as the instant one for trademark infringement, because the “oral or written publication” modifier of the “first publication” exclusion did not also modify the coverage available under that offense.

The court also found a further reasonable construction was that “advertising injury” is only excluded when there is a wrongful publication prior to the policy period, because logically the point of the exclusion is to prevent an individual who has caused an injury from buying

insurance so that he can continue his injurious behavior.

The court noted that a number of courts interpreting the prior publication exclusion have assumed the prior publication must cause the same sort of injuries as the latter publication; thus an insured could reasonably believe that this interpretation was correct. The court found this a particularly reasonable alternative interpretation because “USF&G stated that the prior publication exclusion would apply if there was an ‘infringement’ prior to the policy period.” *Id.*

It reasoned:

Courts are split on whether the prior publication exception language is ambiguous in its application to non-tortious violations, and no court has ever applied Pennsylvania law to this issue. . . . David A. Gauntlett, Insurance Coverage of Intellectual Property Assets § 3.03 (Aspen Publishers, Inc. 2000) (explaining that exception should only apply to torts and not other types of advertising injury) I need not reach this issue because defendants have not alleged any injurious /infringing publication prior to the policy period, so even if the exclusion applies to trademark actions it does not apply here.

Id. at *11 n.2.

Under the injurious publication test, the insured was not charged with responsibility for any infringing publication of “The Marcells” trademark by the express allegations of the complaint. Pennsylvania law

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limited the coverage analysis to the complaint and did not permit reference to extrinsic evidence, so a defense duty was clearly implied. The court also permitted a claim to lie against St. Paul even though USF&G was the actual insurer issuing the policy because St. Paul created confusion in the relationship with the insured.

PUBLICATIONS BY DAVID A. GAUNTLETT

David A. Gauntlett is the author of *Insurance Coverage of Intellectual Property Assets*, which is published by Aspen Law & Business. Both 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.

ARTICLES ON INSURANCE COVERAGE AND INTELLECTUAL PROPERTY BY DAVID A. GAUNTLETT

"Offer for Sale" Patent Infringement Lawsuits: New Opportunities for Insurance Coverage, New Controversies, will appear in Volume 54, No. 4 issue of SMU Law Review.

Plaintiff's Rights to Use Coverage to Enhance Recovery in Intellectual Property and Antitrust Lawsuits will appear in an upcoming issue of Journal of Insurance Coverage.

UPCOMING SEMINARS ON INSURANCE COVERAGE AND INTELLECTUAL PROPERTY

Gauntlett & Associates is hosting a series of lunchtime Roundtable discussions throughout the country, led by Mr. Gauntlett, on "Insurance Coverage for IP Litigation." The dates and locations of these discussions are:

Jan. 18, 2002 - Las Vegas, NV

Jan. 22, 2002 - Phoenix, AZ

Jan. 23, 2002 - Dallas, TX

Jan. 24, 2002 - Portland, OR

Jan. 25, 2002 - Atlanta, GA

Please contact John Keffalas at (949) 553-1010 for further information or to register for an upcoming session.

2002 Midwinter Meeting of the Section of Intellectual Property Law **1/19/02-1/23/02** - Marriott Camelback Inn Resort, **Scottsdale, AZ**

Mr. Gauntlett will be conducting a lunchtime toolbox session on insurance coverage for Intellectual Property claims at the ABA Tort & Insurance Practice Section's 10th Annual Insurance Coverage Litigation Committee Midyear Program - **February 21-23, 2002**, Ritz Carlton, **New Orleans, LA**

Mr. Gauntlett will also be speaking and leading a panel discussion re Insurance Coverage for Intellectual Property Claims at the ABA IPL Section Spring CLE Program - **April 11-12, 2002 - Washington, DC.**

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E-mail: marketing@gauntlettlaw.com

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