

# THE POLICYHOLDER ADVOCATE/IP COUNSELOR

## NEWSLETTER

Volume 8, Issue 2: Winter 2004

### COURT OPINIONS CITING GAUNTLETT & ASSOCIATES

(1) *King Construction v. Continental Western Ins. Co.*, No. WD 61555, \_\_\_ S.W.3d \_\_\_, 2003 WL 22432871 (Mo. App. W.D. Oct. 28, 2003)

The court affirmed the trial court's finding of a duty to defend where a custom home builder was accused of copyright infringement when it used a copyrighted house plan as its own.

The court distinguished *Construction Management Systems Inc. v. Assurance Co. of America*, 23 P.3d 142, 146 (Idaho 2001) because there, the advertising followed completion of the home; here, it accompanied home construction. The court stated:



As one commentator has noted:

“The court appeared to narrowly confine its analysis to the precise facts of the pleading, i.e., a complaint allegations rule analysis, which does not appear in accord with Idaho law. It also fails to recognize that liability for copyright infringement may be accomplished by a mere act of distribution through promotional activity that can itself involve a causal nexus to advertising. The insured failed to argue other applicable decisions that might have supported a result in its favor. Nor did it call to attention specific facts relating to promotional advertising that would create liability for direct copyright infringement.”

**David A. Gauntlett, Recent**

*Developments in Intellectual Property Law*, 37 TORT & INS. L.J. 543, 550 (Winter 2002).

*Id.* at \*6.

### GAUNTLETT & ASSOCIATES THE POLICYHOLDER ADVOCATE

*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. *Insurance coverage focusing on IP and Antitrust Claims*
2. *IP litigation*
3. *Expert witness on ins. coverage issues, including fee disputes*
4. *Counsel to IP case-in-chief counsel for ins. coverage, including:*
  - *Choice of forum, and*
  - *Negotiation*
5. *Consultant to corporations regarding what type of policies to purchase to protect against IP litigation*
6. *Representation in arbitrations and mediations*
7. *Legal malpractice defense - as expert and percipient witness*

*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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**(2) *Hameid v. National Fire Ins. of Hartford*, 31 Cal. 4th 16, 1 Cal. Rptr. 3d 401, 71 P.3d 761 (Cal. 2003)**

As Amicus Counsel, Gauntlett & Associates advanced the argument which the court adopted in footnote 3, which states, “We have limited our review to the question presented and do not have occasion to decide whether widespread promotional activities directed at specific market segments constitute advertising under the CGL policy.” It thereby clarified that the scope of advertising falling within the court’s definition was not as minimal as the insurers urge.

**(3) *Hewlett Packard Co. v. ACE Prop. & Cas. Co.*, No. C-99-20207 JW, U.S. D.C., N.D. Cal., Nov. 23, 2003 [Hewlett Packard represented by Gauntlett & Associates]**

In the first post-*Hameid* case to address the meaning of “advertising,” the court again denied ACE’s Motion for Reconsideration, stating:

Ace’s motion for reconsideration is premised on the California Supreme Court’s decision in *Hameid v. National Fire Ins.*, 31 Cal. 4th 16 (2003). . . . In *Hameid*, the California Supreme Court clarified that for purposes of a comprehensive general liability policy, “advertising” means “widespread promotional activities usually directed to the public at large.” *Id.* at 24. The *Hameid* decision, however, does not conclusively negate coverage. The *Hameid* decision did not address the

issue before this court: whether a package insert in a product that is distributed and sold worldwide is “advertising.” Indeed, the *Hameid* decision expressly declined to address the question of “whether widespread promotional activities directed at specific market segments constitute advertising under the CGL policy.” *Id.* at 24, n.3. Arguably, HP’s package insert is widespread promotional activity directed at a specific market segment.

*Id.* at p. 5.

**(4) *Nikken v. AMICO*, U.S.D.C., C.D. of Cal., Case No. SA-CV-01-925 DOC (MLGx), Dec. 15, 2003 [Nikken represented by Gauntlett & Associates]**

The Court’s Minute Order of December 15, 2003 denied AMICO’s Motion for Reconsideration of the Court’s April 14, 2003 Order. The April 14, 2003 Order, in favor of Nikken, found breach of contract by AMICO as a matter of law and that AMICO committed bad faith as a matter of law.

A brief review of the facts reveals that nearly four months after Nikken’s tender, AMICO agreed to provide a complete defense to the underlying Amway Action, yet AMICO did not in fact do so. AMICO insisted on unilaterally reducing the amount of Nikken’s defense fees between covered and uncovered claims, but no payment was made. When AMICO did finally reimburse Nikken for defense fees, it allocated the fees.

Thus, during the pendency of the Amway Action, AMICO was successful in paying less than one-third of the defense fees incurred by Nikken. On November 20, 2002 Nikken and AMICO settled Nikken’s remaining claim for defense fees. The fact that the parties settled Nikken’s defense fee claims does not in any way change the fact that AMICO failed to provide Nikken with a meaningful defense during the Amway litigation.

The Court’s April 14, 2003 Order entitles Nikken to recover the attorneys’ fees and costs attributable to Nikken’s pursuit of policy benefits from AMICO. Therein the court stated:

[T]he insured may be entitled to damages where the insurer acts unreasonably or without proper cause in refusing to settle a claim against its insured. To prove the insurer acted in bad faith, the insured must show that the insurer had a reasonable opportunity to settle within policy limits, the insurer rejected or failed to effectuate that opportunity, and in doing so acted unreasonable under the circumstances. The Court has already found these elements to be met.

(Citation omitted.)

**(5) *American Century Servs. Corp. v. American Int’l Specialty Lines Ins. Co.*, No. 01 Civ. 8847 (GEL), 2002 U.S. Dist. LEXIS 15016 (S.D.N.Y. Aug. 14, 2002)**

At issue was a two-year

investment management insurance policy's coverage for patent infringement claims raised by parties against American Century during the policy period.

The court noted that the question before it was novel:

The majority of the cases, as well as the academic scholarship on the topic, focus on whether insurers have a duty to defend insureds against infringement claims under the advertising injury provisions of commercial general liability insurance policies. *See, e.g., Tradesoft Technologies, Inc. v. Franklin Mut. Ins. Co.*, 329 N.J. Super. 137, 149-51, 746 A.2d 1078, 1085-86 (App. Div. 2000); *FileNet Corp. v. Chubb Corp.*, 324 N.J. Super. 476, 500, 735 A.2d 1203, 1216 (Law Div. 1997), *aff'd*, 324 N.J. Super. 419, 735 A.2d 1170 (App. Div. 1999); David A. Gauntlett, *Patents and Insurance: Who will Pay for Reimbursement?*, 4 B.U.J. Sci. & Tech. L. 6, Spring 1998.

*Id.* at \*11.

**(6) *Maddox v. St. Paul Fire & Marine Ins. Co.*, 179 F. Supp. 2d 527 (W.D. Pa. 2001)**

The chief issue was whether the “first publication” exclusion applied to bar a defense for the asserted trademark infringement claims.

The court noted:

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. Compare *Adolfo House Distributing Corp. v. Travelers Prop. and Cas. Ins. Co.*, 165 F. Supp. 2d 1332, 1341-42 (S.D. Fla. 2001) (holding that prior publication exclusion does not apply to non-tortious injuries . . .); *Irons Home Builders, Inc. v. Auto-Owners Ins. Co.*, 839 F. Supp. 1260, 1264-65 (E.D. Mi. 1993) (same); *Arnette Optic Illusions Inc. v. ITT Hartford*, 43 F. Supp. 2d 1088, 1096 (C.D. Cal. 1998) (same); **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) . . . .

*Id.* at 531 n.2.

## INSURANCE COVERAGE FOR JOINT VENTURES

A joint venture is an entity formed by two or more businesses that want to pursue a specific purpose for a specified period of time. While some states require a legal filing of the venture, other states recognize any entity that meets the definition.

A joint venture can consist of sole

proprietors, corporations, partnerships or any combination of these entities. Insurance policies generally do not cover a joint venture unless the venture's name is shown on the policy as a “named insured.”

The standard liability policy also contains an exception to coverage for past entities and unnamed partnerships or joint ventures. It is always prudent to remove any “past entity exclusion” when coverage for a previous entity is sought.

A sample “persons insured” provision of a Commercial General Liability policy states:

If you are designated in the Declarations as:

\* \* \*

- (b) a partnership or joint venture, you are insured. Your members, your partners and their spouses also are insureds, but only with respect to the conduct of your business.

The “separation of insureds” provisions of the 1990-1993 policies state:

Except with respect to the Limits of Insurance, and any rights or duties specifically assigned in this Coverage Part to the first Named Insured, this insurance applies:

- (a) as if each Named Insured were the only Named Insured; and

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- (b) separately to each insured against whom claim is made or "suit" is brought.

An example of how this policy comes into play is discussed herein. Company "X" was alleged to be, and in fact was, a member of the Company "Y" joint venture, and was alleged to have committed acts of unfair competition in its capacity as a member of the "Y" joint venture.

Some policy forms may include coverage for joint ventures as defined insured, thereby extending the defense obligation directly to co-defendants in a pending lawsuit.

The acts of which "X" was accused were, in part, independent of the acts of which "Y" was accused. Consequently, when these factual allegations are analyzed with the above provisions in mind, as well as the "separation of insureds" provisions, two conclusions result.

First, "Y"'s and "X"'s respective coverage claims (and the respective contract rights on which those claims are based), are independent. Insurer independently owed both "X" and "Y" a defense.

Second, and as a consequence of the first conclusion, a release by "Y" of its coverage claims against insurer arising from the underlying action (as opposed to a policy release), would not constitute a release of "X"'s coverage claims.

## 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 DAVID A. GAUNTLETT IS SPEAKING AT OR ATTENDING

Licensing Executives Society Los Angeles Chapter - Luncheon Presentation [Mr. Gauntlett is Featured Speaker] - Jan. 20, 2004, Los Angeles, CA.

ABA IPL Section Midwinter Meeting [Mr. Gauntlett is Chair of Special Committee on Insurance] - Jan. 24-28, 2004, Westin, Rancho Mirage, CA.

ABA Insurance Coverage Litigation Committee CLE Seminar [Mr. Gauntlett will present panel discussion] - March 4-6, 2004, The Westin La Paloma, Tucson, AZ.

Licensing Executives Society San Francisco Chapter - Luncheon Presentation [Mr. Gauntlett is Featured Speaker] - March 9, 2004, San Francisco, CA.

ABA Business Section - Spring Meeting [Mr. Gauntlett will lead panel presentation] - April 1-4, 2004 - Seattle, WA.

ALI-ABA Litigation Program - Litigating Trademark, Domain Names and Unfair Competition

Cases [Mr. Gauntlett is Featured Speaker] - April 22-23, 2004, Chicago, IL.

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