ARE TRADEMARK INFRINGEMENT CLAIMS COVERED BY "ADVERTISING INJURY" INSURANCE?

by William Brutocao

{1}To what extent might intellectual property claims be covered by insurance is a recurring and unresolved question. Numerous courts have considered whether such claims are covered by "advertising injury" coverage. It appears settled that patent infringement claims are not covered on the rationale that patent infringement occurs in the sale or importation of the infringing product, not in its advertising.[1]

{2}Whether trademark infringement claims are covered by "advertising injury" clauses is another matter. In two opinions handed down within one week of each other, the Sixth Circuit in Advance Watch Co. v. Kemper National Insurance Co.[2] and California's Second District Court of Appeal in Lebas Fashion Imports of USA, Inc. v. ITT Hartford Insurance Group[3] reached opposite conclusions. Both reviewed similar claims and similar policy language. Advance Watch found no coverage, therefore no duty to defend, and reversed the district court's[4] ruling on summary judgment in favor of the insured. Lebas, however, found a duty to defend and reversed summary judgment, which had been entered in the insurer's favor.

{3}Lebas was filed for publication on October 29, 1996. Advance Watch followed one week later on November 5, 1996. The Lebas court then modified its opinion on November 27, 1996, in part to note its disagreement with Advance Watch. The modification added a lengthy footnote[5] which articulated why the California

court rejected the Sixth Circuit's analysis. In rejecting Advance Watch, the Lebas court explained that the Sixth Circuit "did not apply, as we are required to do under California law, the principle that disputed policy language must be examined through the eyes of a layman rather than an attorney or insurance expert" and criticized the Sixth Circuit's analysis as a "narrow technical approach to policy interpretation."[6]

{4}Lebas and Advance Watch thus stand in direct conflict. It is too soon to tell which of these two cases will have a stronger following. At this juncture, however, Lebas seems to have the edge.

{5}In a disposition not designated for publication, the Ninth Circuit, without mentioning Advance Watch, followed Lebas in Letro Products, Inc. v. Liberty Mutual Insurance Co., 1997 WL 272245. Letro Products was decided May 21, 1997. Under Ninth Circuit Rule 36-3[7] Letro Products will not be officially published and cannot be cited as a precedent. Nevertheless, in that case the Ninth Circuit reversed summary judgment for the insurer and found a duty to defend claims for trademark and trade dress infringement under an advertising injury clause which was identical to the clause in Lebas. The Ninth Circuit was applying California law, and explained: "Because we do not believe there is 'convincing evidence' that the California Supreme Court would decide this issue differently than did the California appellate court in Lebas, we follow that decision and hold that claims for trademark infringement are potentially covered under the 'advertising injury' clause of a CGL policy." Advance Watch apparently was not even considered.

{6}Recently, the Southern District of New York, applying New York law, specifically rejected the Advance Watch analysis in Energex Systems Corp. v. Fireman's Fund Insurance Co.,[8] decided June 25, 1997. The Energex court, noting that the policy language was identical with the language in Advance Watch nevertheless declared Advance Watch to be inapposite because the Sixth Circuit had "interpreted it according to Michigan, not New York law."[9]

{7}In Energex, the underlying suit included claims for patent infringement, trademark and trade dress infringement, dilution, and breach of contract. The court concluded that neither patent infringement nor breach of contract claims could be covered, but trade dress and trademark infringement claims were potentially covered and therefore the insurer had a duty to defend the entire action under the principle that if there is one claim potentially covered in the case, the insurer must defend the entire action.

{8}Energex thus joins a growing list of District Court decisions which have found a potential for coverage of trademark and trade dress infringement actions. These include: American Economy Insurance Co. v. Reboans, Inc., 900 F.Supp. 1246, 34 U.S.P.Q.2d 1692 (N.D. Cal. 1994);[10] Poof Toy Products, Inc. v. United States Fidelity & Guaranty Co., 891 F.Supp. 1228 (E.D. Mich. 1995); Dogloo, Inc. v. Northern Insurance Co. of New York, 907 F.Supp. 1383 (C.D. Cal. 1995); P.J. Noyes Co. v. American Motorists Insurance Co., 855 F.Supp. 492 (D.N.H. 1994); and Union Insurance Co. v. The Knife Co., 897 F.Supp. 1213 (W.D. Ark. 1995).

{9}With the exception of Advance Watch, momentum is building in favor of the argument that trademark and trade dress infringement claims are potentially covered under advertising injury insurance, and that there is therefore a duty to defend.

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Endnotes

1. See, e.g., Bank of the West v. Super. Ct., 2 Cal.4th 1254, 10 Cal.Rptr.2d 538 (1992); Everest & Jennings, Inc. v. American Motorists Ins. Co., 23 F.3d 226 (9th Cir. 1994); Iolab Corp. v. Seaboard Sur. Co., 15 F.3d 1500, 1506 (9th Cir. 1994).

2. 99 F.3d 795 (6th Cir. 1996).

3. 50 Cal.App.4th 548, 59 Cal.Rptr.2d 36 (1996).

4. Advance Watch Co. v. Kemper Nat'l Ins. Co., 878 F.Supp. 1034 (E.D. Mich. 1995).

5. 59 Cal.Rptr.2d at 47, n.14. The November modification is not the only unusual aspect of the Lebas case. The decision was originally handed down in April and reported at 44 Cal.App.4th 531, 52 Cal.Rptr.2d 26 (1996). Rehearing was granted. The April opinion was vacated, and substantially the same opinion was handed down in October.

6. Id.

7. Rule 36-3: Any disposition that is not an opinion or an order designated for publication under Circuit Rule 36-5 shall not be regarded as precedent and shall not be cited to or by this Court or any district court of the Ninth Circuit, either in briefs, oral argument, opinions, memoranda, or orders, except when relevant under the doctrines of law of the case, res judicata, or collateral estoppel.

8. 1997 WL 358007 (S.D.N.Y.)

9. Id. at 12, n.2.

10. Reboans has its own conflicting opinions. Former Justice Barbara Caulfield, who retired from the bench in September, 1994, originally ruled in favor of the insurer in Reboans I, 852 F.Supp. 875 filed May 2, 1994. That opinion was vacated, however, in Justice Jensen's opinion filed December 27, 1994.

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