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I. INTRODUCTION

This action for insurance coverage arose out of the settlement of an underlying action for trademark infringement. The California Supreme Court considered whether certain insurance policy provisions relating to advertising liability arising from "title" or "slogan" infringement covered infringement of a trademarked name. The court, interpreting the provisions narrowly, held that the policy provisions at issue did not provide coverage for the infringement of a trademark. As interpreted by the court, the coverage clause only insured against infringement of names of literary or artistic works or names that were slogans. The clause did not insure against infringement of a trademarked word embodied in a slogan. Further, the court found that an exclusion clause in the policy expressly excluded coverage for infringement of a registered trademark, service mark or trade name unless that trade mark, service mark or trade name was a title or slogan. The court analyzed the meaning of the word "title" and found that "title" could not subsume the definitions of "trademark," "service mark," or "trade name" as understood in the policy. The only meaning of the word "title" that fit within the interpretation of the policy was that embodied in the name of a literary or artistic work. Having found that the policy did not cover trademark infringement, the court did not reach the second issue of whether Insurance Code section 533 would bar indemnity for willful trademark infringement.


2 Candidate for J.D., Santa Clara University School of Law, 2000. The authors would like to thank the editors of the Santa Clara Computer and High Technology Law Journal for their efforts.

II. FACTUAL AND PROCEDURAL BACKGROUND

This case arose from a dispute over trademark infringement of a registered mark used to identify a real estate developer in Santa Clarita Valley. Newhall Land and Farming Company ("Newhall") sued Easton Investments II ("Easton") and Westcreek Properties, Ltd. ("Westcreek"), for infringement of the registered mark "Valencia" ("Newhall action"). Geoffrey H. Palmer, appellee in this action, was the general partner of both Easton and Westcreek. A jury found that Easton and Westcreek had infringed Newhall's trademark, and awarded Newhall damages of nearly $2.3 million. The jury also found that Newhall and Westcreek's conduct was "willful." Easton and Westcreek appealed from the trial court's judgment entered on the jury's verdict.

Soon after the jury verdict, Palmer tendered the Newhall action to various insurance carriers, including Truck Insurance Exchange ("Truck"), the defendant in this action. Truck agreed to pay a portion of the fees and costs of the appeal but reserved the right to contest coverage of any infringement found against Easton and Westcreek. During the pendency of the appeal, the Palmer defendants settled the case with Newhall for $1,590,000. Truck denied coverage and refused to contribute to the settlement.

The comprehensive umbrella liability policy ("Policy"), issued by Truck to Palmer, is the policy at issue in this appeal. The Policy provided coverage for "advertising liability," defined as: "(1) Libel, slander or defamation; ... (2) Infringement of copyright or of title or of slogan; ... committed or alleged to have been committed in any advertisement, publicity article, broadcast or telecast and arising out of the named insured's advertising activities." The Policy excluded coverage for trademark infringement:

This insurance does not apply, ... with respect to advertising activities, to claim[s] made against the insured for ... infringement of registered trade mark, service mark or trade name by use thereof

2. See id. at 1112, 988 P.2d at 571, 90 Cal. Rptr. 2d at 650.
3. See id.
4. See id.
5. See id. at 1113, 988 P.2d at 571, 90 Cal. Rptr. 2d at 651.
6. The preliminary policies issued by the various insurance carriers were not at issue before the California Supreme Court. The Court of Appeals concluded that the Plaintiffs were not named insureds on the preliminary policies. The parties did not contest this part of the Court of Appeal's ruling.
7. See Palmer, 21 Cal. 4th at 1114, 988 P.2d at 571, 90 Cal. Rptr. 2d at 651 (describing the terms of the Policy in question).
as the registered trade mark, service mark or trade name of goods or services sold, offered for sale or advertised, but this shall not relate to titles or slogans . . . 8

Palmer, Easton, and Westcreek, among others, sued Truck, and other insurers not party to this appeal, seeking declaratory relief and alleging a breach of the implied covenant of good faith and fair dealing and a breach of the duty to defend.9 Truck demurred. With respect to the complaint, Truck argued that the “no action” clauses in each of its policies foreclosed the plaintiffs’ lawsuit because plaintiffs settled the Newhall action without Truck’s authorization. Truck also argued that the policies excluded coverage for trademark infringement. It further asserted that there was no duty to defend or indemnify plaintiffs because the Newhall jury found the plaintiffs’ conduct willful. Finally, Truck argued that plaintiffs were not insured under the Truck policies because they were not named in the policies and thus lacked standing to sue.10 The trial court sustained Truck’s demurrer without leave to amend on grounds that the Palmer defendants lacked standing to sue and breached the “no action” clauses of their policies. Consequently, the court dismissed Truck from the case.11 The plaintiffs appealed.

The Court of Appeal reversed the trial court, holding that the plaintiffs did have standing and did not breach the “no action” clause of the Policy. The court also held that the defendant’s conduct was not willful within the meaning of Insurance Code section 53312 and that the terms “title” or “slogan” were not limited to artistic or literary works for the purposes of covering infringement.13

Truck sought review in the California Supreme Court, which granted review to consider two questions: (1) whether policy language providing coverage for advertising liability caused by infringement of title or of slogan, but excluding coverage for infringement of trade mark, service mark or trade name (except relating to) titles or slogans, covers infringement of any name; and (2) whether Insurance Code section 533 bars indemnity for willful

8. Id.
9. See id. at 1113, 988 P.2d at 571, 90 Cal. Rptr. 2d at 651.
10. See id.
11. See id.
12. Palmer v. Truck Ins. Exch., 78 Cal. Rptr. 2d 389, 402 (Ct. App. 1998) (previously published at 66 Cal. App. 4th 916). This case has been ordered depublished pending review by the California Supreme Court.
13. See id. at 407.
trademark infringement.\textsuperscript{14}

III. DISCUSSION

The parties agreed that Truck had no duty to reimburse the plaintiffs for the settlement during the pendency of the Newhall appeal if the California Supreme Court found that the Policy did not cover the underlying district court judgment.\textsuperscript{15} The dispositive issue, therefore, was whether the policy language relating to advertising liability actually covered a judgment based on infringement of a name like "Valencia."\textsuperscript{16} The analysis centered on the interpretation of the policy definition of "advertising liability," which included "Infringement of copyright or of title or of slogan."\textsuperscript{17} The Court of Appeal and the Supreme Court disagreed on the interpretation of the words "title" and "slogan." The Supreme Court overruled the Court of Appeal, concluding that the infringement of the trademark "Valencia" was not covered by the terms "title" and "slogan."\textsuperscript{18}

Both courts analyzed various meanings of the word "title" based on many dictionary definitions of the word. While the Court of Appeal relied on a broad definition incorporating the "ordinary and popular sense" of the term "title,"\textsuperscript{19} the Supreme Court narrowed the interpretation of "title" to the specific use of the term in the Policy.\textsuperscript{20} The Supreme Court concluded that, in the context of the coverage clause, "title" could only mean the name of a literary or artistic

\textsuperscript{14} See Palmer, 21 Cal. 4th at 1114, 988 P.2d at 572, 90 Cal. Rptr. 2d at 652. California Insurance Code section 533 provides: "An insurer is not liable for a loss caused by the wilful act of the insured; but he is not exonerated by the negligence of the insured, or of the insured's agents or others." CAL. INS. CODE ANN. § 533 (WEST 1999).

\textsuperscript{15} See Palmer, 21 Cal. 4th at 1114, 988 P.2d at 572, 90 Cal. Rptr. 2d at 652.

\textsuperscript{16} See id.

\textsuperscript{17} Id. at 1114, 988 P.2d at 571, 90 Cal. Rptr. 2d at 651.

\textsuperscript{18} See id. at 1119, 988 P.2d at 575, 90 Cal. Rptr. 2d at 655.

\textsuperscript{19} See Palmer, 78 Cal. Rptr. 2d at 405. The Court of Appeal relied on the following definitions of the word "title:"

\textsuperscript{20} Palmer, 78 Cal. Rptr. 2d at 405. The Court of Appeal relied on the following definitions of the word "title:"

\textsuperscript{20} Palmer, 78 Cal. Rptr. 2d at 405.
work.\textsuperscript{21}

The Court of Appeal interpreted the phrase "Infringement of copyright or of title or of slogan," (emphasis added) as used in the policy's definition of "advertising liability" to separate the concepts of "copyright" from "title" or "slogan." It reasoned that the express exclusion for trademark infringement in the exclusion clause contemplates that there may be an infringement of title or slogan without reference to copyright.\textsuperscript{22} The Court of Appeal analogized the case to \textit{A Touch of Class Imports, Ltd. v. Aetna Casualty and Surety Co.}\textsuperscript{23} In \textit{A Touch of Class}, the court concluded that a trademarked phrase used within a title or slogan was covered by the definition of advertising liability.\textsuperscript{24} In the Newhall action, the appellees were charged with using the mark "Valencia" in conjunction with the name of various building developments.\textsuperscript{25} Without elaboration, the Court of Appeal concluded that using the mark in the development titles fell within the terms of the Policy and the Policy did not limit coverage to copyrightable artistic or literary work.\textsuperscript{26} The Court of Appeal decided that the Policy's use of the terms "title" and "slogan" was broad enough to encompass use of the "Valencia" mark. The use of "Valencia" therefore constituted an infringement.

The Supreme Court, however, disagreed with the Court of Appeal's findings. The court noted that "title" appears in both the coverage clause defining advertising liability and the trademark exclusion clause. There was no evidence within the Policy suggesting that the use of "title" changed from clause to clause.\textsuperscript{28} Thus, the court assumed that "title" had the same meaning in each clause of the Policy. The exclusion clause stated that

\begin{quote}
[\textit{(}this insurance does not apply ... with respect to advertising activities, to claim[s] made against the insured for ... infringement of registered trade mark, service mark, or trade name by use thereof as the registered trade mark, service mark or trade name of goods or services sold, offered for sale or advertised, but this shall not relate to titles or slogans ...\textit{)}
\end{quote}

\begin{itemize}
\item \textsuperscript{21} See id.
\item \textsuperscript{22} See id.
\item \textsuperscript{23} 901 F. Supp. 175 (S.D.N.Y. 1995).
\item \textsuperscript{24} See id. at 176.
\item \textsuperscript{25} See Palmer, 21 Cal. 4th at 1112, 988 P.2d at 571, 90 Cal. Rptr. 2d at 650.
\item \textsuperscript{26} See Palmer, 78 Cal. Rptr. 2d at 407.
\item \textsuperscript{27} See id.
\item \textsuperscript{28} See Palmer, 21 Cal. 4th at 1116, 988 P.2d at 573, 90 Cal. Rptr. 2d at 653.
\item \textsuperscript{29} Id. at 1117, 988 P.2d at 573-74, 90 Cal. Rptr. 2d at 653.
\end{itemize}
The court interpreted this clause to exclude coverage for infringement of a "registered trade mark, service mark or trade name" unless that "trade mark, service mark or trade name" was a title or slogan. Thus, if the definition of "title" subsumed the definitions of "trade mark," "service mark," or "trade name" as understood in the Policy, the rest of the exclusion clause would be rendered meaningless.\(^3\) The court concluded that the word "title" in the Policy referred only to the name of a literary or artistic work.\(^3\) Because the infringed mark "Valencia" was not the name of a literary or artistic work, the Policy provision providing coverage for infringement of titles did not apply and Truck was not required to reimburse the plaintiffs' settlement.\(^3\)

The Supreme Court also found that the word "slogan" did not apply to the present action.\(^3\) The court relied on the Court of Appeal's holding in another case, which stated: "While an insurer has a duty to defend suits which potentially seek covered damages, it has a duty to indemnify only where a judgment has been entered on a theory which is actually (not potentially) covered by the policy."\(^3\) In the Newhall action, the jury found that the plaintiffs infringed Newhall's trademark, not its slogans. The jury awarded damages on profits realized from the infringing use of Newhall's mark, not from the use of its slogans. Thus, the Supreme Court reasoned that the Newhall judgment was entered on the theory of the plaintiffs' infringement of mark, not the infringement of any slogans.\(^3\) The Court stated that although Newhall may have used the mark in a slogan, this did not bring the judgment within the scope of coverage for infringement of that slogan. Relying on the definition of a slogan as "a brief attention-getting phrase used in advertising or promotion" or a "phrase used repeatedly, as in promotion,"\(^3\) the court concluded that "infringing use of a trademark that is merely a word in a phrase used as a slogan is not the same as the infringing use of a slogan."\(^3\)

\(^3\) See id. at 1117, 988 P.2d at 574, 90 Cal. Rptr. 2d at 653-54.
\(^3\) See id. at 1119, 988 P.2d at 575, 90 Cal. Rptr. 2d at 655.
\(^3\) See id. at 1119, 988 P.2d at 575, 90 Cal. Rptr. 2d at 655-66.
\(^3\) See id. at 1120, 988 P.2d at 576, 90 Cal. Rptr. 2d at 656.
\(^3\) See id.
\(^3\) Id. (quoting WEBSTER'S COLLEGIATE DICTIONARY (10th ed. 1993) and AM. HERITAGE COLLEGE DICT. (3d ed. 1993), respectively).
\(^3\) Id.
Therefore the plaintiffs' infringement of the "Valencia" mark was not covered by the word "slogan" as defined in the Policy.

IV. INSURANCE CODE SECTION 533

Having held that the Policy did not insure against the plaintiffs' infringement, the California Supreme Court did not reach the question of whether Insurance Code section 533 bars indemnity for willful trademark infringement. Since the question was resolved by the Court of Appeal, however, it warrants a brief discussion here.

In its argument to the Court of Appeal, Truck relied on Insurance Code section 533, contending that public policy precluded insurance coverage for willful acts of infringement. The lower court disagreed, citing *J.C. Penney Casualty Ins. Co. v. M.K* and *Clemmer v. Hartford Insurance Co.* These cases limited the meaning of "willful" in section 533 to circumstances in which an act is inherently harmful or committed with a "preconceived design to inflict harm."

An analogous Ninth Circuit case, *Zurich Ins. Co. v. Killer Music, Inc.*, cited these same cases. In *Zurich*, the Ninth Circuit reversed a summary judgment order in favor of an insurer on the ground that the actions of the insured were not proven willful in the underlying copyright suit within the meaning of section 533. The *Zurich* Court reasoned:

A "clear line of authority" in California directs that "even an act which is 'intentional' or 'willful' within the meaning of traditional tort principles will not exonerate the insurer from liability under § 533 unless it is done with a 'preconceived design to inflict injury'" (citations omitted). The term "willful" is used to describe "an act done with malevolence," (citation omitted), or with "malice in fact" (citation omitted). A "willful act' within the meaning of section 533 means 'something more than the mere intentional doing of an act constituting [ordinary] negligence,' and appears to be something more than the intentional violation of a statute" (citation omitted) (brackets in original).

Although subjective harm need not be proven and can be assumed from the facts, copyright infringement is not an act that is willful per se. In *Palmer*, the Court of Appeal held that trademark

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38. 52 Cal. 3d 1009, 804 P.2d 689, 151 Cal. Rptr. 64 (1991).
40. 998 F.2d 674 (9th Cir. 1993).
41. Id. at 678.
42. See id. at 674.
infringement is also an act that is not willful per se, and that the plaintiffs' infringement did not satisfy either of the definitions of willfulness discussed above. The court pointed out that wrongful intent is not an element of trademark infringement; it is merely a factor the court may consider in deciding whether to award enhanced damages and attorney's fees. Since the court in the Newhall action decided against awarding enhanced damages and attorney's fees, even though the jury found Easton and Westcreek's infringement to be willful, the Appellate Court in the Truck dispute refused to find that the conduct was willful as a matter of law.

V. OTHER RELATED CASES

In *Gulf Ins. Co v. Contreras*, the Ninth Circuit U.S. Court of Appeals appeared to have reached a different result than the *Palmer* court on res judicata grounds. Affirming the District Court, the Ninth Circuit ruled that Aetna Casualty & Surety Co. had a duty to defend its insureds in a trademark dispute. Aetna had litigated its duty to defend in the state court and lost. The District Court, affirming that decision, gave full faith and credit to the state court's decision. The Ninth Circuit stated that the District Court properly invoked the doctrine of res judicata and collateral estoppel to preclude Aetna from raising the issue of whether it owed a duty to defend the insureds in the state court litigation.

In *Mez Industries, Inc. v. Pacific National Insurance Company*, a case seeking insurance coverage against a patent infringement claim, the Court of Appeal reached a different result from the *Palmer* court on the Insurance Code section 533 issue. In *Mez Industries*, a liability insurer providing coverage for an advertising injury refused to defend its insured against an action charging the insured with inducement of patent infringement. The plaintiff alleged that the insured, a component manufacturer, used its advertising to encourage its customers to put the components together in a way that infringed

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43. See Palmer, 78 Cal. Rptr. 2d at 402.
44. See id. at 401.
45. No. cv-95-2260, 1999 WL 1040120 (9th Cir., Nov. 16, 1999).
46. See id. at *1.
47. See id.
48. See id. In reaching that conclusion, the Ninth Circuit declined to decide whether a state court's judgment on an insurer's duty to defend constitutes a final judgment or an interlocutory order under California law.
50. See id. at 861-62, 90 Cal. Rptr. 2d at 724.
the plaintiff's patents. The insurance policy provided for indemnity and defense for injury caused by misappropriation of advertising ideas or style of doing business and for infringement of copyright, title, or slogan in the course of advertising. In the insured's ensuing action for declaratory relief and breach of contract against the insurer, the trial court sustained the insurer's demurrer without leave to amend and entered a judgment of dismissal. The Court of Appeal affirmed, holding that no duty to defend ever arose, since the advertising injury provisions of the policy did not provide coverage to the insured for inducement of patent infringement. The court applied common sense to the context of this case, stating that the policy terms could not reasonably be read to include either patent infringement or the inducement thereof. Moreover, even if the policy language was not totally free from ambiguity, the insured could not have had an objectively reasonable expectation of coverage for a claim of inducing willful patent infringement. The court also held that coverage would have been precluded by Insurance Code section 533, since an inducement to patent infringement cannot be committed except as a knowing, intentional, and purposeful act that is clearly wrongful and necessarily harmful. Appellate review to the California Supreme Court was denied March 22, 2000.

VI. CONCLUSION

After analyzing the policy provisions, the California Supreme Court in Palmer concluded that appellee's trademark infringement of "Valencia" was not covered within the meaning of "title" or "slogan," and therefore appellant was exonerated from having to pay appellee's settlement in the Newhall action. However, had the court concluded in favor of appellee, it is unclear how the court would have resolved the Insurance Code section 533 issue. Reconciling Mez Industries with J.C. Penney, Clemmer, and Zurich, it appears that the Court of Appeal's resolution of the issue turns on whether one of the elements of infringement of the intellectual property at issue includes willful intent. Since a finding of trademark infringement does not require a finding of willfulness and infringement of a patent does, the Court of

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51. See id. at 863, 90 Cal. Rptr. 2d at 725.
52. See id. at 864, 90 Cal. Rptr. 2d at 726-27.
53. See id. at 875, 90 Cal. Rptr. 2d at 734.
54. See id.
55. Mez, 76 Cal. App. 4th at 875, 90 Cal. Rptr. 2d at 734.
56. See id. at 877-78, 90 Cal. Rptr. 2d at 736.
Appeal was able to distinguish *Mez Industries* from *Palmer*. However, the California Supreme Court has not yet addressed this issue, and may or may not agree with the Court of Appeal's ruling.