IN THE UNITED STATES COURT OF APPEALS
FOR THE EIGHTH CIRCUIT

NO. 98-3802

CALLAS ENTERPRISES, INC.,

Petitioner,

v.

THE TRAVELERS INDEMNITY COMPANY OF AMERICA,

Respondent.

AMICUS CURIAE BRIEF OF UNITED POLICYHOLDERS IN SUPPORT OF PETITIONER'S PETITION FOR REHEARING EN BANC FROM THE DECISION OF THE PANEL FILED OCTOBER 15, 1999

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00001-001-11/9/1999-103216.3

I. INTRODUCTION

United Policyholders believes that one court's decision improperly predicts the law likely to be applied by the Minnesota Supreme Court in analyzing the scope of "advertising injury" coverage for trademark infringement claims under one "misappropriation of advertising ideas or style of doing business"[1] for three reasons.

First, all Minnesota State court decisions to address the scope of this offense have found that definitions broader than one limited to "common law misappropriations" are appropriate.

Second, state court decisions in Michigan predicting how the Michigan Supreme Court would address this issue have expressly rejected *Advance Watch* or refused to follow its narrow definition of one scope of the "misappropriation offense."

Third, every federal Court of Appeals addressing the breadth of coverage under the "misappropriation" offense has rejected arguments that it is limited to common law misappropriation.

Similarly, where distinct claims for an intellectual property tort are asserted along with a breach of contract claim, courts have routinely found that a defense arose for the tortious allegations.[2]

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[1] INSURANCE COVERAGE OF INTELLECTUAL PROPERTY ASSETS, by David A. Gauntlett, Aspen Law & Business ©1999 § 13:03[D][1]-[3], pp. 13-15 - 13-19.

[2] *Id.* at § 3.04, pp. 3-20 - 3-24.

II. TRAVELERS' RELIANCE ON THE DISCREDITED *ADVANCE WATCH* OPINION DOES NOT MEET THE "WELL-REASONED DECISION" CRITERIA UNDER MINNESOTA LAW FOR ADOPTING THE REASONING OF OUT-OF-STATE CASE LAW

A. The Narrow Construction Of The Policy Language Found In *Atlantic Mut. Ins. Co. v. Badger Medical Supply Co.* And Adopted By The Court In *Advance Watch* Is Inconsistent With Michigan Coverage Law

The Travelers policy at issue in *Advance Watch* did not include an exclusion for trademark or trade dress infringement (as did the earlier policy form and as does other policy forms now in use).[3] Nevertheless, the Court effectively found that the foregoing offense does not provide coverage for the wrongful taking (i.e., "misappropriation") of any "advertising ideas" or "style[s] of doing business" which qualify for protection as trade marks or trade dress though no such limitation is found in the policy. The basis for the Court's conclusion was the belief, adopting dicta from the *Badger* case,[4] that the foregoing offense must be limited to the common law tort of "misappropriation." The Court reasoned that since "likelihood of confusion" is not an element of a claim for common law misappropriation, then the covered offense

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[3]Insurers such as Hartford, which provide coverage for the same "advertising injury" offense, sell an umbrella policy that expressly excludes claims for trademark infringement. These insurers thereby concede that such claims potentially fall within the "advertising injury" offense of "misappropriation of advertising ideas or style of doing business."

[4]*Atlantic Mutual Ins. Co. v. Badger Med. Supply Co.*, 528 N.W.2d 486, 490 (Wis. Ct. App. 1995).

could not encompass claims for trademark and trade dress infringement, which do include such an element. No such limitation is found in the policy. Indeed, it is contrary to Michigan law for the Court to read into the policy any such limitation.[5]

Had Travelers intended insureds to disregard such a commonly understood definition in favor of the narrow, archaic and legalistic meaning for which Travelers now argues, Travelers could have easily expressed such a limitation simply by listing the offense as "common law misappropriation." *See Union Ins. Co. v. The Knife Co.*, 897 F. Supp. 1213, 1216 (W.D. Ark. 1995) (it is a "simple matter" to clearly convey that misappropriation refers only to the common law tort of misappropriation).[6]

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[5]"If the policy language is clear and unequivocal, however, its terms must be enforced; the courts will not rewrite the contract." *Usher v. St. Paul Fire & Marine Insurance Co.*, 126 Mich. App. 443, 447, 337 N.W.2d 351 (Mich. Ct. App. 1983).

[6]Indeed, other policies convey a particular meaning for "misappropriation" by specifying coverage for "idea misappropriation under an implied contract." *See, e.g.*, *A-Mark Fin. Corp. v. CIGNA Prop. & Cas. Co.*, 34 Cal. App.4th 1179, 40 Cal. Rptr. 2d 808, 811 n.2 (Cal. Ct. App. 1995) ("The relevant provision of the . . . policy provided: 'Advertising injury is defined to mean . . . piracy or unfair competition or **idea misappropriation under an implied contract**.'"); *Tews Funeral Homes Inc. v. Ohio Casualty Insurance Co.*, 832 F.2d 1037 (7th Cir. 1987) (Seventh Circuit Court of Appeals held that an insurer has a duty to defend its insured because allegations based on antitrust violations arguably came within coverage under the advertising injury policy offenses of "piracy," "unfair competition," and **"idea misappropriation."**); *Liberty Life Insurance Co. v. Commercial Union Insurance Co.*, 857 F.2d 945 (4th Cir. 1988) (Fourth Circuit Court of Appeals reversed the District Court's decision to dismiss the action brought by an insured against insurers for breach of duty to defend claims including unfair competition and disparagement. The policy language in dispute concerning "advertising injury" was defined to include **"idea misappropriation."**) (emphasis added).

Travelers failed to place any such limitation on the term. Thus, the provision should be construed in an ordinary sense.

In *Lebas Fashion Imports of USA v. ITT Hartford Group*, 50 Cal. App. 4th 548, 59 Cal. Rptr. 2d 36, 49 (Cal. Ct. App. 1996), *petition for review denied,* 1997 Cal. LEXIS 296 (Jan. 22, 1997), Justice Croskey found that while the offense of "misappropriation of advertising ideas or style of doing business" could encompass a claim that one has taken another's advertising plan without compensation, it was just as reasonable to conclude that the offense also encompasses claims for trademark infringement. This result is in accord with the insured's objectively reasonable expectations that the generic and lay offense of "misappropriation of advertising ideas or style of doing business" encompasses all the torts which potentially fall within its ambit.[7] This is also the rule followed in Minnesota.[8]

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[7]*Lebas*, 59 Cal. Rptr. 2d at 44 ("In our view, however, it is equally reasonable, for example, to ascribe to the term misappropriation the more general meaning of 'to take wrongfully' as it is to limit it to its technical common law sense.").

[8]An insurance policy must be read as whole and unambiguous language must be given its plain and ordinary meaning. *Henning Nelson Constr. Co. v. Fireman's Fund Am. Life Ins. Co.*, 383 N.W.2d 645, 652 (Minn. 1986); *Bobich v. Oja*, 258 Minn. 287, 294-95, 104 N.W.2d 19, 24 (Minn. 1960) (A court must analyze an insurance policy as a whole and give effect to all of its provisions.); *Smith v. St. Paul Fire & Marine Ins. Co.*, 353 N.W.2d 130, 132 (Minn.1984) ("If the terms of an insurance policy are not specifically defined, they must be given their plain, ordinary, or popular meaning.") Ambiguous terms in an insurance contract are to be resolved against the insurer and in accordance with the reasonable expectations of the insured. *Columbia Heights Motors, Inc. v. Allstate Ins. Co.*, 275 N.W.2d 32, 36 (Minn.1979) (citations

The Court's analysis is internally inconsistent. On the one hand, the Court correctly recognized that "'[m]isappropriation of advertising ideas or style of doing business' does not necessarily refer only to the common-law tort of misappropriation as recognized by the Supreme Court in *International News Service v. Associated Press*. . . ." *Advance Watch Co., Ltd. v. Kemper Nat. Ins. Co.*, 99 F.3d 795, 802 (6th Cir. 1996). On the other hand, the Court went on to limit the offense by reference to the elements of the common law tort of misappropriation. If the offense "does not necessarily refer only to the common-law tort of misappropriation," then there is no reason to exclude a cause of action based on conduct fitting within the ordinary meaning of "misappropriation of advertising ideas or style of doing business" just because it involves the additional element of likelihood of confusion. As the court noted in *Lebas*, "[t]his additional element, necessary to the assertion of a statutory claim, does not preclude the conclusion that a wrongful taking has occurred." *Lebas*, 59 Cal. Rptr. 2d at 46.[9]

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omitted).

[9]"If, as we have already concluded, a trademark could reasonably be considered to be part of an advertising idea or style of doing business, then certainly the objectively reasonable expectations of Lebas could have included the possibility that trademark infringement was covered. In other words, contrary to Hartford's argument, 'misappropriation of an advertising idea or style of doing business' and trade mark infringement are not mutually exclusive." *Id*.

B. *Advance Watch* Is Inconsistent With Subsequent Michigan State And Federal Court Opinions Addressing The Very Issues It Discussed

1. The *Advance Watch* Case Does Not Properly Reflect The State Of Michigan Law Regarding The Scope And Meaning Of The "Misappropriation Of Advertising Ideas Or Style of Doing Business" "Advertising Injury" Offense

Every Michigan court to consider *Advance Watch* has found it unpersuasive and expressly refused to follow that decision. Courts from virtually every other jurisdiction concur with this analysis.[10]

2. Subsequent Case Law Throughout The Country Has Savaged The *Advance Watch* Decision

"The court cited *Advance Watch* only for a rule of policy construction even though its limited definition of the 'misappropriation' offense would have been dispositive in avoiding coverage."[11]

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[10] *GAF Sales & Services, Inc. v. Hastings Mutual Insurance Co.*, 224 Mich. App. 259, 261, 568 N.W.2d 165, 167 n.2 (Mich. Ct. App. 1997); *Homeowners Insurance Co. v. Mattel, Inc.*, Case No. 97-158-CK (Mich. Cir. Ct. Cass County August 22, 1998) (**Exhibit "1")**; *American States Insurance Company v. Hayes Specialties, Inc.*, Case No. 97-020037 CK4, *5-6 (Mich. Cir. Ct. for the County of Saginaw, March 3, 1998) (**Exhibit "2")**

[11] *Bay Electric Supply Inc. v. The Travelers Lloyds Insurance Co.*, ___ F. Supp. 2d ___, 1999 WL 688748, at *4 (S.D. Tex. Aug. 31, 1999) ("This Court respectfully disagrees with the Sixth Circuit 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."); *Collectors Alliance, Inc. v. American Manufacturers Mutual Ins. Co.*, Case

No. 98-0648-Civ-Graham (S.D. Fla. March 10, 1999) *Id.* at p. 18**.** (applying New Jersey law) ("The *Advance Watch* [sic] court refused to find that a misappropriation of advertising ideas or style of doing business included trademark or trade dress infringement. Collectors contends that *Advance Watch* was erroneously decided and that this court should decline to follow it. That court finds that under the policy 'misappropriation of advertising ideas or style of doing business' includes trademark infringement.") **Exhibit "3"**; *Carolina Apparel Trading Inc. v. Aetna Casualty & Surety Co.,* Case No. 1:98 CV92 (W.D. N.C. Asheville Div. Feb. 5, 1999). p.7 n.2. ("This broader view of coverage under 'advertising injury' clauses is congruent with the majority of jurisdictions to confront the issue specifically . . . . While the *Advance Watch* case relied upon by the Defendants is an authority for the Sixth Circuit, the narrow view of the opinion is the minority view in the country. . . . North Carolina, while not having ruled on the issue specifically, has much authority supporting a broad view of coverage in this case and has no authority precluding such an interpretation of the policy language.") **Exhibit "4";** *St. Paul Mercury Ins. Co. v. Engineered Products*, Case No. CV-97-3501 p. 17. (Minn. Ramsey Co. Dist. Ct. November 24, 1997) ("[T]he *Advance Watch* court's efforts to prevent a layperson's definition of misappropriation from unduly expanding coverage caused the court to reach an overly narrow holding. *Id.* at 803-04.") **Exhibit "5";** *Federal Ins. Co. v. Southwestern Wirecloth*, Case No. 95-C-689-K, 1997 U.S. Dist. LEXIS 22343, at *9 (N.D. Okla. Oct. 14, 1997) ("After careful consideration, this Court declines to follow the *Advance Watch* decision. In this court's view, the analysis employed by the Sixth Circuit, i.e., restricting the word 'misappropriation' to the common law tort of the same name rather than the more common and ordinary meaning (to take wrongfully) does not comport with the governing principles of Oklahoma law, quoted above. An ambiguity exists, and it was a reasonable expectation on the part of the insured that coverage for trademark infringement existed.") **Exhibit "6";** *Snugz USA, Inc. v. TIG Insurance Co.*, Case No. 96-CV-777-B (D. Ut. July 10, 1997), at pp. 2-3 ("TIG relies heavily on [*Advance Watch*] . . . . This court agrees with the reasoning of [*Lebas*].") **Exhibit "7"**; *Lebas Fashion Imports of USA v. ITT Hartford*, 50 Cal. App. 4th 548, 59 Cal. Rptr. 2d 36, 48 n.14, (Cal. Ct. App. 1996), *rev. denied*, Jan. 22, 1997 ("In reaching this conclusion, the Court of Appeals in *Advance Watch* 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."); *American Employer's Ins. Co. v. Acadia Ins. Co.*, 39 F. Supp. 2d 64 (D. Me. 1999) ("The decision in *Advance Watch* is the great exception to the trend under the

The fundamental premise of *Advance Watch* that the phrase "misappropriation of advertising ideas" is limited in meaning to trade dress has been rejected by virtually every subsequent court to address this issue.[12] A number of federal circuit courts have

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law and in light of the principles established under Maine law in duty to defend cases, the court does not believe that the Maine law court would follow that rationale."); *see Industrial Molding Corporation v. American Manufacturers Mutual Insurance Company*, 17 F. Supp. 2d 633, 639 (N.D. Tex. 1998), *order vacated to facilitate settlement*, 22 F. Supp. 2d 569 (N.D. Tex. 1998) ("The great exception to this trend is the 6th Circuit's holding in *Advance Watch Co. v. Kemper National Insurance Co.*, 99 F. 3d 795 (6th Cir. 1996). The Sixth Circuit's conclusion that 'advertising injury' only includes verbal conduct flies in the face of common sense and experience with advertising. Because product advertisement frequently highlights only the trade dress of a product, together with little or no additional verbal contact, the idea than an 'advertising injury' can only occur with verbal conduct is unreasonable, and for that reason, the 6th Circuit's holding in *Advance Watch* has been widely criticized. *See* generally, Richard L. Antognini, Why Neither Side Has Won Yet: Recent Trends in Advertising Injury Coverage, 65 DEF. COUNS. J. 18, 21-22 (1998) (discussing analytical weakness of *Advance Watch*).").

[12]*Poof Toy Products, Inc. v. United States Fidelity & Guaranty Co.*, 891 F. Supp. 1228, 33 (E.D. Mich. 1995) ("claim . . . for trademark and trade dress infringement constitute[s] and 'advertising injury' under the enumerated definition 'misappropriation of advertising ideas or style of doing business'"); *Dogloo, Inc. v. Northern Insurance Co.*, 907 F. Supp. 1383, 1389-1390 (C.D. Cal. 1995) (concluding "style of doing business" refers to trade dress infringement); *Union Insurance Co. v. The Knife Co.*, 897 F. Supp. 1213, 1215-16 (W.D. Ark. 1995) ("'passing off' and trademark infringement constitute misappropriation of advertising ideas or style of doing business'"); *Lebas Fashion Imports v. ITT Hartford Insurance*, *supra*; *J.A. Plumbing & Roto-Rooter, Inc. v. Mass. Bay Insurance Co.*, 818 F. Supp. 553, 557 (W.D.N.Y. 1993), *vacated pursuant to settlement*, 153 F.R.D. 36 (W.D.N.Y. 1994); (unpublished order) ("style of doing business" refers to the outward appearance or signature of a business, the sort of claim comprised under trade dress").

reached opinions which are inconsistent with the logic of the court's ruling in *Advance Watch.*[13]

III. CURRENT MINNESOTA COVERAGE LAW SUGGESTS THAT THE MINNESOTA SUPREME COURT WOULD NOT ADOPT THE REASONING OF THE *ADVANCE WATCH* COURT

In *Ross v. Briggs and Morgan*, 540 N.W.2d 843 (Minn. 1995), relied upon by this Court in its opinion, the Supreme Court of Minnesota analyzed coverage under a variety of advertising injury offenses, including St. Paul's policy, covering "unauthorized taking of advertising ideas or style of doing business." In opining on

[13]*Limelight Productions, Inc. v. Limelite Studios*, 60 F.3d 767, 769 (11th Cir. 1995) (applying Florida law) ("When Gulf and Select issued these policies they knew of the Lanham Act, were on notice plaintiffs could recover ill-gotten profits, and must be held to have intended to cover these damages because they did not exclude them. Applying Florida law to construe the policy, we interpret "damages" broadly in favor of the insureds because Gulf and Select wrote the policies, selected that term, and chose not to define or restrict it."); *Novell, Inc. v. Federal Ins. Co.*, 141 F.3d 983, 987 (10th Cir. 1998) (applying Utah law) ("We find it unnecessary to definitively construe the phrase "style of doing business" because none of the above-described definitions provide relief to plaintiffs."); *The Frog, Switch & Mfg. Co., Inc. v. The Travelers Ins. Co.*, __ F.3d __ 1999, U.S. App. LEXIS 24262, at *13 (3rd Cir. 1999) (*"**Advance Watch*** **has been sharply criticized for ignoring the real contours of intellectual property litigation, which often proceeds under a bewildering variety of different labels covering the same material facts.** . . . It may also stand in some tension with our decision in *Granite State Ins. Co. v. AAMCO Transmission, Inc.*, 57 F.3d 316 (3rd Cir. 1995) which declares that insurance policies governed by Pennsylvania law will be interpreted according to a reasonable insured's understanding rather than the narrow legal meaning of policy term. Without passing on the merits of *Advance Watch* under Pennsylvania law, we conclude that Frog's alleged conduct does not fall within a reasonable insured's understanding of "misappropriation of advertising ideas or style of doing business.") (emphasis added).

the scope of that particular policy provision, the court said:

> From the plain language of the provision, a duty to defend may be established if there is a semantic connection between the policy's enumerated offenses and the claims made in the underlying case and if the offense arose in the course of advertising activity. *See St. Paul Fire & Marine Insurance Co. v. Advanced Interventional Sys., Inc.*, 824 F. Supp. 583, 585 (E.D. Va. 1993), *aff'd,* 21 F.3d 424 (4th Cir. 1994).

Id. at 848.[14]

Clearly, there is no distinction between that language and the instant policy issued by Travelers providing advertising injury coverage for "misappropriation of advertising ideas or style of doing business."[15] In *Fluoroware, Inc. v. Chubb Group of Insurance Cos.,* 545 N.W.2d 678 (Minn. Ct. App. 1996), the court stated,

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[14]In *Advanced Interventional Systems, Inc., Id.* at 534, the court stated: ("The term "style of doing business," as it appears in the insurance policy, has been used by the courts to refer to a company's comprehensive manner of operating its business. "Style of doing business" expresses essentially the same concept as the more widely used term: "trade dress." *See, e.g., Profrock, Ltd. v. Lasater*, 781 F.2d 129 (8th Cir. 1986))."

[15]*Granutec, Inc. v. St. Paul Fire & Marine Insurance Co.*, Case No. 5:96-CV-489-BO(2), 1998 U.S. Dist. LEXIS 3527 (E.D.N.C. Jan. 16, 1998) ("Although semantically different from Aetna's policy [which adopted standard ISO policy language identical to that of Travelers herein], the practical effect of the words is the same. Given their plain meaning as objectively understood by the insured, 'unauthorized taking' is synonymous with 'misappropriation.' *See, e.g., Union Insurance Co. v. The Knife Co.,* 897 F. Supp. 1213, 1216 (W.D. Ark. 1995)]." *Id.* at *11.) **Exhibit "8"**.

"Misappropriation of advertising ideas or style of doing business is not ambiguous because it has been defined by case law and common usage." *Id.* at 682. The court then cited cases, finding that this offense encompasses allegations of trade dress infringement,[16] unfair competition and trade dress as well as trademark infringement,[17] and trade secret misappropriation.[18]

The court in *St. Paul Mercury Insurance Co. v. Engineered Products Co.*, Case No. C7-97-3501 (Minn. Ramsey Co. Dist. Ct. Nov. 24, 1997)[19], a post-*Advance Watch* decision, specifically criticized and refused to follow *Advance Watch*, applying Minnesota law (Minnesota Judicial District Court, County of Ramsey, Nov. 24, 1997). The court therein directly attacked *Advance Watch* in the context of analyzing coverage for trademark and trade dress infringement claims, stating:

> [T]he *Advance Watch* court's efforts to prevent a lay person's definition of misappropriation from unduly expanding coverage caused the court to reach an overly narrow holding. *Id.* at 803-04. Although the *Advance Watch* court is technically correct that a claim for trademark

[16] *Atlantic Mutual Insurance Co. v. Badger Medical Supply Co.*, 191 Wis. 2d 229, 528 N.W.2d 486, 489 (Wis. Ct. App. 1995).

[17] *Ross v. Briggs & Morgan*, 520 N.W.2d 432, 435-36 (Minn. Ct. App. 1994), citing *J.A. Brundage Plumbing & Roto-Rooter, Inc. v. Massachusetts Bay Insurance Co.*, 818 F. Supp. 553, 557 (W.D.N.Y. 1993), *vacated on other grounds,* 153 F.R.D. 36 (W.D.N.Y. 1994), *rev'd on other grounds*, 540 N.W.2d 843 (Minn. 1995).

[18] *Merchants Co. v. American Motorists Insurance Co.*, 794 F. Supp. 611, 619 (S.D. Miss. 1992).

[19] See **Exhibit "5"**

or trade dress infringement need not depend on speech at all (i.e. product design or appearance), it overlooked the fact that communication of the trade dress is what causes damages (i.e. dilution of distinctive trade dress and confusion as to the source of the products). *See J.A. Brundage Plumbing & Roto-Rooter, Inc. v. Massachusetts Bay Ins. Co.*, 818 F. Supp. 553, 557-58 (W.D.N.Y. 1993) (it is not possible to allege a claim for trademark infringement without necessarily alleging that such activities occurred in advertising one's goods); *Energex Sys. Corp. v. Fireman's Fund Ins. Co.*, 1997 WL 3580007 (S.D.N.Y.) (trade dress confusion between customers was created through communications with defendant's customers that took place through advertising); *Massachusetts Bay Ins. Co. v. Penny Preville, Inc.*, 1996 WL 389266 (S.D.N.Y.) (references to marketing activities and request for injunctive relief provided ample indication of a connection between the alleged injuries and advertising activities).

Even assuming *arguendo* that "misappropriation" and "uanuthorized taking" are synonymous, a California federal court has recently held that:

> Under California law, where advertising injury is partly defined as misappropriation of style of doing business, a claim of infringement of nonfunctional trade dress is an advertising injury.

Rosco, Inc. v. TIG Ins. Co., 1996 WL 724896 (N.D. Cal.); *see also American Economy Ins. Co. v. Reboans, Inc.*, 900 F.2d 1246, 1257 (N.D. Cal. 1994) (in affirming court's summary judgment order requiring the insurer to defend, the court noted the use of trademarks is inherently a form of advertising."

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Id. at pp. 17-18.

In light of the above finding of the court, which properly applies Minnesota law based on the importance of reading policy language in light of a layman's understanding of policy provisions, it is reasonable to anticipate that the Supreme Court of Minnesota would not follow the *Advance Watch* doctrine. The dicta in the court's decision suggesting otherwise should be eliminated, even if this Court ultimately elects to maintain the basic core of its decision.

IV. THE BREACH OF CONTRACT EXCLUSION SHOULD NOT BAR A DEFENSE TO THE DISTINCT TORT CLAIMS ASSERTED AGAINST CALLAS ENTERPRISES IN THE UNDERLYING ACTION

A recent case applying New York law clarifies why the breach of contract exclusion herein should not bar a defense. In *Hugo Boss Fashions, Inc. v. Federal Insurance Co.*, Case No. 98-Civ-6454 (HB), 1999 WL 993689, 1999 U.S. Dist. LEXIS 17016 (S.D.N.Y. Nov. 2, 1999)[20], the court expressly addressed the applicability of the "breach of contract" exclusion to distinct claims of trademark and copyright infringement which otherwise fell within the coverage of the policy provisions. As in this Court's opinion, the court found that the term "arising out of" meant "originating from, having origins in, 'growing out of' or flowing from," under the applicable law of New York, just as this Court found was the case in Minnesota,

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[20]**Exhibit "9"**

citing *Associated Independent Dealers, Inc. v. Mutual Service Insurance Co.*, 304 Minn. 179, 229 N.W.2d 516, 518 (Minn. 1975). The *Hugo Boss* court, however, took the analysis to the next logical step. The court stated:

> Federal contends that the trademark infringement claims would not exist in the absence of BMC's allegations that Hugo Boss breached the 1990 agreement. Since BMC's breach of contract claim is "inextricably intertwined" with the trademark claims, Federal's argument continues, there is no duty to defend. I disagree.
>
> The Court's reading of *U.S. Underwriters Insurance* [*U.S. v. Ceugma Corp.*, 1998 WL 633679 *3 (S.D.N.Y. Sept. 15, 1998)] is somewhat different than that of the defendants. While Judge Sotomayor recognized that "arising out of" language in an exclusion clause should be applied broadly, such language is to be applied in the form of a "but for" test in determining coverage. *Id.* at *3. The court there relied upon *Mt. Vernon Fire Insurance Co. v. Created Housing Ltd.*, 88 N.Y.2d 347, 645 N.Y.S.2d 433, 668 N.E.2d 404 (1996), wherein the Court of Appeals held that the assault and battery exclusion in the policy at issue there barred coverage since "no cause of action [against the insured] would exist 'but for' the assault . . . ." *Id.* at 350. The Court of Appeals added that, "While the theory pleaded may be the insured's negligent failure to maintain safe premises, the operative fact giving rise to any recovery is the assault." *Id.* at 352. Analogizing this test to the facts of the instant case, if BMC's claims would not exist "but for" the existence of the contract – or a breach of that contract – then their claims arise from that "breach of (contract)," and the exclusion operates here to deny coverage. It is clear, however, that BMC's claims against Hugo Boss do exist independent of the contract, and that this exclusion does not apply to bar coverage in this suit.

> For example, BMC's trademark rights arose long before it entered into the 1990 agreement with Hugo Boss AG and would exist even if BMC had never entered into that agreement and/or if that agreement had not been breached.

Id. at 1999 U.S. Dist. LEXIS 17016, at *7-9.

Here, the allegations in the underlying action state discrete and independent claims for trademark infringement that do not depend on evidence of a contract breach.

V. CONCLUSION

For all of the above reasons, this petition for rehearing *en banc* should be granted, or in the alternative, that portion of the Court's opinion addressing *Advance Watch*, which is dicta, should be deleted in the event the Court finds the breach of contract exclusion to be applicable.

Dated: November ___, 1999 **GAUNTLETT & ASSOCIATES**

By______________________________
David A. Gauntlett
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