

**COURT OF APPEALS
DECISION
DATED AND FILED**

April 8, 1999

Marilyn L. Graves
Clerk, Court of Appeals
of Wisconsin

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No. 98-2461

STATE OF WISCONSIN

**IN COURT OF APPEALS
DISTRICT IV**

**DIVERSIFIED INVESTMENTS CORPORATION
D/B/A PACIFIC CYCLE U.S.A., A WISCONSIN
CORPORATION,**

PLAINTIFF-APPELLANT,

v.

**REGENT INSURANCE COMPANY, AN INSURANCE
COMPANY LICENSED TO DO BUSINESS IN THE
STATE OF WISCONSIN,**

DEFENDANT-RESPONDENT.

APPEAL from a judgment of the circuit court for Dane County:
PAUL B. HIGGINBOTHAM, Judge. *Affirmed.*

Before Eich, Vergeront and Roggensack, JJ.

EICH, J. Diversified Investments Corporation, d/b/a Pacific Cycle U.S.A., appeals from a summary judgment declaring that its insurer, Regent

Insurance Company, does not have a duty to indemnify it under the “advertising injury” provisions of its commercial general liability policy for sums paid by Pacific to settle certain third-party claims. The circuit court denied coverage, ruling that the claim alleged against Pacific in the underlying action was not one for acts committed “in the course of” Pacific’s advertising activities, as required by the terms of Regent’s policy. We agree and affirm the judgment.

The facts are not in dispute. GT Bicycles is a California corporation engaged in the design, manufacture and marketing of a high-end line of bicycles with a distinctive design and color combination. GT sued Pacific—a Wisconsin corporation that distributes, promotes and sells bicycles to several retail chain outlets, such as Toys R Us—in federal court in California, claiming that Pacific and Toys R Us were advertising and selling bicycles bearing the same color schemes, names, and “unique product configuration” as GT’s bicycles. The complaint asserted six causes of action. Four were claims for trademark infringement under § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1996), involving various bicycle names; the fifth was a federal law claim for unfair competition; and the sixth was for unfair competition and deceptive trade practices under California law.

Specifically, GT alleged that Pacific used four of GT’s trademarked model names in the “marketing, advertising, promotion and sales” of its own bicycles. It also claimed that Pacific, after learning of GT’s distinctive trademarked “triple-triangle” bicycle frame and unique blue and yellow color combination, proceeded to design and manufacture imitation bicycles that were “virtually identical [to] and indistinguishable” from GT’s product, thereby creating a “likelihood to cause consumer confusion, deception and mistake” between the GT bicycles and the Pacific models. GT also alleged that Pacific’s use and

“willful copying” of GT’s trademarks caused GT “irreparable injury” and that, as a result of its unlawful acts, Pacific “made substantial profits to which it is not equitably entitled.” Finally, GT’s federal unfair competition claim alleged that Pacific’s use of GT’s unique “product configuration trade dress” constituted a “false designation of origin,” which was likely to mislead the public into believing that Pacific’s bicycles were actually manufactured by GT.

Pacific tendered defense of the action to its insurer, Regent, who accepted the tender under a reservation of rights. Pacific eventually settled the case, paying \$237,500 to GT; and when Pacific sought reimbursement from Regent, Regent denied coverage. Pacific then brought this action seeking a declaratory judgment that the “advertising injury” provisions of Regent’s policy covered the loss and directing Regent to indemnify it for the \$237,500 settlement. In its policy, Regent agreed to pay any damages Pacific might incur because of “advertising injury ... caused by an offense committed in the course of advertising your goods, products or services.” So far as is relevant here, the term “advertising injury” is defined in the policy as “injury arising out of one or more of the following offenses: ... c. misappropriation of advertising ideas or style of doing business; or d. infringement of copyright, title or slogan.”

The circuit court, relying heavily on *Advance Watch Co., Ltd. v. Kemper Nat’l Ins. Co.*, 99 F.3d 795 (6th Cir. 1996), concluded that Regent did not have a duty to indemnify Pacific, and granted its motion for summary judgment dismissing Pacific’s complaint. The court ruled that GT’s action did not stem from Pacific’s “advertising,” but from the design of the bicycles themselves. As such, said the court, the underlying action did not trigger Regent’s duty to indemnify Pacific for advertising injury liability “because the injury is not caused

by an offense committed in the course of advertising,” as required by the terms of the policy.

When the material facts are undisputed and the issue involves only the interpretation of an insurance contract, a question of law is presented which is appropriately resolved on summary judgment. See *Smith v. State Farm Fire & Cas. Co.*, 127 Wis.2d 298, 301, 380 N.W.2d 372, 374 (Ct. App. 1985). We review summary judgments de novo, employing the same methodology as the trial court. *Green Spring Farms v. Kersten*, 136 Wis.2d 304, 315, 401 N.W.2d 816, 820 (1987). The methodology is well-known and need not be repeated here. See *State Bank v. Elsen*, 128 Wis.2d 508, 511-12, 383 N.W.2d 916, 917-18 (Ct. App. 1986). And while our review is de novo, we have often recognized that we may, and often do, benefit from the trial court’s analysis of the issues. *Lomax v. Fiedler*, 204 Wis.2d 196, 206, 554 N.W.2d 841, 844-45 (Ct. App. 1996). Insurance policies are construed like other contracts, and the objective is to ascertain and carry out the intentions of the parties. *Sprangers v. Greatway Ins. Co.*, 182 Wis.2d 521, 536, 514 N.W.2d 1, 6 (1994). The test is what a reasonable person in the position of the insured would have understood the words in the policy to mean. *Id.* And where the policy terms are unambiguous, we need not interpret them, but merely apply them to the facts at hand. *Kremers-Urban Co. v. American Employers Ins. Co.*, 119 Wis.2d 722, 736, 351 N.W.2d 156, 163 (1984).

Pacific argues that the policy covers the trademark/trade dress claims raised in the underlying action because: (1) the claims constitute one or more of the enumerated offenses within the definition of “advertising injury”—specifically, “misappropriation of advertising ideas or style of doing business,”

and “infringement of copyright, title or slogan”; and (2) the offenses were committed “in the course of” Pacific’s advertising activities. We disagree.

Advertising an infringing product is not enough to establish the insurer’s liability under an advertising injury clause. There must be some nexus—some causal connection—“between the ground of asserted liability and the insured’s advertising activities before there is coverage or a duty to defend.” *Advance Watch*, 99 F.3d at 806. The insured’s advertising “must have been the cause of whatever injury is alleged in the underlying suit.” *Robert Bowden, Inc. v. Aetna Cas. & Sur. Co.*, 977 F. Supp. 1475, 1480 (N.D. Ga. 1997). This causal requirement is also a matter of common sense, for it comports with the insured’s objectively reasonable expectations of coverage. As the *Bowden* court said: If there were no such requirement, “then a great many acts which have at best a remote relationship to advertising content would be covered” by the clause. *Id.* at 1481 (quoted source omitted).

Virtually every business that sells a product or service advertises, if only in the sense of making representations to potential consumers. If no causal relationship were required between “advertising activities” and “advertising injuries,” then “advertising injury” coverage, alone, would encompass most claims related to the insured’s business.

Heil Co. v. Hartford Accident & Indem. Co., 937 F. Supp. 1355, 1365 n.6 (E.D. Wis. 1996) (quoting *Bank of the West v. Superior Court*, 833 P.2d 545, 560 (Cal. 1992)). And in *National Union Fire Ins. Co. v. Siliconix Inc.*, 729 F. Supp. 77, 80 (N.D. Cal. 1989), the court stated:

The definition of “advertising” is quite broad and may encompass a great deal of activity. Thus, [if not for the causal requirement] a great many acts may fall within the ambit of advertising, extending advertising injury coverage far beyond the reasonable expectations of the insured.

In *Heil*, the court held that an advertising injury liability clause similar to the one in Regent's policy did not cover allegations of patent infringement because the underlying complaint¹ failed to demonstrate how the offense could have been caused by advertising activity. *Id.*, 937 F. Supp. at 1366. While the plaintiff in that case attached an advertisement for the infringing product to the complaint, the complaint itself did not mention any advertising activity and alleged only that the infringement was caused by the sale and manufacture of the infringing product. On that record, the court concluded that the insurer had failed to allege or establish the required causal connection between the alleged patent infringement and an advertising activity "despite the fact that the infringing product was advertised and may have been sold, in part, through advertising." *Id.* at 1366-67.

Similarly, the court in *Microtec Research, Inc. v. Nationwide Mut. Ins. Co.*, 40 F.3d 968 (9th Cir. 1994), concluded that an advertising injury provision identical to Regent's was not invoked by allegations that the insured had passed off its competitor's computer compiler code as its own. The court reasoned that even though the complaint used words, such as "marketing" and "representing," which, if taken in isolation, appeared to suggest a claim for advertising injury, when they were read in the context of the entire complaint, they alleged injury caused by misappropriation of the code, not by the advertising itself. *Id.* at 971. Emphasizing the "nexus" requirement, the *Microtec* court stated that "the injury for which coverage is sought must be caused by the advertising itself," and continued: "[A] claim for patent infringement does not fall within the

¹ The "underlying complaint" in this proceeding is, of course, that of the third parties who initially sued Pacific Cycle.

advertising injury coverage, ‘even though the insured advertises the infringing product, if the claim of infringement is based in the sale or importation of the product rather than its advertisement.’” *Id.*, quoting *Bank of the West*, 833 P.2d at 559.

Finally, in *Advance Watch* the Court of Appeals considered whether an advertising injury provision—again, one identical to that in Regent’s policy—covered allegations of trademark and trade dress infringement. The plaintiff, Cross Company, alleged that Advance Watch had advertised and sold pens which “too closely resembled” Cross’s trademarked pens in shape and appearance. Cross also alleged that Advance Watch had published a catalog depicting the imitation pens, and requested that Advance Watch be enjoined from advertising them further. Rejecting Cross’s position that its insurer had a duty to defend the action under the advertising injury clause, the court held that, although the underlying complaint alleged that Advance Watch had advertised the infringing product, the gravamen of Cross’s complaint was not the advertising itself, but that Advance Watch’s pens “too closely resembled Cross’[s] writing instruments....” *Id.*, 99 F.3d at 806-07. Because it was the design of the pens, not the advertising, that caused the injury, coverage was denied:

[I]t was not Advance’s advertising in itself which provoked Cross’[s] claim; it was the fact that in each advertisement which depicted a Pierre Cardin writing instrument, there was, according to Cross, a writing instrument deceptively similar in shape and appearance to Cross’[s] writing instruments.

[W]e conclude that even if Advance could be said to have misappropriated Cross’[s] advertising ideas or style of doing business, it cannot reasonably be said to have done so in the course of advertising its writing instruments, when it is the shape and appearance of the writing instruments themselves which Cross claimed to have caused injury.

Id.

In this case, the circuit court found the reasoning and policy considerations in *Heil*, *Advance Watch*, and *Microtec* to be “enormously persuasive.” Relying particularly on *Advance Watch*—which, as we have noted, involves facts very similar to those in this case—the circuit court concluded as follows:

The gravamen of the underlying action is that [Pacific] manufactured bikes which looked like, and had the same name, as bikes previously manufactured by GT, thereby generating GT’s claims of trademark infringement, unfair competition, and deceptive trade practice. It is true that the complaint also contains the words “advertising,” “promotion,” and “marketing,” and that the complaint seeks an injunction retraining these activities. However, it was not [Pacific]’s advertising itself which provoked the underlying action; it was the fact that the advertisements depicted a bike which was deceptively similar in design, color, and name to GT’s bikes. It is the sameness of the design, color, and name which had caused injury to GT, not the advertisements. The underlying action does not trigger Regent’s duty to indemnify [Pacific] for advertising injury liability because the injury was not caused by an offense committed in the course of advertising.

Our independent review of the record and relevant authority—aided by the circuit court’s thorough and thoughtful decision—satisfies us that the court was correct in denying coverage based on Pacific’s failure to establish the requisite causal nexus between the injury alleged in the underlying action and an advertising injury under the terms of Regent’s policy.

Pacific disagrees. It says that trademarks are themselves a form of advertising and, as a result, an infringing product almost always infringes “in the course of advertising”; and it points out that none of the cases relied upon by the circuit court and Regent, except *Advance Watch*, dealt with trademark or trade dress infringement. According to Pacific, cases such as *Heil* and *Microtec* are distinguishable and “stand on a completely different footing than claims for

trademark or trade name infringement.” This is important, says Pacific, because “the interests protected (and, hence, the mechanism of harm) depend on which type of claim involved.” Relying on *J.A. Brundage Plumbing & Roto-Rooter, Inc. v. Massachusetts Bay Ins. Co.*, 818 F. Supp. 553 (W.D.N.Y. 1993), *vacated in light of settlement*, 153 F.R.D. 36 (W.D.N.Y. 1994), and similar cases, Pacific explains that the use of a trademark or trade dress—as opposed to a patent or copyright—is to prevent consumer confusion as to the origin or manufacturer of the goods; and it says that in order to have this effect, one must announce the mark or dress to intended consumers through advertisements. *Poof Toy Prod., Inc. v. United States Fidelity & Guar. Co.*, 891 F. Supp. 1228, 1235-36 (E.D. Mich. 1995). Thus, according to Pacific, in trademark/trade dress claims, the infringing product is itself a form of advertising, and cases such as *Advance Watch*—where the court held that exhibition of the trademark did not constitute advertising per se—must be discounted as an “exception to the trend.”

What Pacific is saying is that the requisite causal nexus can be established by the simple act of holding a product with an infringing mark or dress out for sale. We disagree. It is true that denying coverage in this case would be inconsistent with the notion expressed in *J.A. Brundage*. It is also true that *Advance Watch* is no more binding on us than *J.A. Brundage*, as both are federal court cases. See *Thompson v. Village of Hales Corners*, 115 Wis.2d 289, 307, 340 N.W.2d 704, 713 (1983) (decisions of federal district and appellate courts are not binding on state courts in Wisconsin or anywhere else). We have not hesitated, however, to adopt the reasoning of federal court decisions when we find that reasoning persuasive. See *State v. Boettcher*, 144 Wis.2d 86, 96-97, 423 N.W.2d 533, 538 (1988); *Streff v. Town of Delafield*, 190 Wis.2d 348, 356-57, 526 N.W.2d 822, 825 (Ct. App. 1994). That is the situation here. We are persuaded by the

reasoning of the *Advance Watch* line of cases, and we adopt that reasoning here. We therefore reject Pacific’s argument that simply marketing a product which bears an infringing mark or dress—here, Pacific’s bicycles with GT’s trademarked design and names—satisfies the requirement that there be a causal connection between the injury alleged in the underlying action and advertising activities.² Because we so hold, we need not address the other arguments advanced by Pacific.

By the Court.—Judgment affirmed.

Not recommended for publication in the official reports.

² We do not see any difference between the causal requirement in trademark infringement cases, and in cases involving copyright or patent infringement. We agree with the district court’s statement in *Robert Bowden, Inc. v. Aetna Cas. & Sur. Co.*, 977 F. Supp. 1475, 1481 n.3 (N.D. Ga. 1997), that “[t]he requisite level of causation between advertising and alleged injury should not vary with the particular type of intellectual property in question.”

