

**GRANUTEC, INC., Plaintiff, v. ST. PAUL FIRE AND MARINE
INSURANCE COMPANY and AETNA CASUALTY AND
SURETY COMPANY, Defendants.**

No. 5:96-CV-489-BO(2)

**UNITED STATES DISTRICT COURT FOR THE EASTERN
DISTRICT OF NORTH CAROLINA, WESTERN DIVISION**

1998 U.S. Dist. LEXIS 3527

**January 11, 1998, Decided
January 16, 1998, Filed**

DISPOSITION: [*1] Plaintiff's motion for summary judgment GRANTED.
Defendants' motions DENIED. Action DISMISSED.

OVERVIEW: The insured manufactured over-the-counter drugs. The insured began selling a product that looked identical to its name brand cousin that was manufactured by non party. The non party filed suit, which eventually settled. Despite the insured's requests, the insurer refused to defend. In examining the parties' cross motions for summary judgment, the court found at least one of the non party's claims against the insured was arguable covered by the policy. The unfair competition claim, governed by *N.C. Gen. Stat. § 75-1.1*, extended to cases where products were mimicked in order to exploit a competitor's reputation in the market. Thus, that claim was arguably covered by "misappropriation of advertising ideas or style of doing business" clause the insurance policy. The court then concluded that the unfair competition claim did apply to the situation at hand, requiring coverage by the insurers. Thus, the insurers were liable for the costs of the defense.

OUTCOME: The court granted the insured's motion for summary judgment.

COUNSEL: For GRANUTEC, INC., plaintiff: David Dreifus, Poyner & Spruill, Raleigh, NC.

For ST. PAUL FIRE AND MARINE INSURANCE COMPANY, defendant: Stephanie H. Autry, Cranfill, Sumner & Hartzog, Raleigh, NC.

For AETNA LIFE & CASUALTY COMPANY, defendant: Stephen B. Brown, Kirschbaum, Nanney, Logan & Brown, P.A., Raleigh, NC.

JUDGES: TERRENCE W. BOYLE, CHIEF UNITED STATES DISTRICT JUDGE.

OPINIONBY: TERRENCE W. BOYLE

OPINION:

ORDER

This matter is before the Court on cross-Motions for Summary Judgment pursuant to *Rule 56 of the Federal Rules of Civil Procedure*. For the reasons discussed below, plaintiff's Motion is GRANTED. Defendants' Motions are DENIED.

BACKGROUND

Granutec, Inc. ("Granutec") is a North Carolina corporation that manufactures and sells generic, over-the-counter ("OTC"), pharmaceutical products. In 1989, Granutec began manufacturing a generic version of the Tylenol Gelcap. Tylenol is manufactured by McNeil-PPC, Inc. ("McNeil"), a subsidiary of Johnson & Johnson. After a series of negotiations, McNeil and Granutec agreed that Granutec would employ a color scheme for its generic [*2] caplets that was different from the Tylenol Gelcaps. However, in February, 1994, Granutec changed the color scheme of its generic product to "mimic" the Tylenol Gelcap.

After repeated, yet unsuccessful, efforts by McNeil to persuade Granutec to change its product's color scheme, McNeil filed suit (the "McNeil suit") against Granutec in October, 1994, as amended in November, 1994, alleging: (1) false designation of origin (trademark/trade dress infringement) in violation of § 43(a)(1) of the Lanham Act, *15 U.S.C. § 1125(a)*; (2) false and deceptive advertising in violation of § 43(a)(2) of the Lanham Act; (3) unfair competition and deceptive trade practices in violation of *N.C.G.S. § 75-1.1*; and (4) breach of contract.

On December 21, 1995, this Court granted McNeil's motion for preliminary injunction. Shortly thereafter, Granutec and McNeil entered into a settlement by which Granutec agreed, among other things, to market its generic OTC product in a color scheme that was conspicuously different from that used by McNeil in exchange for dismissal of the suit. Granutec's costs of defense in the McNeil suit exceeded \$ 500,000. Granutec now seeks recovery under insurance policies [*3] issued by Aetna Casualty & Surety Company ("Aetna") and St. Paul Fire and Marine Insurance Company ("St. Paul") ("collectively "defendants").

At successive intervals, Granutec purchased Commercial General

Liability ("CGL") insurance policies from both Aetna and St. Paul. Aetna's policies to Granutec were issued and effective from June 30, 1993 through June 30, 1994 and from June 30, 1994 through July 31, 1994. Aetna's policies provided coverage for and a duty to defend in cases brought against Granutec for "'advertising injury' caused by an offense committed in the course of advertising your goods, products or services." Joint Exhibit 3 at 56; Jt. Ex. 4 at 82-83. "Advertising injury" is defined in Section V, paragraph 1 of Aetna's policy, in pertinent part, as: "injury arising out of: . . . (c) misappropriation of advertising ideas or style of doing business." Id.

St. Paul issued Granutec a policy effective from August 1, 1994 through August 1, 1995. Its policy provided coverage for and a duty to defend in cases brought against Granutec for "'advertising injury' . . . caused by: . . . unauthorized taking or use of any advertising material, slogan or title of others." Jt. Ex. [*4] 5 at 111. The policy specifically excluded from coverage any claim for breach of contract, id. at 117, and for intellectual property infringements, including "actual or alleged infringement or violation of . . . copyright, patent, trade dress, trade name, trade secrets, trademarks [or] other intellectual property rights or laws", id. at 120.

Despite Granutec's requests during the course of the McNeil suit, Aetna and St. Paul refused coverage and denied any duty to defend. Granutec brought an action against defendants alleging breach of contract. Cross-motions for summary judgment followed.

DISCUSSION

[HN1] Summary judgment should be granted if the record, taken as a whole, "together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." *Fed. R. Civ. P. 56(c)*. The movant bears the burden of demonstrating "the absence of a genuine issue of material fact." *Celotex Corp. v. Catrett*, 477 U.S. 317, 322, 91 L. Ed. 2d 265, 106 S. Ct. 2548 (1986). Once the movant satisfies that burden, however, the burden then shifts to the non movant to set forth specific facts showing [*5] a genuine triable issue. *Fed. R. Civ. P. 56(e)*. To create a genuine issue of material fact, the non movant must do more than present some evidence on a disputed issue. Unless there is sufficient evidence for a jury to return a verdict in the non movant's favor, there is no genuine issue for trial. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 249-50, 91 L. Ed. 2d 202, 106 S. Ct. 2505 (1986).

Granutec alleges that both Aetna and St. Paul had a duty to defend under the policies regardless of the operation of any exclusionary clauses because "a finding that any claim is arguably covered by the policies invokes a duty to defend the entire action." Pl. Mem. at 7. The North Carolina Supreme Court has ruled that [HN2] "an insurer's duty to defend is ordinarily measured by the facts as alleged in the pleadings . . ." *Waste Management of Carolinas, Inc. v. Peerless Ins. Co.*, 315 N.C. 688, 340 S.E.2d 374, 377 (N.C. 1986). To determine whether the allegations as contained within the four corners of the complaint fall within the purview of the insurance policy, courts simply compare the language of the two documents without regard for the actual merit of the allegations themselves or [*6] likelihood of success at trial. *Id. at 691, 340 S.E.2d at 378*. The policy provisions are construed according to any definitions contained in the policy; if none, nontechnical terms are given their plain meaning as objectively understood by the insured unless context dictates that another meaning was intended. *Woods v. Nationwide Mutual Ins. Co.*, 295 N.C. 500, 246 S.E.2d 773, 777 (N.C. 1978). If the comparison reveals an arguable fit, an insurer's duty to defend arises. Should an insurer refuse to defend, it does so at its own peril. In other words, if it is later determined that one or more of the allegations were arguably covered by the policy, the insurer then becomes responsible for the cost of the entire defense.

1. The Aetna Policy

Granutec alleges that Aetna breached the insurance contract by refusing to defend in the McNeil suit. [HN3] Aetna's duty to defend arises only if: (1) an action alleged in the complaint is either explicitly stated in the policy or arguably covered by a more general category; and (2) the complaint identifies some causal nexus between the offenses alleged and the injury sustained. Jt. Ex. 3 at 56; Jt. Ex. 4 at 82-83.

Of McNeil's four claims against Granutec, at [*7] least one is arguably covered by Aetna's policy: the "unfair competition" claim pursuant to N.C.G.S. § 75-1.1, *et. seq.* [HN4] Section 75-1.1(a) prohibits "unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce . . ." *Id.* The North Carolina Supreme Court, assigning a broad scope to the statute beyond mere intellectual property infringements, has identified certain practices envisioned by this statute including, among others, "false

advertising [and] simulation of well known products or trade names" *State ex rel. Edmisten v. J. C. Penney Co., Inc.*, 292 N.C. 311, 318, 233 S.E.2d 895, 899-900 (N.C. 1977) (quoting Morgan, *The People's Advocate in the Marketplace: The Role of the North Carolina Attorney General in the Field of Consumer Protection*, 6 Wake Forest Intra.L.Rev. 1, 20 (1969)). Thus, statutory unfair competition, unlike its more limited common law counterpart, is not confined solely to actions constituting "passing off" of one's product as that of a competitor, although this is certainly covered by the statute. See e.g. *Harrington Manufacturing Co., Inc. v. Powell Manufacturing Co., Inc.*, 38 N.C. App. 393, [*8] 248 S.E.2d 739, 746 (N.C.Ct.App. 1978). It also extends to all unfair and deceptive practices, including acts analogous to "passing off", such as selling products which have been "mimicked" in order to exploit a competitor's reputation in the market. See *Henderson*, 124 N.C. App. 103, 107, 476 S.E.2d 459 at 462. Although "unfair competition" appears nowhere in the Aetna policy, North Carolina's jurisprudence interpreting § 75-1.1 makes it at least arguable that a statutory "unfair competition" claim is subsumed under "misappropriation of advertising ideas or style of doing business." Jt. Ex. 3 at 56; Jt. Ex. 4 at 82-83.

"Misappropriation of advertising ideas" is not defined in Aetna's policy. Its plain meaning controls. Although the meaning of "misappropriation of advertising ideas" under North Carolina law has not been considered by any court in this jurisdiction, courts elsewhere have applied its commonly understood meaning as "the wrongful taking of the manner by which another advertises its goods or services." *Union Ins. Co. v. The Knife Co.*, 897 F. Supp. 1213, 1216 (W.D.Ark. 1995); see also *Fluoroware, Inc. v. Chubb Group of Ins. Companies*, 545 N.W.2d 678, 682 (Minn.App.Ct. 1996) ("the wrongful [*9] taking of another's manner of advertising"). The issue, then, is whether McNeil's allegations supporting its statutory unfair competition claim constitute "misappropriation of advertising ideas" as objectively understood by Granutec. The Court concludes they do.

McNeil alleged in its amended complaint that its advertising idea - portraying two "Gelcaps" on the front of the Tylenol box in a red and yellow color scheme - was wrongfully taken by Granutec for its own use on its generic packaging. Specifically, it alleged that Granutec "switched to a red/yellow color scheme to trade upon the goodwill and popularity of plaintiff's well-known Tylenol Gelcap product and to enhance its own sales at the expense of McNeil", see McNeil Am. Comp., Jt. Ex. 2 at 33, that Granutec's adoption of this color scheme will likely cause consumer confusion as to origin and generic equivalence, see *id.* at 34, and that as a result of Granutec's actions, McNeil suffered and would continue to suffer injury from diversion of sales and deterioration of goodwill and reputation of the Tylenol product, see *id.* at 37. Changing its generic product's color scheme from red/orange to red/yellow represented [*10] an attempt by Granutec to simulate the likeness of the Tylenol Gelcap product. McNeil alleged that Granutec's reason for doing so was to create confusion among consumers thereby enabling it to exploit the reputation and popularity of Tylenol for its generic product. Such allegations establish not only a prima facie case of unfair trade practices in violation of § 75-1.1, but also arguably fall within the meaning of "misappropriation of advertising ideas."

The complaint also alleged a causal nexus between Granutec's actions and the present and future injury sustained by McNeil. Both prongs having been met, Aetna had a duty to defend and is liable for the costs associated with Granutec's defense. n1

n1 Although McNeil's complaint was filed in October, 1994, after Granutec's policy with Aetna expired, Aetna retained an obligation to defend because the alleged offenses occurred in February, 1994, during the policy period. See Aetna Policy at 5, Jt. Ex. 3 at 57.

2. The St. Paul Policy

Granutec alleges [*11] that St. Paul breached its insurance contract by refusing to defend Granutec in the McNeil suit. Under that policy, St. Paul assumed a duty to defend actions brought against Granutec for advertising injury, which was defined, in pertinent part, as "unauthorized taking or use of any advertising material" Although semantically different from Aetna's policy, 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 Ins. Co.*, 897 F. Supp. at 1216. Similarly, "advertising material" is understood by this Court to encompass not only tangible marketing tools but ideas as well. In this light, the policies are functional equivalents. Based on the reasoning supporting Aetna's duty to defend, this Court concludes that St. Paul's also had such a duty. Having refused to defend, St. Paul is now liable for the costs associated with Granutec's defense. n2

n2 St. Paul's obligation is not abated by the fact that Granutec first committed the advertising injury in February, 1994, prior to its policy with St. Paul. McNeil's Amended Complaint alleged a "continuing" violation extending into the coverage period, see McNeil Am. Comp. at 10, Jt. Ex. 2 at 36, thereby giving rise to St. Paul's duty to defend.

[*12]

CONCLUSION

Having fully considered the motions, this Court concludes plaintiff is entitled to judgment as a matter of law. Plaintiff's motion for summary judgment is GRANTED. Defendants' motions are DENIED. Defendants are hereby jointly and severably liable for the costs incurred by plaintiff in defending the McNeil suit.

SO ORDERED.

This 11TH day of January, 1998.

TERRENCE W. BOYLE

CHIEF UNITED STATES DISTRICT JUDGE

Judgment in a Civil Case

Decision by Court. This action came to trial or hearing before the Court. The issues have been tried or heard and a decision has been rendered.

IT IS ORDERED AND ADJUDGED that the Plaintiff's Motion for Summary Judgment is GRANTED and this action is hereby DISMISSED.

JANUARY 16, 1998