



## **Pennsylvania National Mutual Casualty Insurance Company v. Beach Mart, Inc. et al**

2018 | Cited 0 times | E.D. North Carolina | March 6, 2018

STATES COURT FOR EASTERN OF NORTH CAROLINA

DIVISION 2:14-CV-8-BO

NATIONAL MUTUAL) CAUSALTY INSURANCE

ORDER

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BACKGROUND

U.S.C. 2201, February 2014,

2:11-CV-44-BO ("underlying action").

IN THE UNITED DISTRICT THE DISTRICT

NORTHERN

No.

PENNSYLVANIA

COMPANY, )

Plaintiff, )

v. )

BEACH MART, INC., )

Defendant. )



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This cause comes before the Court on plaintiffs motion for judgment on the pleadings pursuant to Rule 12(c) of the Federal Rules of Civil Procedure. Defendant has responded, plaintiff has replied, and the matter is ripe for ruling. Also before the court is the parties' joint motion for clarification of the scheduling order. For the reasons that follow, plaintiffs motion for judgment on the pleadings granted in part and the motion for clarification is denied as moot.

Plaintiff, Pennsylvania National Mutual Casualty Insurance Company (Penn National) filed this declaratory judgment action under 28 § on 4, seeking a declaration of non-coverage relative to four businessowners liability policies and four commercial umbrella policies issued to Beach Mart. Penn National's complaint stems from a matter currently pending before this Court, styled as Beach Mart, Inc. v. L&L Wings, Inc., No. (E.D.N.C.) The underlying action was brought by Beach Mart against L&L

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Penn Wings on September 9, 2011, for breach of contract and a declaratory judgment that Beach Mart had fully complied with a Agreement with L&L Wings to use the name in retail stores and that L&L Wings had no lawful grounds to terminate the Agreement. Id at [DE 1]. Beach Mart has since filed an amended complaint, alleging claims against L&L Wings for fraudulent inducement to contract, negligent misrepresentation, cancellation of trademark registrations, false or fraudulent trademark registration, unfair and deceptive trade practices, and declaratory judgment. Id. at [DE 184]. L&L Wings has asserted counterclaims against Beach Mart in the underlying action. The counterclaims currently pending against Beach Mart in the underlying action are for breach of contract, specifically breach of the Agreement entered into between L&L Wings Beach Mart with an effective date of August 29, breach of the implied· covenant of good faith and fair dealing; a



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declaration that Beach Mart acquired no rights to the trademark or otherwise as a result of an assignment agreement; and a declaration that L&L Wings is the owner of the name in connection with retail stores, beachwear, and beach-related products. Id. at [DE 304]. National has been providing a defense to Beach Mart on the counterclaims, subject to a complete reservation of rights.

This declaratory action was stayed on May 5, 2014, on the parties' consent motion and the stay was lifted on September 25, 2017. National thereafter filed an amended complaint, to which Beach Mart filed an answer and counterclaims and defendant L&L Wings filed an answer. Beach Mart's counterclaims against National were filed on October 2, 2017, and allege that

National breached its insurance contract, acted in bad faith, and engaged in unfair and deceptive trade practices in violation of N.C. Gen. § 75-1.1. [DE 41]. Beach Mart further seeks a declaratory judgment that National is required to defend and indemnify Beach Mart against L&L Wings' counterclaims in the underlying action. National filed its motion for

2 2017, 2018,

## DISCUSSION

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2012). "Judgment

law." United 'Jjansmission 207 2000).

P. S. Union 190,

South WINGS

Prior

WINGS judgment on the pleadings on December 13, and on January 4, stipulated to the dismissal of defendant L&L Wings.

A motion for judgment on the pleadings under Fed. R. Civ. 12(c) allows for a party to move for entry of judgment after the close of the pleadings stage, but early enough so as not to delay trial. Fed. R. Civ. 12(c). Courts apply the Rule 12(b)(6) standard when reviewing a motion under Rule 12(c). Mayfield v. Nat'l Ass'n for Stock Car Auto Racing, Inc., 674 F.3d 369, 375 (4th Cir. on the pleadings is not properly granted unless the moving party has clearly established that no material issue of fact



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remains to be resolved and the party is entitled to judgment as a matter of States v. Any & all Radio Station Equip.,

F.3d 458, 462 (8th Cir. It is within a court's discretion whether to consider matters outside the pleadings if presented, and thereby convert the motion for judgment on the pleadings to one for summary judgment under Rule Fed. R. Civ. 56. A. Abell Co. v. Baltimore Typographical No. 12, 338 F.2d 193 (4th Cir. 1964).

A brief summary of the factual background of the underlying action is necessary to resolve the instant motion. Beach Mart and L&L Wings both operate retail stores at beach locations which sell beachwear, sunglasses, souvenirs, and similar items; Beach Mart operates stores only in North Carolina while L&L Wings operates stores in North Carolina and other states, including Florida and Carolina. L&L Wings alleges that it operated its stores under the trademark since 1978. to 1995, Beach Mart's principal, who had formerly been employed by or otherwise in business with L&L Wings, began doing business as Beach Mart. Beach Mart and L&L Wings entered into an agreement in 1995 which described the terms under which Beach Mart was permitted to use the name for its stores. The 1995 Agreement expired on

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WINGS

2005,

WINGS 2005 WINGS

2005, WINGS "super" "big"

WINGS

2005. "super" "big"

"Wings," fa9ade

"All beach," "All beach."

2008, 2009, 2010, Penn Umbrella

2008, 2009, 2010, January 1, 1996, after which time Beach Mart continued to use the trademark in its operation of business, including by using it in store signage, merchandise tags, and advertising. In



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Beach Mart and L&L Wings entered into a second agreement to resolve their disputes regarding Beach Mart's ongoing use of the trademark after the expiration of the 1995 Agreement. The Agreement prohibited Beach Mart from using the trademark on a standalone basis after December 31, but permitted it to use modified by or

in eight North Carolina counties. L&L Wings contends that Beach Mart continued to use the trademark standing alone, including on merchandise tags, receipts, advertising, and store signage, after December 31, L&L Wings further alleges that where Beach Mart did use the modifier or it did so in such a way as to render the modifier undetectable. L&L Wings further alleges that Beach Mart employees answered the telephone by identifying the store as that Beach Mart constructed and continues to operate stores whose is identical to that of L&L Wings', and that Beach Mart adopted the advertising slogan you need for the which is nearly identical to L&L Wings' slogan you need to reach the See No. 2:11-CV-44-BO (E.D.N.C.) ([DE 1; 18; 21; 184; 304].

Penn National issued Businessowners Liability policies to Beach Mart, with coverage beginning January 1, and coverage renewed to cover the periods of and 2011.

National also issued Commercial Liability policies to Beach Mart with coverage beginning January 1, and coverage renewed to cover and 2011. The relevant policy provisions in the Businessowners Liability (BL) policies provide coverage for advertising injury caused by an offense committed in the course of advertising the policy-holder's goods, products, or services, but only if the offense was committed in the coverage territory during the policy period. [DE 1-3 at 51of105] Businessowners' Liability Coverage Form§ A(l)(b)(2)(b).

4 56-57of105] UL

facts · The policy defines an advertising injury to include an injury arising out of one or more offenses, including misappropriation of advertising ideas or style of doing business and infringement of copyright, title, or slogan. Id. at [61 of 105] § F(l). The Commercial Umbrella Liability (UL) policies provide coverage for advertising injury when the underlying insurance either does not provide coverage or has been exhausted but only if the offense was committed within the coverage territory during the policy period. [DE 1-8 at 24 of 45] Commercial Umbrella Liability Coverage Form at§ B(l)(a)-(b). The applicable policy exclusion provisions raised by Penn National state that the BL policies do not apply to personal or advertising injuries arising out of oral or written publication of material whose first publication took place prior to the beginning of the policy period, and further defines an advertising injury to not include breach of contract, other than misappropriation of advertising ideas under an implied contract, or injuries arising out of the infringement of copyright, patent, trademark, trade secret or other intellectual property rights. [DE 1-3 at §§ B(l)(p); (q). The policy exclusions exclude coverage for personal or advertising injury arising out of material published prior to the policy period or arising out of breach of contract, except an implied contract to use another's advertising idea in your advertisement. [DE 1-8 at 24 of 45] §§ 2(A)(3); (6).



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Generally speaking, the insurer's duty to defend the insured is broader than its obligation to pay damages incurred by events covered by a particular policy. An insurer's duty to defend is ordinarily measured by the facts as alleged in the pleadings; its duty to pay is measured by the facts ultimately determined at trial. When the pleadings state demonstrating that the alleged injury is covered by the policy, then the insurer has a duty to defend, whether or not the insured is ultimately liable.

5 Peerless Co.,

Co. Off 9-10 (2010).

Cas. Co. 3:11-CV-150, 2012 Sept.

applicable.

WINGS SUPER WINGS

2006. UL until 2008,

WINGS SUPER WINGS 2006,

See, Co. Co., Supp. 2016). Waste Mgmt. of Carolinas, Inc. v. Ins. 315 N.C. 688, 691 (1986). 1

In order to determine whether the insurer has a duty to defend, a court considers the language of the policy, including its exclusions, and determines whether the events as alleged in the underlying pleadings are covered by the policy terms. *Id* In North Carolina, insurance policy provisions that extend coverage are construed liberally, while policy provisions that exclude coverage are strictly construed. *Harleysville Mut. Ins. v. Buzz Insect Shield, L.L.C.*, 364 N.C. 1, Additionally, even if some of the allegations do not fall within the policy's coverage, so long as some allegations are covered by the policy there is a duty to defend. *Pennsylvania Nat. Mut. Ins. v. Sharpe Images, Inc.*, WL 3962747 (W.D.N.C. 11, 2012).

Having compared the counterclaims alleged by L&L Wings to the policy provisions, the Court holds there is no duty to defend. L&L Wings has alleged that Beach Mart used on a stand-alone basis continually from January 1, 1995, and continually from January 1, The BL and policies at issue did not become effective January 1, and both policies expressly apply only to actions or offensive conduct committed during the policy period, and further exclude from coverage injuries arising from actions which first occurred prior to the policy period. L&L Wings has alleged that Beach Mart's offensive use of and has been continuous and ongoing since at least and thus Beach Mart's offensive conduct began outside the coverage period and is not covered. The Court must also determine, however, whether any of the specific offensive conduct complained of by L&L constitutes a covered event, as Penn National would have a duty to defend even where there



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1 The parties do not dispute that North Carolina law governs the interpretation of the policies at issue. e.g., *Westfield Ins. v. Nautilus Ins.* 154 F. 3d 259, 264 (M.D.N.C.

6 liability See

excluded counterclaims implied dealing. Also declaratory claims

relation retail

2014, claims

claims plainly

2005

policy claim

exclusion published policy

policy 210 (2011). published material published

exclusion 290. is a mere possibility that the potential is covered. *Waste Mgmt.*, 315 N.C. at 691 n.2. (allegations that describe hybrid of covered and events trigger duty to defend).

There are currently two substantive alleged against Beach Mart - one for breach of contract and one for breach of an duty of good faith and fair pending against Beach Mart are two judgment seeking declarations that L&L Wings owns the WINGS trademark in to stores, beachwear, and beach-related products and that Beach Mart has no rights in the WINGS mark. L&L Wings' prior counterclaims which were dismissed by the Court on October 3, concerned trademark infringement and unfair competition against Beach Mart for its use of the WINGS and SUPER WINGS trademarks. Beach Mart, No. 2:11-CV-44-BO [DE 18]; [DE 233]. As noted above, these all arise out of the same continued use of the WINGS mark about which L&L Wings has complained since sometime prior to the Agreement.

Beach Mart argues that, although some offending conduct took place prior to the period, the fact that some conduct took place after the policy period is sufficient to bring its within the terms of .the policy. Indeed, the North Carolina Court of Appeals has held that an

for written or oral material first prior to coverage period does not excuse an insurer's duty to defend simply because some offending statements were made or materials published both before and during the period. *Kubit v. MAG Mut. Ins. Co.*, N.C. App. 273, 289 However, theKubitcourtwent on to note



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that so long as the statements or materials are substantially the same as the offending prior to the policy period, the applies and there is no )duty to defend. Id. at

Here, there is no doubt that the offending material which was published prior to the coverage period is the same or substantially similar to what was published during the coverage

7 "[s]ubsequent 2005, WINGS trademark," "Beach

2005 WINGS trademark".

304]

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"occur[

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period," 770.

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period. L&L Wings alleges that, to December 31, Beach Mart has used, and

' continues to use, the and it seeks damages on account of Mart's continual violation of the Agreement and unauthorized use of the Beach Mart, No. 2:11-CV-44-BO [DE at 14;17. The allegedly offending material at issue, whether it is present in building facades, advertising slogans, merchandise tagging, or otherwise, has been substantially the same since in first occurred. Although L&L Wings contends that the language in its counterclaims which references Beach Mart's actions to December 31, is not specific enough to determine at this stage whether the offending material was published prior to the policy period, a fair reading of the allegations contained in the counterclaims





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reveals otherwise. Specifically, L&L Wings expressly complains about Beach Mart's continued use of the trademark beginning at a minimum when Beach Mart ceased paying fees to L&L Wings for use of the mark as provided by the 1995 Agreement and prior to the parties' agreeing to terms of use of the trademark in the Agreement on August 29, Beach Mart, No. 2:11-CV-44-BO [DE at 13. The variation of Beach Mart's use of the trademark, whether on merchandise tags or in a telephone greeting, s] within a common, clearly identifiable advertising objective, do[es] not give rise to 'fresh which would trigger coverage. Hanover Ins. Co. v. Urban Outfitters, Inc., F.3d 761, 768 (3d Cir. Rather, where, as here, an insured has engaged in liability-triggering behavior both before and during [the] coverage a prior publication exclusion is properly applied. Id. at

Accordingly, because the advertising injury alleged by L&L Wings regarding Beach Mart's use of the trademark is substantially the same over time without any meaningful interruption, it is thus not covered under either the BL or policies. The Court therefore holds that Penn National has no duty to defend Beach Mart as to the counterclaims brought by L&L

8 Penn See US. 2001);

2007) ("As

responsible.").

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Old 1:08CV402, 2010 Sept. 2010) ("since handling.").

CONCLUSION Penn

PART.

Penn Wings in the underlying action. Because the question of whether the duty to indemnify is generally not ripe until after facts in the underlying case have been found, the Court will dismiss that claim without prejudice subject to National's re-filing at the appropriate time. Ellett Bros. v.

Fid & Guar. Co., 275 F.3d 384, 388 (4th Cir. see also Travelers Indem. Co. v. Miller Bldg. Corp., 221 F. App'x 265, 267 (4th Cir. a general practice, courts wait to decide coverage until litigation or agreement has determined the particular damage for which an insured will be



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The Court further holds that Beach Mart has failed to state a claim for which relief can be granted on its counterclaims against National for breach of contract, bad faith, unfair and deceptive trade practices, and for declaratory judgment that National has a duty to indemnify and defend. As National has no duty to defend, there has been no breach of contract, bad faith, or unfair and deceptive trade practice by National to date. Beach Mart has provided no authority which would suggest that, where there is no duty to defend, there can be bad faith in the handling of an insured's claim. See, e.g., Republic Ins. Co. v. Horn, No. WL 3608323, at \*5 n.4 (M.D.N.C. 8, there is no coverage, there can be no bad faith in the claims As the determination of Penn National's duty to indemnify is not ripe, nor are any counterclaims arising out of any actions related to Penn National's indemnification.

For the foregoing reasons, National's motion for judgment on the pleadings on its claims as well as Beach Mart's counterclaims [DE 46] is GRANTED IN PART and DENIED IN

Penn National is entitled to judgment in its favor on its duty to defend and on Beach Mart's counterclaims arising out of a duty to defend. National's claim for declaratory judgment as

9 DISMISSED WITHOUT AS MOOT.

SO 2018.

STATES

10 to its duty to indemnify and Beach Mart's counterclaims arising out of Penn National's duty to indemnify are not ripe and are PREJUDICE. The joint motion for clarification [DE 42] is DENIED

The clerk is DIRECTED to enter judgment accordingly and close the file.

ORDERED, day of March,

UNITED DISTRICT JUDGE

