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United States District Court  
For the Northern District of California

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF CALIFORNIA

TOWER INS. CO. OF NEW YORK,  
Plaintiff,  
v.  
CAPURRO ENTERPRISES INC., et al.,  
Defendant.

No. C 11-03806 SI

**ORDER DENYING TOWER’S MOTIONS  
FOR SUMMARY JUDGMENT AND FOR  
MOTION FOR PARTIAL SUMMARY  
JUDGMENT; AND GRANTING  
TOWER’S MOTION TO DISMISS  
TOWER GROUP, INC.**

AND RELATED COUNTERCLAIMS.

Before the Court are the motions by plaintiff and counter-defendant Tower Insurance Company of New York and counter-defendant Tower Group, Inc. (collectively, “Tower”) (1) for summary judgment on Tower’s complaint for declaratory judgment and Capurro’s counterclaim for breach of contract; or (2) in the alternative, Tower’s motion for partial summary judgment on defendant Capurro Enterprises, Inc. and Nicholas L. Capurro Jr.’s (collectively, “Capurro”) second counter-claim for breach of the implied covenant of good faith and fair dealing; and (3) Tower’s motion to dismiss Capurro’s counterclaims pursuant to Fed. R. Civ. P. 12(b)(6). The motions are scheduled for hearing on December 16, 2011. Pursuant to Local Rule 7-1(b), the Court determines these matters appropriate for resolution without oral argument, and VACATES the hearing. For the reasons set forth below, the Court DENIES plaintiff’s motions.

**BACKGROUND**

This is an action seeking a declaration that plaintiff had no duty to defend or indemnify

1 defendant on a commercial general liability insurance policy that covered, among other things, “personal  
 2 and advertising injury.” Tower has brought a complaint for declaratory relief that it owed no duty to  
 3 defend Capurro after a complaint was filed against Capurro by a third-party, Certa ProPainters (“Certa  
 4 Pro”). Along with his answer to the complaint, Capurro filed counterclaims against Tower for breach  
 5 of contract, breach of the implied covenant of good faith and fair dealing, and declaratory relief.  
 6

7 **I. The underlying claim**

8 The following facts are taken from the complaint in underlying suit.<sup>1</sup> Certa Pro is a national  
 9 franchisor of painting franchises, which offer painting, decorating and related services to customers.  
 10 Compl., Ex. 1 (Complaint, *Certa ProPainters Ltd. v. Capurro*, 10-CV1542 WHA) (“Underlying  
 11 Complaint”). Capurro is a citizen of California and the president of Capurro Enterprises. In 2006,  
 12 Certa Pro and Capurro entered into a franchise agreement, pursuant to which Capurro obtained the right  
 13 to operate a Certa Pro franchised business for ten years. The agreement authorized Capurro to market  
 14 and sell residential painting services under Certa Pro’s “Proprietary Marks.” The Proprietary Marks,  
 15 according to Certa Pro, include, but are not limited to, “Certa ProPainters,” “CertaPro,” “The Color of  
 16 Certainty,” “Painting. Passion. Professionalism.” and “Certainty Service System,” all of which are  
 17 registered with the United States Patent and Trademark Office. *Id.*, ¶ 10. In exchange for the use of  
 18 Certa Pro’s Proprietary Marks (as well as training, marketing, and other franchisee benefits), Capurro  
 19 would pay Certa Pro a minimum royalty of \$22,500 per year, as well as a percentage of Capurro’s gross  
 20 sales.

21 On December 30, 2009, Capurro notified Certa Pro that he wished to terminate the Franchise  
 22 Agreement. According to documents attached to the underlying complaint, Capurro parted ways with  
 23 Certa Pro due to “low revenue numbers which affected [his] ability to pay minimum royalties.”  
 24 Underlying Compl., Ex. E (Def’s Jan. 1, 2010 Response to Notice of Default and Letter to System  
 25 Franchisees). Capurro thereafter began marketing a new business named Majestic Painters. According  
 26 to Certa Pro, Capurro “established a website marketing [Majestic Painters], expressly referring to it as  
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28 <sup>1</sup>The Court GRANTS plaintiffs’ unopposed request for judicial notice of the underlying complaint and attached exhibits.

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1 a 'former Certa Pro franchisee,' . . . advertising Certa Pro's Telephone Number used in connection with  
2 the Franchised Business, and stating that the Competing Business evolved from Capurro's 'first Painting  
3 Business, Certa ProPainters of Livermore.'" Underlying Compl., ¶ 40. The website also referred to  
4 Capurro's colorist "as a Certa Pro 'certified and trained colorist'" *Id.*, ¶ 41. An advertisement for  
5 Majestic Painting on another website listed Capurro's email address as "ncapurro@certapro.com." *Id.*,  
6 ¶ 43. Finally, on the greeting to his business telephone number, Capurro stated "you have reached  
7 Majestic Painters formerly known as Certa ProPainters . . ." *Id.*, ¶ 44.

8 In the Underlying Complaint, Certa Pro alleged that by "holding themselves out as a former  
9 Certa Pro franchisee who received Certa Pro training," Capurro was "trading on the Proprietary marks  
10 and confidential and proprietary information they obtained from Certa Pro."<sup>2</sup> Moreover, "the  
11 Defendants also continue to use the Proprietary Marks, Telephone Number, and Capurro's Certa Pro  
12 email . . . in commerce with their Competing Business, thereby wrongfully benefitting from Certa Pro's  
13 registered trademarks, trade dress, trade names and Certa Pro's Proprietary marks without license or  
14 authority from CertaPro." *Id.*, ¶ 53.

15 Based on these allegations, Certa Pro filed the Underlying Complaint against Capurro on April  
16 9, 2010, alleging (1) trademark infringement under 15 U.S.C. § 1114, (2) false designation of origin  
17 under 15 U.S.C. § 1125(a), (3) common law trademark infringement, (4) unfair competition under Cal.  
18 Bus. & Prof. Code § 11700, (5) violation of Cal. Bus. & Prof. Code § 175000, (6) breach of covenant  
19 not to compete, (7) breach of contract, (8) unjust enrichment, (9) accounting, and (10) declaratory relief.  
20 The complaint sought injunctive relief to prevent Capurro from "performing any acts or omissions or  
21 using any service marks, trademarks, trade names, trade dress, words, names, styles, titles designs or  
22 marks that are likely to cause confusion or mistake, or to deceive . . ." *Id.* at 17. Certa Pro also sought  
23 disgorgement, restitution of profits, and damages.

24 According to Capurro, the underlying claim has since settled.  
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28 <sup>2</sup>Capurro does not admit to any allegations in the underlying complaint. Def.'s Response at 10.

1 **II. The insurance policy**

2 Tower issued to Capurro Enterprises, Inc., a general commercial liability policy effective June  
3 18, 2009 to June 19, 2010. The policy's "Coverage B - Personal and Advertising Injury Liability"  
4 section states that "[Tower] will pay those sums that the insured becomes legally obligated to pay as  
5 damages because of 'personal and advertising injury.' We will have the right and duty to defend the  
6 insured against any 'suit' seeking those damages.'" Capurro Decl., Ex. 2 at 5 (the "Policy"). The Policy  
7 defines "personal and advertising injury," in relevant part, as the "use of another's advertising idea in  
8 your 'advertisement,' as well as "[i]nfringing on another's copyright, trade dress or slogan in your  
9 'advertisement.'" An "advertisement" is defined in the Policy as a "notice that is broadcast or published  
10 to the general public or specific market segments about your goods, products or services for the purpose  
11 of attracting customers or supporters."

12 The policy also excludes coverage for a series of potential advertising injuries. Relevant  
13 exclusions here are:

14 f. Breach of Contract - 'Personal and advertising injury' arising out of a  
15 breach of contract, except an implied contract to use another's advertising  
16 idea in your advertisement.

16 ...

17 I. Infringement of Copyright, Patent, Trademark or Trade Secret -  
18 'Personal and advertising injury' arising out of the infringement of copyright,  
19 patent, trademark, trade secret or other intellectual property rights.  
20 However, this exclusion does not apply to infringement, in your  
21 'advertisement', of copyright, trade dress or slogan.

20 ...

21 I. Unauthorized Use of Another's Name or Product - 'Personal and  
22 advertising injury' arising out of the unauthorized use of another's name or  
23 product in your e-mail address, domain name or metatag, or any other similar  
24 tactics to mislead another's potential customers.

24 Put simply, the policy covers, in relevant part, Capurro's use of another's advertising ideas,  
25 copyright, trade dress or slogans in Capurro's advertisements. It does not cover Capurro's infringements  
26 of another's trademarks, nor Capurro's use of another's name or product in its e-mail address.

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1 **III. Capurro's Claim**

2 Certa Pro filed its suit against Capurro on April 9, 2010. On May 4, 2010, Capurro (through  
3 counsel) tendered Certa Pro's complaint to Tower, requesting that Tower provide a defense for Capurro  
4 in the underlying action and indemnify Capurro for any damages that may be assessed. Tingley Decl.,  
5 Ex. A (the "May 4th letter"). Capurro stated a number of reasons that Certa Pro's complaint fell within  
6 the coverage of the Policy; for example, according to the May 4 letter, the underlying complaint  
7 "includes allegations that the [Certa Pro] has been damaged as a result of the commission advertising  
8 injury offenses – i.e., the use of [Certa Pro's] advertising ideas and infringement upon [Certa Pro's]  
9 copyright, trade dress or slogan. These offenses are alleged to have included the insureds' use of  
10 advertising ideas, copyright, trade dress or slogans in their advertisements and promotions that imitate  
11 or simulate [Certa Pro's] advertising ideas, copyright, trade dress or slogan." *Id.*, at 2.

12 On June 3, 2010, Tower responded to the May 4th letter by disclaiming coverage of the  
13 underlying action, declining to participate in the defense or to indemnify. Tingley Decl., Ex. B (the  
14 "June 3rd letter"). According to the June 3rd letter, Tower found that:

15 [Certa Pro's] complaint alleges no facts to suggest that the defendant  
16 infringed any trade dress or slogans whether in an advertisement or at all.  
17 Rather, the complaint makes passing references to trade dress, and certain  
18 phrases that may qualify as slogans (along with trade name, trademarks, trade  
19 practices, and related concepts) in connection with the plaintiff's concerns  
20 about the defendant's operating a competing business and failing to pay  
21 royalty and advertising fees, and the damage these actions allegedly caused  
22 to plaintiff's overall business reputation and practices, including trade dress.

23 *Id.* at 4. Tower also cites to a number of the exclusions in the policy, arguing that even if the underlying  
24 complaint alleged facts suggesting infringement of trade dress or slogan, the Policy excludes coverage  
25 for the use of trade dress or slogans not part of the insured's advertisements; nor does it cover trademark  
26 claims, whether in an advertisement or not. Finally, Tower notes that while Certa Pro claims the right  
27 to a variety of slogans (including "The Color of Certainty," and "Painting. Passion. Professionalism."),  
28 the complaint does not allege that Capurro employed any of these phrases in its advertisements for  
Majestic Painters. In the letter, Tower requests that "[i]f in fact you employed any of these phrases in  
your competing advertisements, you should forward copies of those advertisements to the undersigned,  
together with a description of the dates and methods of advertisement, for evaluation." *Id.* at 6.



1 genuine issues of fact and defeat summary judgment. *Thornhill Publ'g Co., Inc. v. GTE Corp.*, 594 F.2d  
2 730, 738 (9th Cir. 1979). The evidence the parties present must be admissible. Fed. R. Civ. P. 56(c)).

3  
4 **DISCUSSION**

5 **I. Tower's Motion for Summary Judgment**

6 **A. Duty to Defend**

7 Tower has moved for summary judgment on its complaint and Capurro's counterclaim for breach  
8 of contract, seeking a declaration that Tower had no duty to defend Capurro in the Underlying Action  
9 brought by Certa Pro.

10 In California, an insurer's duty to defend its insured is broad. *Pension Trust Fund for Operating*  
11 *Engineers v. Federal Ins. Co.*, 307 F.3d 944, 949 (2002). The California Supreme Court has held that  
12 an insured is entitled to a defense "if the underlying complaint alleges the insured's liability for damages  
13 potentially covered under the policy." *Montrose Chemical Corp. v. Superior Court of Los Angeles*  
14 *County*, 6 Cal. 4th 287, 299 (1993) (emphasis in original) (holding that the insurer may rely on the  
15 complaint, the insurance policy, and extrinsic facts known to it at the time of tender). The duty to  
16 defend is necessarily broader than the duty to indemnify because of "the difficulty in determining  
17 whether the third party suit falls within the indemnification coverage before the suit is resolved."  
18 *Pension Trust Fund*, 307 F.3d at 949. "Any doubt as to whether the facts establish the existence of the  
19 defense duty must be resolved in the insured's favor." *Montrose*, 6 Cal. 4th at 300. Finally, "[o]nce the  
20 insured makes a showing of potential coverage, the insurer may be relieved of its duty only when the  
21 facts alleged in the underlying suit can by no conceivable theory raise a single issue that could bring it  
22 within the policy coverage." *Pension Trust Fund*, 307 F.3d at 949 (citing *Montrose Chem.*, 6 Cal. 4th  
23 at 300).

24 As noted above, once the Policy's exclusions are factored in, the Policy covers injuries arising  
25 from the use of another's advertising ideas, copyrights, trade dress, and slogans in one's advertisements.  
26 The question before the Court, therefore, is whether the Underlying Complaint alleged potential injuries  
27 that triggered the Policy's coverage for infringement of Certa Pro's advertising ideas, copyrights, trade  
28 dress or slogans in Capurro's advertisements.

1 Tower's argument that no duty to defend arose from the Underlying Complaint can be  
2 summarized as follows. First, the Underlying Complaint alleges that Capurro used Certa Pro's name and  
3 contact information (both phone and email) in Capurro's website (Underlying Compl., ¶ 40), on a third  
4 party website (¶ 43), and in its phone greeting (¶ 44). MSJ at 10-11. According to Tower, Certa Pro's  
5 name and contact information, even if used in an advertisement, do not constitute an advertising idea,  
6 trade dress or slogan, and therefore fall outside of the Policy's coverage. *Id.* at 11, citing *American*  
7 *Simmental Assn. v. Coregis Ins. Co.*, 282 F.3d 582, 587 (8th Cr. 2002) ("The plain and ordinary meaning  
8 of 'advertising idea' generally encompasses 'an idea for calling public attention to a product or business,  
9 especially by proclaiming desirable qualities so as to increase sales or patronage'"); *Feist Publ'ns, Inc.*  
10 *v. Rural El. Serv. Co.*, 499 U.S. 340 (1991) (With respect to copyrights, "[t]he originality requirement  
11 'rules out protecting . . . names, addresses, and telephone numbers of which the plaintiff by no stretch  
12 of the imagination can be called the author'"); *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 764  
13 n.1 (1992) (trade dress refers to a business's or product's "total image and overall appearance," and may  
14 "include features such as size, shape, color or color combinations, texture, graphics, or even particular  
15 sales techniques.")

16 Second, Tower addresses the Underlying Complaint's allegation that in addition to holding itself  
17 out as a former Certa Pro franchisee, Capurro continued to use Certa Pro's Proprietary Marks "in  
18 connection with their Competing Business, thereby wrongfully benefitting from Certa Pro's registered  
19 trademarks, trade dress, trade names and Certa Pro's Proprietary Marks without license or authority  
20 from Certa Pro." Underlying Compl, ¶ 53. While Tower concedes that the Policy covers infringing  
21 another's trade dress, it contends that the infringement must be "in your advertisement." MSJ at 13.  
22 According to Tower, "the complaint does not allege that Capurro infringed Certa Pro's trade dress, if  
23 any there was, in the two websites that Capurro allegedly used, and the causal-nexus requirement is thus  
24 not satisfied with respect to the infringement of trade dress in Capurro's advertisement." *Id.*

25 The Court disagrees with Tower's analysis of the allegations in the Underlying Complaint. The  
26 Underlying Complaint repeatedly alleges the wrongful use of Certa Pro's non-inclusive list of  
27 Proprietary Marks. Underlying Compl., ¶ 10, 53-56. It also explicitly alleges that Capurro was  
28 "wrongfully benefitting from Certa Pro's . . . trade dress." Underlying Compl, ¶ 53; *see also* ¶¶ 54-56,



1 17:5:15. To be sure, given the specific examples provided in the Underlying Complaint, there could be  
2 some doubt as to whether the facts established the duty to defend. However, “any doubt as to whether  
3 the facts establish the existence of the defense duty must be resolved in the insured’s favor.” *Montrose*,  
4 6 Cal. 4th at 300.

5 Moreover, the duty to defend arises from extrinsic facts as well. *Montrose*, 6 Cal. 4th at 295.  
6 In Capurro’s initial tender of its claim, Capurro stated that “it is possible that advertisements continued  
7 to be published or broadcast on the internet, to general public [sic], or to market segments to attract  
8 customers that contained alleged infringing material. For example, while the ‘Certa Propainter’ name  
9 was intended to be removed from advertising publications and materials, it is possible these publications  
10 could be found to have contained Plaintiff’s slogans or reflect its alleged trade dress.” May 4th Letter,  
11 at 1. After Tower rejected Capurro’s claim, Capurro’s next letter stated that his “vehicle had been  
12 outfitted with a Certa ProPainters vinyl vehicle wrap publishing or broadcasting (such as by a billboard)  
13 services using the trade dress and slogans in issue. The insured found it very difficult to remove this  
14 wrap prior to it all being removed,” and, therefore, it remained on his van. Tingley Decl., Ex. C.  
15 Despite these factual allegations, Tower refused to defend its insured. Tower did ask for images of the  
16 van, which were provided along with Capurro’s response to the instant motion. Tower now argues that  
17 the images show only the use of Certa Pro’s trademarks (its name), not its trade dress, and thus  
18 “Capurro’s convoluted attempt to show that it was sued for covered infringement of trade dress or  
19 slogan rather than for excluded infringement of trademark is thus exposed as false.” Pl.’s Reply at 2.

20 However, the produced images of the advertisements and vehicle wrap do not end the inquiry.  
21 Even accepting Tower’s characterization of the signs as simply trademark infringement (itself not a sure  
22 proposition, as the vehicle wrap may contain elements of Certa Pro’s trade dress), one’s duty to defend  
23 is not analyzed after discovery; it “must be assessed at the outset of litigation against an insured.” *Staefa*  
24 *Control-Sys. Inc. v. St. Paul Fire & Marine Ins. Co.*, 847 F. Supp. 1460, 1466 (N.D.Cal. 1994) (Patel,  
25 J.) At the *outset* of the underlying litigation, based on the Underlying Complaint and letters from  
26 Capurro’s counsel, Tower was put on notice of potential injury covered by the Policy. An insurer cannot  
27 “wait out” discovery before determining its duty to defend; that is precisely why the California Supreme  
28 Court requires defense even on the basis of potential coverage. *Montrose Chem.*, 6 Cal. 4th at 299.

1 Relying on *Hurley Construction Company v. State Farm Fire & Casualty Co.*, 10 Cal. App. 4th  
 2 533 (1992), Tower argues that while its duty to defend may be triggered by known extrinsic facts, “the  
 3 insured may not speculate about unpled third party claims to manufacture coverage.” MSJ at 14 (*citing*  
 4 *Hurley*, 10 Cal. App. at 538). Tower’s reliance on *Hurley* is misplaced. There, the underlying action  
 5 charged the insured with participation in conspiracy to engage in fraudulent billing practices. The  
 6 insurance policy at issue limited coverage to third party claims for bodily injury and damage to tangible  
 7 property. The complaint against the insured would therefore require amendment for the allegations to  
 8 fall within the ambit of the coverage, a proposition the court found too attenuated to trigger the duty to  
 9 defend. *Id.* Here, the Policy covered advertising injury; Certa Pro complained of, *inter alia*, advertising  
 10 injury. *Hurley* does not stand for the proposition that additional *facts* that add to potentially covered  
 11 allegations already in the complaint cannot be relied upon when tendering a claim to one’s insurer.  
 12 Indeed, in most cases, as here, the insured is far more likely to know potential facts that trigger the  
 13 defense duty than the injured party drafting the complaint. Courts “do not examine only the pleaded  
 14 word but the potential liability created by the suit,” *Gray v. Zurich Ins. Co.*, 65 Cal. 2d 263, 276 (1966).  
 15 Here, additional known and potential facts were provided to Tower in Capurro’s initial tender, along  
 16 with the Underlying Complaint containing allegations that created the potential for coverage. This was  
 17 sufficient to trigger the duty to defend.

18 The Court therefore DENIES Towers’ motion for summary judgment on its complaint for  
 19 declaratory relief and Capurro’s counterclaim for breach of contract.<sup>3</sup>

## 21 II. Tower’s Motion for Partial Summary Judgment

22 In the alternative, Tower moves for partial summary judgment on Capurro’s second counter-  
 23 claim for “bad faith.” MSJ at 1. Capurro claims Tower breached the covenant of good faith and fair  
 24 dealing, by, *inter alia*:

25 <sup>3</sup>In its motion, Tower also moves to dismiss Capurro’s counterclaims pursuant to Fed. R. Civ.  
 26 P. 12(b)(6); it provides only one sentence in its Notice of Motion that the counterclaims should be  
 27 dismissed because they “fail to state any claim for relief against Tower Insurance . . . because no duty  
 28 to defend or indemnify Capurro in connection with the underlying action arose under the Tower  
 Insurance policy.” MSJ at 1. For the same reasons it denies Tower’s motion for summary judgment on  
 this issue, it DENIES Tower’s motion to dismiss Capurro’s counterclaims. Tower’s motion to dismiss  
 Tower Group because it was not Capurro’s insurer will be discussed below.

- 1 a. Refusing to promptly and adequately investigate Insured's claim for
- 2 benefits;
- 3 b. Refusing to adopt, implement, and/or follow reasonable standards to
- 4 investigate and process claims under the Policies;
- 5 c. Refusing to fairly handle Insured's claim for benefits;
- 6 d. Refusing to acknowledge and act reasonably promptly upon
- 7 communications from Insured with respect to claims arising under the
- 8 Policies;
- 9 e. Misrepresenting to Insured pertinent facts and insurance policy
- 10 provisions relating to coverage at issue;
- 11 ...
- 12 l. Refusing to promptly provide coverage due for indemnity and/or
- 13 defense;
- 14 k. Refusing to promptly and adequately defend Insured;
- 15 ...
- 16 n. Filing a suit against Insured to avoid benefits due;
- 17 o. Requiring Insured to file an action to obtain coverage due;

Counterclaims, ¶ 25.

In order to establish a breach of the implied covenant of good faith and fair dealing under California law, a plaintiff must show (1) benefits due under the policy were withheld; and (2) the reason for withholding benefits was unreasonable or without proper cause. *Guebara v. Allstate Ins. Co.*, 237 F.3d 987, 992 (9th Cir. 2001) (citing *Love v. Fire Ins. Exch.*, 221 Cal.App.3d 1136, 1151). "The key to a bad faith claim is whether or not the insurer's denial of coverage was reasonable." *Guebara*, 237 F.3d at 992. "Under California law, a bad faith claim can be dismissed on summary judgment if the defendant can show that there was a genuine dispute as to coverage." *Id.* This is known as the genuine dispute doctrine. *Id.* at 994.

Tower argues that because there was a genuine dispute as to whether the Policy covered Certa Pro's allegations, it is entitled to summary judgment on Capurro's claims for bad faith. In support, it cites *American Casualty Co. etc., v. Krieger*, 181 F.3d 1113, 1123 (9th Cir. 1999) and *Franchesi v. American Motorists Ins. Co.*, 852 F.2d 1217, 1220 (9th Cir. 1998). In *American Casualty*, the Ninth Circuit upheld the district court's finding that it was ambiguous whether the "sport or athletic contest/event" language in the policy applied to bungee jumping, and therefore the insurer was not unreasonable in denying coverage. 181 F.3d at 1123. Similarly, in *Franchesi*, the Ninth Circuit upheld the district court's finding that it was not clear whether a health policy's exclusion for "medical treatment" of pre-existing conditions applied to diagnostic procedures such as a colonoscopy, and therefore it was not unreasonable to deny coverage. 852 F.2d at 1220. Tower argues that "like the

1 insured in the cited cases, Tower Insurance based its disclaimer on a reasonable construction of the  
2 insuring agreements in the policy as applied to the *Certa Pro* action, and followed up to Capurro's  
3 challenges by requesting extrinsic facts, which Capurro's counsel refused to provide." MSJ at 18.

4 The Court finds that summary judgment is inappropriate here. In *American Casualty* and  
5 *Franchesi*, the issue was whether a policy's ambiguous term covered an activity that may not have been  
6 contemplated by the parties to the contract. Here, the issue is not whether Tower reasonably construed  
7 an ambiguous term in the Policy. Rather, the issue is Tower's characterization of the underlying action  
8 itself. Tower considered *Certa Pro* to be making only "passing references to trade dress and certain  
9 phrases that may qualify as slogans (along with trade names, trademarks, trade practices, and related  
10 concepts) in connection with [*Certa Pro*'s] concerns about [*Capurro*'s] operating a competing business,"  
11 and therefore it disclaimed coverage. June 3rd Letter at 4. Tower's characterization of the complaint  
12 as one simply concerned about *Capurro*'s operation of a competing business appears to have informed  
13 its decision to disclaim coverage. However, an insurer can "be found liable on a bad faith theory for  
14 conducting an investigation that is unjustifiably superficial or perfunctory *or that looks only in one self-*  
15 *servicing direction* for evidence about the source, nature or extent of the claimed losses." *Berstein v. The*  
16 *Travelers Ins. Co.*, 447 F. Supp. 2d 1110, 1111-12 (N.D.Cal. 2006) (Brazil, J.) (original emphasis).  
17 Even assuming Tower's characterization of the Underlying Complaint is correct, it cannot disclaim  
18 coverage simply on the gravamen of the complaint; it must defend "mixed" actions as well. *Buss v.*  
19 *Superior Court*, 16 Cal. 4th 35 (Ca. 1997) ("To defend meaningfully, the insurer must defend  
20 immediately. To defend immediately, it must defend entirely. It cannot parse the claims, dividing those  
21 that are at least potentially covered from those that are not.") It is therefore a question for the jury as  
22 to whether Tower's analysis and characterization of the complaint and extrinsic facts were unreasonable.

23 Moreover, the *Franchesi* court found persuasive the fact that the insured engaged in its own  
24 investigation of the underlying claim. 852 F.2d at 1220 (insurer's claims supervisor "reviewed the  
25 Report of Operation, which would have informed him of the nature of the surgery involved.") *Capurro*  
26 alleges as part of its bad faith claim that Tower refused to investigate the claim entirely. The extent of  
27 Tower's investigation remains a genuine issue of material fact.

28

1 The Court therefore DENIES Tower's motion for partial summary judgment on Capurro's  
2 counterclaim for breach of the covenant of good faith and fair dealing.

3  
4 **III. Tower's 12(b)(6) motion to dismiss Tower Group, Inc.**

5 In its counterclaims, Capurro names Tower Group, Inc. as a defendant along with Tower  
6 Insurance. Capurro argues that Tower Insurance (the plaintiff in this action) is a subsidiary of Tower  
7 Group, Inc., and that "as the parental unit, Tower Group, Inc., is a proper party to Capurro's  
8 Counterclaim." Def.'s Response at 4. Tower moves to dismiss Tower Group pursuant to Fed. R. Civ.  
9 P. 12(b)(6), because a corporation's parent cannot in the usual course be sued, and that "limited liability  
10 is the rule, not the exception." Pl.'s Reply at 13 (*citing Anderson v. Abbot*, 321 U.S. 349, 362 (1944)).  
11 The "corporate form will be disregarded only in narrowly defined circumstances and only when the ends  
12 of justice so require." *Id.*, *citing Mesler v. Bragg Mgt. Co.*, 39 Cal. 3d 290, 300-01 (1985).

13 Capurro has provided no reasoning as to why Tower Group should be held liable for Tower  
14 Insurance's alleged breach of contract. The Court therefore GRANTS Tower's motion to dismiss Tower  
15 Group from the counterclaims.

United States District Court  
For the Northern District of California

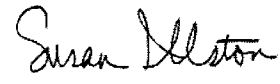
**CONCLUSION**

1  
2 Tower's motion for summary judgment seeking declaratory relief in its favor is DENIED, as is  
3 Tower's motion for partial summary judgment as to Capurros' counter-claim for breach of the covenant  
4 of good faith and fair dealing. Tower's motion to dismiss Tower Group from the counterclaims is  
5 GRANTED.

6 It is not clear whether the parties will contend that there remains a genuine issue of material fact  
7 regarding coverage *vel non*, since Capurro did not file a cross motion for summary judgment on this  
8 issue. The Court therefore orders that at the Case Management Conference on December 16, 2011, the  
9 parties to be prepared to discuss the appropriate next steps in this action, including whether summary  
10 judgment for Capurro on the coverage issue should be entered. *See* Rule 56(f)(1); *Cool Fuel, Inc. v.*  
11 *Connett*, 685 F.2d 309, 311 (9th Cir. 1982).

12  
13  
14 **IT IS SO ORDERED.**

15  
16 Dated: December 15, 2011

  
\_\_\_\_\_  
SUSAN ILLSTON  
United States District Judge